Prospectus
for the public offering in Germany and Austria

of

up to 1,800,000 new ordinary bearer shares (the "**New Shares**") of KINGHERO AG from a capital increase against cash contribution pursuant to a resolution of the extraordinary shareholders' meeting (*außerordentliche Hauptversammlung*) expected to be held on or around 4 August 2010
and of
up to 270,000 Greenshoe-Shares from the holding of a shareholder in connection with a potential over-allotment

as well as

for the public offering in Germany and Austria

of

5,250,000 currently existing no par value ordinary bearer shares
(current share capital at the date of the prospectus),
and of
up to 1,800,000 New Shares
in connection with the inclusion of the Company's shares to trading on the Open Market
(Entry Standard segment) of the Frankfurt Stock Exchange
- each such share with no par value and a notional value of EUR 1.00
and full dividend rights as of 1 January 2010 -

of

KINGHERO AG
Munich

German Securities Identification Number (WKN): A0XFMW
International Securities Identification Number (ISIN): DE000A0XFMW8
Stock Symbol: KH6

Prospectus dated 22 July 2010

Joint Lead Managers

BankM – representative office of biw Bank für Investments und Wertpapiere AG

Silvia Quandt & Cie AG

Sole Bookrunner and Settlement Agent

BankM – representative office of biw Bank für Investments und Wertpapiere AG

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1. SUMMARY

The following summary is to be understood as an introduction to this Prospectus. Investors should base any decision to invest in shares of KINGHERO AG (the "**Company**" and, together with its direct and indirect subsidiaries, the "**KINGHERO Group**") on an examination of the entire Prospectus and any supplements, due to the considerably more detailed information in other parts of the Prospectus.

KINGHERO AG assumes responsibility for the contents of this summary pursuant to section 5 subsection 2 sentence 3 no. 4 of the German Securities Prospectus Act (*Wertpapierprospektgesetz - WpPG*). However, the Company can only be held liable for such contents of the summary, if the summary was misleading, incorrect or contradictory when read in conjunction with other parts of this Prospectus.

In the event claims are asserted in court based on information contained in this Prospectus or any supplements, the investor acting as plaintiff may have to pay the cost of translating the Prospectus and any supplements prior to the start of the proceedings based on applicable national statutes.

1.1 General Information on KINGHERO Group and its Business

KINGHERO Group is in the business of fashion and designs, manufactures and sells primarily casual wear in the Peoples' Republic of China ("**PRC**") market. Being in this business for more than 25 years, KINGHERO Group offers customers attire for all seasons under the KINGHERO brand. The product portfolio includes suits, jackets, shirts, pants, sweaters etc., and is divided into a business casual range and a general casual range. The company benefits from China's growing social relevance of personal style and taste coming along with the country's growing prosperity and household income.

In 2009, the operating entities of KINGHERO Group generated revenues of thousands Euro ("**TEUR**") 48,942, a gross profit of TEUR 15,741, an EBIT of TEUR 13,290 and a net profit of TEUR 10,651, equal to an increase of 52.3% (revenue), 52.1% (gross profit), 59.4% (EBIT) and 54.5% (net profit) compared to 2008, respectively. In the first quarter of 2010, the operating entities of KINGHERO Group generated revenues of TEUR 14,925, a gross profit of TEUR 5,543, an EBIT of TEUR 4,694 and a net profit of TEUR 3,667.

KINGHERO Group manufactures clothes, emphasizing design and quality. 57% of the turnover is generated with menswear (2009). KINGHERO Group has launched womenswear in 2007 and has brought it up to a contribution of 43% in 2009. KINGHERO Group's brand has become a recognized brand name in the PRC, which is documented by various awards the brand has won in recent years.

The Company's widespread sales network covers 30 cities in 17 provinces, including four of the five highest populated Chinese cities. The sales network relies on 34 designated distributors, and KINGHERO Group has established a long-term intensive cooperation with them as an integrated and value-adding part of its marketing strategy.

KINGHERO Group's founder and CEO of the Company, Mr. ZHANG Yu has been a pioneer in modern China's textiles industry. KINGHERO Group's management team's own experience and networks of contacts in this industry add deep insight into market demand and design trends. It allows KINGHERO Group access to a wide network of suppliers, strengthening the production base.

The product development and design department comprises 32 professional designers and specialists (as of 31 March 2010) being responsible, inter alia, for designing, coloration and plate-making. Investment in research and development ("**R&D**") has been raised to app. 1% of annual turnover and is planned to be raised to at least 1,5% within the next years. Thus, new technologies and materials are expected to contribute to target and satisfy customers demands and the KINGHERO Group is expected to strengthen its ability to research, develop and introduce new product lines in due time, with the intention to outspeed competitors. KINGHERO Group achieves a time frame of a product between design and market entrance of 100 days on average, including one summer collection and one winter collection including three to four fashion series per month. In the PRC, this time frame is 180 days on average. KINGHERO Group is able to detect consumer demand and style trends early and capitalize on them through flexible and cost-effective combination of in-house production and outsourcing.

The clothes are manufactured at production facilities in Xiamen, Fujian Province, PRC. By the beginning of 2011 equipment installed on 6 recently purchased factory buildings covering an area of overall 70,000sqm is expected to be put into operation. KINGHERO Group also prepares to extend its technology potential in textile manufacturing and thus broaden the possibilities to shape its brands and to be able to continue to respond quickly to the changing market, Because sales exceed production capacity, KINGHERO Group outsources more than 50% of production value.

The Company's registered office is located in Munich, Germany. Its primary production facilities are located in Xiamen, Fujian Province, People's Republic China. As of 31 March 2010, KINGHERO Group has 896 employees. As of the date of this prospectus, there has been no material change in the number of employees.

1.2 Competitive Strengths of KINGHERO Group

KINGHERO Group believes the following competitive strengths to be the main drivers for its future growth:

1.2.1 Clear product focus

1.2.2 Strong relationship with its designated distributors ensuring timely feedback and access to market information

1.2.3 Widespread distribution capabilities and strength of sales channels

1.2.4 Excellent product design capability

1.2.5 Ability to detect consumer demand and style trends early

1.2.6 Low cost procurement and manufacturing capabilities through a combination of in-house manufacturing and flexible outsourcing arrangements based on network of relationship with other manufacturers, with a strong control over operating cost

1.2.7 Overall strong and widespread network with all parts of the garment supply chain including fashion trend awareness, design, suppliers, manufacturers and sales channels

1.2.8 Experienced operational management team with more than 25 years of experience in the garment industry

1.3 Strategy

KINGHERO Group's strategy is to continue to achieve profitable growth by implementing the following objectives:

1.3.1 **Strengthen brand building**. KINGHERO Group intends to continue exploring the features of its brand and deliver a consistent brand image from product design to all sales and marketing activities. To achieve this objective, KINGHERO Group is intending to establish 30 flagship stores in China in the next years. In addition, KINGHERO Group intends to increase its budget in advertising its brands and products.

1.3.2 **Further strengthen the sales network**. KINGHERO Group intends to increase its number of distributors to increase sales volume and enhance brand image. The number of designated distributors is planned to be increased from 34 (in approximately 30 cities) to approximately 60 in 60 tier one to tier three cities in the next years. This is expected to not only strengthen the connection with end customers but also accelerate and improve feedback and information flow.

1.3.3 **Further increase production capacity**. In order to meet the continuous demand for products, KINGHERO Group has signed purchase contracts for six factory buildings of approximately 70,000sqm in September 2009. Before the end of 2010 KINGHERO Group prepares to begin with refurbishment of the buildings and with the purchase of equipment. At the beginning of 2011 these new factories are expected to be fully operational.

1.3.4 **Acquire new technologies.** In order to improve uniqueness and profit, the brand image, as well as the quality of products, KINGHERO Group prepares to acquire a knitting factory and a zip factory. As a result, the value chain of cloth production of KINGHERO Group is expected to be further integrated, improving response time and flexibility.

1.3.5 **Strengthen product development and design, and introduce new product lines in due time.** KINGHERO Group intends to increase its investments in research and development ("**R&D**") from current app. 1% of annual turnover to over 1.5%.

1.3.6 **Respond quickly to the changing market, and further shorten the time from design to entering the market.** In the PRC, the time frame between design and market entrance of a product is 180 days on average. KINGHERO Group has shortened this time frame to 100 days on average, including about one summer collection and one winter collection plus three to four fashion series per month, and believes that the response time can be further reduced.

1.4 Other Material Information about the Company

Company Name	*KINGHERO AG*
Registered Office and Register	*Registered office is in Munich, Germany and registered with the commercial register of the local court (Amtsgericht) of Munich under the registration number HRB 178935*
Legal Form	*German stock corporation (Aktiengesellschaft)*
Business Object	*Holding, administration and the sale of direct and indirect investments in companies and investments in the fashion and textile industry and the manufacture and distribution of fashion articles and accessory and all business relating thereto as well as the provision of services for affiliated companies.*
Direct and indirect Subsidiaries	*The Company holds 100% of the shares in Kinghero Group Holdings Limited which was incorporated under the laws of Hong Kong on 11 December 2007 ("**Kinghero HK**") and which is the sole shareholder*

*of Xiamen Michelle Fashion Co., Ltd., a limited liability company under the laws of the People's Republic of China ("**PRC**"). Xiamen Michelle Fashion Co., Ltd. is the sole shareholder of Kinghero Fashion (Xiamen) Co. Ltd., also a limited liability company under PRC law.*

Management Board *Mr. ZHANG Yu, Ms. HE Xiuming, Ms. Xiaoping Zhao-Moll*

Supervisory Board *Mr. Marcus Wenzel, Dr. Christoph Dylla and Mr. CHEN Xiaofeng*

Financial Year and Auditors *The Company's financial year is the calendar year. The current auditor of the Company is Grant Thornton GmbH Wirtschaftsprüfungsgesellschaft, Domstrasse 15, 20095 Hamburg, Germany ("**Grant Thornton**").*

Capital Increase by Contribution in Kind *As part of the recent restructuring all shares in Kinghero HK were transferred to the Company against the issue of 5,000,000 new no par value ordinary bearer shares (Inhaber-Stückaktien) in the capital of the Company with a notional value of EUR 1.00 each and full dividend rights as of 1 January 2010 (capital increase by contribution in kind). Immediately after such capital increase, which became effective upon registration on 12 March 2010, the share capital of the Company was held as follows:*

Shareholder (together the "**Existing Shareholders**")	**Number of Shares**	**Percentage of Share Capital (%)**
ZHANG Yu	3,610,000	71.49
TU Ho Hsuan	175,000	3.47
CHIN Kai	677,500	13.42
WONG Chit Fu	147,500	2.92
CHONG Yue Fung	400,000	7.92
LEE Chih Wen	40,000	0.79
Total	**5,050,000**	**100**

On 30 April 2010 Mr. ZHANG Yu and the other Existing Shareholders entered into a trust agreement pursuant to which the other Existing Shareholders transferred their shares in the Company to Mr. ZHANG Yu and Mr. ZHANG Yu agreed to hold these shares on trust for and on behalf of the other shareholders. Accordingly, on 30 April 2010 Mr. ZHANG Yu became the legal owner of all 5,050,000 shares in the capital of the Company.

Capital Increase by Cash Contribution *In order to fulfill the requirement of a minimum paid in equity (Bareinlage) of EUR 250,000 stipulated by the Deutsche Boerse AG for the inclusion to trading on the Open Market/Entry Standard, it was necessary for the Company to execute a Capital Increase in the* *amount of EUR 200,000 by Cash Contribution. On 31 May 2010 the general meeting of the Company resolved to increase the share capital from EUR 5,050,000 by EUR 200,000 to EUR 5,250,000 by cash contribution (Barkapitalerhöhung) against the issue of 200,000 new no par value ordinary bearer shares (Inhaber-Stückaktien) in the capital of the Company with a notional value of EUR 1.00 each and full dividend rights as of 1 January 2010. All 200,000 new shares were subscribed by Mr. ZHANG Yu on behalf of all existing shareholders, resulting in an unchanged beneficial ownership percentage of each shareholder after the Capital Increase as compared to immediately prior to the Capital Increase. Due to the technical nature of the transaction and the unchanged beneficial ownership percentage of each shareholder, a company valuation or a discussion of the fair price of the shares was not facilitated prior to the capital increase. The capital increase by cash contribution (Barkapitalerhöhung) became effective upon its registration with the commercial register on 25 June 2010.*

Share Capital

At the date of this Prospectus, the Company's share capital is EUR 5,250,000 divided into 5,250,000 no par value ordinary bearer shares (Inhaber-Stückaktien). Each bearer share representing EUR 1.00 of the share capital and each vested with full dividend rights for the entire financial year 2010. Each share confers one vote in the Company's General Shareholders' Meeting.

Mr. ZHANG Yu holds these shares as follows:

Shareholder	Number of Shares	Percentage of Share Capital (%)
ZHANG Yu (for his own account)	3,752,969	71.49
ZHANG Yu (as trustee on behalf of the other Existing Shareholders)	1,497,031	28.51
Total	**5,250,000**	**100%**

Beneficial Ownership of the Share Capital

Due to the trust agreement entered into between Mr. ZHANG Yu and all other Existing Shareholders at that time, which was amended on 25 June 2010 to also include the new 200,000 shares, the beneficial ownership (wirtschaftliches Eigentum) of the shares issued in the capital of the Company is as follows:

Existing Shareholders	Number of Shares beneficially owned	Beneficial ownership percentage (%)
ZHANG Yu	3,752,969	71.49

TU Ho Hsuan	181,931	3.47
CHIN Kai	704,332	13.42
WONG Chit Fu	153,342	2.92
CHONG Yue Fung	415,842	7.92
LEE Chih Wen	41,584	0.79
Total	**5,250,000**	**100**

1.5 Subject Matter of the Prospectus

Placement and Offer

*Subject matter of this prospectus is the public offering (the "**Placement**") in Germany and Austria as well as potential private placements outside Germany, Austria, and the United States of up to 2,070,000 no par value ordinary bearer shares (Inhaber-Stückaktien) of the Company, each ordinary bearer share having a notional amount of the share capital of EUR 1.00 and each vested with full dividend rights for the entire financial year 2010, consisting of up to 1,800,000 no par value ordinary bearer shares from the capital increase against cash contributions pursuant to a resolution of the extraordinary shareholder's meeting (außerordentliche Hauptversammlung) expected to be held on or around 4 August 2010 in accordance with section 182, subsection 1 and section 186, subsection 3 and subsection 4 of the German Stock Corporation Act (Aktiengesetz) (the "**New Shares**"), and up to 270,000 existing no par value ordinary bearer shares from the holding of Mr. ZHANG Yu (the "**Selling Shareholder**") in connection with a potential over-allotment (the "**Greenshoe Shares**"). The New Shares together with the Greenshoe-Shares are referred to as the "**Placement Shares**". The Placement will take place before inclusion of the shares of the Company to trading on the Open Market (Entry Standard segment) of the Frankfurt Stock Exchange. The Greenshoe Shares are being offered by the Selling Shareholder and the New Shares are being offered by the Company. In connection with the Placement, the Company will receive the net proceeds from the issue of the New Shares. The Company will not receive any proceeds from the sale of the Greenshoe Shares.*

*Subject matter of this prospectus is furthermore the inclusion to trading on the Open Market (Entry Standard segment) of the Frankfurt Stock Exchange of 5,250,000 currently existing no par value ordinary bearer shares (the "**Existing Shares**") and up to 1,800,0000 New Shares issued in connection with the Placement. The Existing Shares together with the New Shares are referred to as "**Issued Shares**". Due to intended public and investor relation measures by the Company in connection with the inclusion to trading on the Open Market (Entry Standard segment) of the Frankfurt Stock Exchange, the Issued Shares can be regarded as publicly offered (the "**Offer**").*

Purpose of the Placement and the Inclusion	*With the inclusion to trading in the Open Market (Entry Standard), the company pursues the primary goal of producing the tradability of the shares in a public market.* *Further reasons for the Placement and the inclusion to trading on the Open Market (Entry Standard segment) of the Frankfurt Stock Exchange are to increase KINGHERO Group's public visibility and recognition (brand building) and to finance its further expansion. Particularly, the Company aspires to expand its value chain and production capacity by the installation of new production facilities and possible acquisitions of new manufacturing technologies to expand the value chain. Additionally, KINGHERO Group plans to expand its distribution channels as well as to strengthen its marketing capabilities and working capital. Moreover, the Company intends to bring itself into a better position to take advantage of future opportunities for further funding and, in this connection, intends to increase public and investor relations activities for possible future share placements in 2010 and /or 2011.*
Conditions of the Placement and the Offer	***Conditions of the Placement*** *The placement period, within which investors will have the possibility to place purchase orders for the Placement Shares, is expected to commence on 27 July 2010 and presumably ends on 4 August 2010.* *The price range within which purchase orders may be placed within the placement period is between EUR 14.50 and EUR 18.50 per Placement Share.* *The Company reserves the right to issue less than the maximum possible amount of New Shares. The Company, together with the Lead Managers, also reserves the right to decrease the number of Placement Shares, to increase or decrease the upper limit and/or lower limit of the price range, and/or to extend or shorten the placement period. If any of the terms of the Placement are modified, the modification will be published by means of an announcement through electronic information service such as Reuters or Bloomberg and on the Company's website (www.kinghero.de) and to the extent required under the German Securities Prospectus Act (Wertpapierprospektgesetz (WpPG)) as a supplement (Nachtrag) to the Prospectus. Investors who have submitted purchase offers will not be notified individually. Any changes to the number of Placement Shares or the price range or any extension or shortening of the placement period will not nullify purchase orders that have already been placed. Investors who have already placed purchase orders prior to the publication of a supplement will have the right provided under the German Securities Prospectus Act (Wertpapierprospektgesetz (WpPG)) to withdraw from these purchase orders within two business days following publication of the supplement. Instead of withdrawing their purchase orders, investors may also amend these purchase orders submitted prior to publication of the supplement (Nachtrag) or place new limited or unlimited purchase orders within two business days after publication of the supplement (Nachtrag). Purchase orders for the Placement Shares are freely revocable until the end of the placement period.*

Conditions of the Offer

The Issued Shares of the Company can be acquired in the Offer pursuant to the General Terms and Conditions of Deutsche Börse AG for the Regulated Unofficial Market on the Frankfurt Stock Exchange as amended (Allgemeine Geschäftsbedingungen für den Freiverkehr an der Frankfurter Wertpapierbörse in der jeweils gültigen Fassung). Purchase orders can be placed through any bank having access to or being a bank admitted at the Frankfurt Stock Exchange. The shares can be bought in denominations starting with one share. The offer prices are announced in daily papers, news services or in the Internet and are usually found through the ISIN or the stock exchange symbol. A limitation for the number of purchase orders is not envisaged. The offer price is equal to the market quotation for which orders are executed at the stock exchange and is thus dependent on market offers and demands. The offer price is determined by the responsible lead broker (Skontroführer) in accordance with the regulations of the Frankfurt Stock Exchange and with the aim to achieve the best settlement between buy and sell orders.

It will not be possible to reduce purchase orders after they have been placed with a bank if this has not agreed upon with the respective bank.

After the inclusion of the Issued Shares to trading, the Issued Shares will be available to all interested parties equally subject to market supply and demand of the available shares in the market. The Offer is not divided into tranches. There is no minimum allotment. Each purchaser may place several purchase orders.

Delivery and Settlement

Delivery of the Placement Shares against payment of the placement price and the customary securities commission is expected to take place three banking days following commencement of trading of the shares.

After commencement of trading, Issued Shares being purchased in the Offer are usually delivered by the selling shareholder against cash payment plus the banking commission through a deposit bank approx. two trading days after the sale. Banking commissions are determined by the buyers securities depository bank and thus are not known to the Company.

The Issued Shares of the Company will be made available to shareholders as co-ownership interests in the respective global certificate.

Issued Shares purchased pursuant to the Placement and pursuant to the Offer will be credited to a securities deposit account maintained by a bank at Clearstream Banking AG, Neue Börsenstrasse 1, in 60487 Frankfurt am Main, Germany, for the account of such buyer.

Joint Lead Managers and Sole Bookrunner

*BankM – representative office of biw Bank für Investments und Wertpapiere AG, Mainzer Landstraße 61, 60329 Frankfurt, Germany ("**BankM**") and Silvia Quandt & Cie AG, Grüneburgweg 18, 60322 Frankfurt, Germany, are Joint Lead Managers (the "**Lead Managers**"). BankM is Sole Bookrunner and Settlement Agent.*

Stabilization Measures

In connection with the placement of the Placement Shares, over-allotments may be made and stabilization measures aimed at supporting the stock exchange or market price of the Company's shares may be undertaken to the extent permitted by applicable law. Stabilization measures may be effected as of the date of the commencement of trading of the Company's shares and must be completed no later than the 30th calendar day after such date.

Stabilization measures may lead to the stock exchange or market price of the Company's shares being higher than they would have been in the absence of such measures. In addition, such measures may result in a stock exchange or market price at a level that is not sustainable.

Greenshoe Option

*Mr. ZHANG Yu has granted to BankM up to 270,000 no par value ordinary bearer shares by means of a securities loan (Wertpapierleihe) for a potential over-allotment. To repay the securities loan Mr. ZHANG Yu has granted BankM the option to purchase these shares at the offer price less any agreed upon commission (the "**Greenshoe Option**"). The option expires 30 calendar days after the commencement of trading of the shares on the Open Market in the Entry Standard segment of the Frankfurt Stock Exchange.*

General Allotment Criteria

With regard to the Placement, the Company and the Lead Managers will comply with the "Principles for the Allotment of Share Issues to Private Investors" ("Grundsätze für die Zuteilung von Aktienemissionen an Privatanleger") that were issued on 7 June 2000 by the Exchange Expert Commission (Börsensachverständigenkommission) of the German Federal Ministry of Finance (Bundesministerium der Finanzen).

Designated Sponsor

The Company has engaged BankM as a designated sponsor after commencement of trading of the Issued Shares.

Inclusion to Trading

The inclusion of the Issued Shares of the Company to trading on the Open Market in the Entry Standard segment of the Frankfurt Stock Exchange and commencement of trading of the shares is expected to take place on 6 August 2010.

Early Termination of the Offering

The underwriting agreement provides that BankM may terminate the underwriting agreement under certain circumstances, up to the last bank working day prior to the inclusion for trading on the Open Market in the Entry Standard segment of the Frankfurt Stock Exchange .

If the underwriting agreement is terminated, the Placement will not take place. In such case, allocations of shares to investors will be invalidated, and investors will have no claim for delivery. Claims relating to any subscription fees paid and costs incurred by any *investor in connection with the subscription are governed solely by the legal relationship between the investor and the institution to which the investor submitted its purchase order.*

Market Protection Agreement (Lock-up)	*Mr. ZHANG Yu and other existing shareholders have agreed with BankM that, for a period of 12 months from the date on which the shares were first included to trading on the Frankfurt Stock Exchange's Open Market (Entry Standard), they will not sell, offer or advertise for sale, either on an exchange or elsewhere, directly or indirectly, any shares of the Company, nor take any other action which is consistent with a disposal, without the prior written consent of BankM.*
Use of Proceeds from the Placement and costs of the Placement and Inclusion	*The Company will receive the net proceeds from the Placement, i.e. the gross proceeds from the sale of the New Shares resulting from the capital increase less commissions paid by the Company to the Lead Managers and the costs of the Placement. The gross proceeds as well as the costs of the Placement depend on the total number of New Shares placed and the offer Placement price. The Company will not receive any proceeds from the sale of Greenshoe Shares.* *Subject to the uncertainty associated with such estimate and stemming from numerous relevant factors which may exercise an influence but cannot be foreseen at the present time, the Company believes, assuming that all of the New Shares are placed, that total gross issue proceeds of between approximately EUR 26.1 million and approximately EUR 33.3 million are attainable.* *Subject to the above uncertainties, the Company believes that the total costs of the Placement and the inclusion of the Company's shares to trading on the Open Market (Entry Standard segment) will be between EUR 0.6 million and EUR 2.51 million and net proceeds to the Company of between EUR 24 million and EUR 30.8 million are possible.* *The Company plans to use the net proceeds that it will receive from the sale of the New Shares to finance the further expansion of KINGHERO Group's business.* *KINGHERO Group particularly plans to use the net proceeds for the following investments: Installation of new production facilities, brand building, expansion of sales network and acquisition of new technologies.* *Depending on the amount of funds raised in connection with the Placement of the New Shares, the above described investments will be partially or fully executed out of the proceeds from the placement of the New Shares. The remainder of the investments will be executed using the Company's operational cash flow and/or possible further capital raises. The costs for the Placement and the inclusion of the Company's shares to trading on the Open Market (Entry Standard segment) also will be covered by the proceeds of the Placement and/or by the Company's operational cash flow.*

	Mr. ZHANG Yu will pay that portion of the fees of the Lead Managers attributable to the sale of the Greenshoe Shares. Based on the price range and assuming full placement of the Greenshoe Shares, the Company estimates that the net proceeds to the Selling Shareholder would amount to approximately EUR 4.2 million.
German Securities Identification Number (WKN)	*A0XFMW*
International Securities Identification Number (ISIN)	*DE000A0XFMW8*
Ticker Symbol	*KH6*
Paying Agent	*Bankhaus Gebr. Martin AG, Kirchstraße 35, 73033 Göppingen*

1.6 Selected Financial Information

KINGHERO Group was formed on 31 March 2010 in the course of certain restructuring steps (see section 14.5 "*Recent Structuring of KINGHERO Group*") and therefore has no historical financial data within the meaning of Annex 1, No. 20.1 of the (EC) Regulation No. 809/2004. The operating business of KINGHERO Group was and is carried out by Kinghero Fashion (Xiamen) Co. Ltd. ("**Kinghero Xiamen**") and Xiamen Michelle Fashion Co., Ltd. ("**Michelle**").

Kinghero Xiamen and Michelle are wholly owned, indirect subsidiaries of the Company, having their legal domicile in Xiamen, People's Republic of China and exclusively carry out the operational business within KINGHERO Group. On 14 July 2009, Kinghero Group Holdings Limited ("**Kinghero HK**") entered into a share purchase agreement to purchase all of the shares in Michelle. On 8 November 2009, Michelle entered into a share purchase agreement to purchase all of the shares in Kinghero Xiamen.

Kinghero Xiamen was during the reporting period the only significant operating subsidiary of KINGHERO Group. This is due to the fact that Michelle only started business in July 2009. Hence in order to present the business, financial condition and result of operations for the last three financial years in relation to the business of KINGHERO Group, the Company has prepared financial statements of Kinghero Xiamen as at and for the years ended 31 December 2007, 31 December 2008 and 31 December 2009 under IFRS, as endorsed for application in the EU.

The Company has also prepared financial statements of Michelle as at and for the year ended 31 December 2009 under IFRS, as endorsed for application in the EU, prior historical data not being material due to the start up of business in 2009.

Furthermore, the Company has prepared its single entity financial statements based on the German Commercial Code (*Handelsgesetzbuch*) for the short financial year from 16 April 2009 to 31 December 2009.

The selected financial information, which is reflected in this section, was derived from the aforementioned financial statements. These financial statements were audited by Grant Thornton GmbH Wirtschaftsprüfungsgesellschaft, Domstrasse 15, 20095 Hamburg, Germany ("**Grant Thornton**").

Additionally, interim financial information for the three months period ended 31 March 2010 under IFRS, as endorsed for application in the EU, has been presented for Kinghero Xiamen and also for Michelle as derived from both these companies' individual interim financial statements as at and for the three months period ended 31 March 2010 with comparative information. These interim financial statements were reviewed by Grant Thornton.

As the formation of KINGHERO Group had legal effect on 31 March 2010, the first consolidated financial data of KINGHERO Group is derived from the consolidated statement of financial position as at 31 March 2010 under IFRS, as endorsed for application in the EU. As this date is the initial moment of legal existence of KINGHERO Group, there is consequently no consolidated statement of comprehensive income, consolidated statement of changes in equity or consolidated statement of cash flow and hence the Company has only presented a consolidated statement of financial position as at 31 March 2010. This consolidated statement of financial position was reviewed by Grant Thornton.

The aforementioned financial statements are not the legally required financial statements of the Company but have been prepared on a voluntary basis for the purpose of this Offering. The purpose of these financial statements is to put the investor in the position to better compare the development of the business, financial condition and the results of operations of KINGHERO Group over the last three years.

The following figures were subject to rounding adjustments that were carried out according to established commercial standards. As a result, the figures stated in a table may not exactly add up to the total values that may also be stated in the table.

Kinghero Fashion (Xiamen) Co. Ltd

Selected Financial Information

	Twelve months ended 31 December						Three months ended 31 March			
	2007		2008		2009		2009		2010	
	(audited)[1]		(audited)[1]		(audited)[1]		(unaudited)[2]		(unaudited)[2]	
	EUR thousand	%	EUR thousand	%	EUR thousand	%	EUR thousand	%	EUR thousand	%
Revenue	24,272	100%	32,142	100%	48,921	100%	10,447	100%	14,902	100%
Cost of sales	-15,957	66%	-21,790	68%	-33,193	68%	-6,715	64%	-9,375	63%
Gross Profit	**8,315**	**34%**	**10,352**	**32%**	**15,728**	**32%**	**3,732**	**36%**	**5,527**	**37%**
Other operating income	0	0%	0	0%	89	0%	19	0%	23	0%
Selling and distribution expenses	-2,656	11%	-1,694	5%	-2,144	4%	-534	5%	-551	4%
Administrative expenses	-234	1%	-318	1%	-379	1%	-282	3%	-308	2%
Profit from operations	**5,425**	**22%**	**8,340**	**26%**	**13,294**	**27%**	**2,935**	**28%**	**4,691**	**31%**
Finance income	8	0%	16	0%	12	0%	2	0%	8	0%
Finance costs	-10	0%	0	0%	0	0%	0	0%	0	0%
Profit before income tax	**5,423**	**22%**	**8,356**	**26%**	**13,306**	**27%**	**2,937**	**28%**	**4,699**	**32%**
Income tax	-818	3%	-1,461	5%	-2,652	5%	-578	6%	-1,034	7%
Profit for the period	**4,605**	**19%**	**6,895**	**21%**	**10,654**	**22%**	**2,359**	**23%**	**3,665**	**25%**
Selected Balance Sheet Data										
Total assets	12,175		14,281		24,289				33,392	
Total liabilities	4,095		4,188		4,233				8,103	
Total equity	8,080		10,093		20,056				25,289	
Selected Cash Flow Data										
Cash flow from operating activities	4,596		6,303		2,832		1,448		6,961	
Cash flow used in investing activities	-2,357		-530		0		0		0	
Cash flow used in financing activities	-1,682		-5,904		0		0		0	
Cash at end of period	1,796		1,878		4,651		3,298		11,578	
Other Selected Financial data										
Gross profit margin	34.3%		32.2%		32.1%		35.7%		37.1%	
EBITDA	5,487		8,403		13,412		2,967		4,721	
EBITDA margin	22.6%		26.1%		27.4%		28.4%		31.7%	
EBIT	5,425		8,340		13,294		2,935		4,691	
EBIT margin	22.4%		25.9%		27.2%		28.1%		31.5%	
Net profit margin	19.0%		21.5%		21.8%		22.6%		24.6%	
Net funds	1,796		1,878		4,651		3,298		11,578	

[1] Audited information with the exception of "Other Selected Financial Data"
[2] The interim financial statements have been subjected to review

Xiamen Michelle Fashion Co. Ltd

Selected Financial Information

	Twelve months ended 31 December 2009 (audited)[1] EUR thousand	%	Three months ended 31 March 2010[2] (unaudited)[3] EUR thousand	%
Revenue	21	100%	23	100%
Cost of sales	-8	38%	-7	30%
Gross Profit	**13**	**62%**	**16**	**70%**
Other operating income	17	81%	15	65%
Other operating expenses	-17	81%	-14	61%
Selling and distribution expenses	-3	14%	-3	13%
Administrative expenses	-14	67%	-11	48%
Loss/profit from operations	**-4**	**19%**	**3**	**13%**
Finance income	0	0%	0	0%
Finance costs	0	0%	0	0%
Loss/profit before income tax	**-4**	**19%**	**3**	**13%**
Income tax	1	5%	-1	4%
Loss/profit for the period	**-3**	**14%**	**2**	**9%**
Selected Balance Sheet Data				
Total assets	4,356		13,402	
Total liabilities	3,545		3,802	
Total equity	811		9,600	
Selected Cash Flow Data				
Cash flow used in/from operating activities	-815		8	
Cash flow used in investing activities	0		0	
Cash flow from financing activities	819		8,721	
Cash at end of period	4		8,733	
Other Selected Financial data				
Gross profit margin	61.9%		69.6%	
EBITDA	-4		3	
EBITDA margin	-19.0%		13.0%	
EBIT	-4		3	
EBIT margin	-19.0%		13.0%	
Net profit margin	-14.3%		8.7%	
Net funds	4		8,733	

[1] Audited information with the exception of "Other Selected Financial Data"
[2] The company did not trade prior to July 2009, consequently, comparative information for the three months ended 31 March 2009 is not available
[3] The interim financial statements have been subjected to review

Kinghero AG

Selected Consolidated Financial Information

	31 March 2010 (unaudited)[1] EUR thousand
Selected Consolidated Data	
Total assets	45,608
Total liabilities	12,218
Total equity	33,390

[1] The interim financial statements have been subjected to review

Kinghero AG

Selected Financial Information

	Short financial year from 16 April to 31 December 2009 (audited)[1] EUR thousand	Three months ended 31 March 2010 (reviewed)[2] EUR thousand
Other operating expenses	-64	-145
Loss from operations	**-64**	**-145**
Loss before income tax	**-64**	**-145**
Loss for the period	**-64**	**-145**
Selected Balance Sheet Data		
Total assets	118	29,121
Total liabilities	102	250
Total equity	16	28,871

[1] Audited information with the exception of "Other Selected Financial Data"
[2] The interim financial statements have been subjected to review

Bank balances as of 31 March 2010 amount to TEUR 20,337 according to the consolidated financial statements in accordance with IFRS due to a cash capital increase in the operating Chinese entities during the first quarter of 2010, and the profitable operations of the Chinese entities in the first three months of 2010.

The total assets in the consolidated statement in accordance with IFRS amount to TEUR 52,694 as of 31 May 2010 and consolidated equity amounts to TEUR 39,524. The consolidated equity ratio (equity divided by total assets) is 75.00%.

The equity as of 31 May 2010 does not include the capital increase by cash contribution of Kinghero AG in the amount of TEUR 200, since the capital increase became effective on 25 June 2010.

The current financial liabilities consists of trade and other payables. There are no bank borrowings included within either current financial liabilities or non-current financial liabilities. As of 31 May 2010, cash and cash equivalents were TEUR 22,401 and the current financial assets exceed the financial liabilities by TEUR 24.405.

1.7 Summary of Risk Factors

Before deciding whether to purchase the Company's shares, investors should carefully consider certain risks. These risks include the major risks cited below, which are described in more detail in the ''Risk Factors'' section. The net assets, financial position and results of operations of KINGHERO Group may suffer substantial harm due to the materialization of any one or several of these risks. The stock price of the Company's shares may drop considerably if any one of these risks occurs, and investors may lose all or part of their investment.

The risks described below may, in retrospect, turn out not to be complete and therefore may not be the only risks to which KINGHERO Group is exposed. Additional risks and uncertainties of which the Company is not currently aware could have a material adverse effect on KINGHERO Group's business and cash flows, financial condition and results of operations. Investors should pay particular attention to the fact that all operating entities of KINGHERO Group are operated in the PRC and governed by a legal and regulatory environment which in various respects differs from that of other countries.

The order in which the risk factors are presented below does not indicate the likelihood of their occurrence or the magnitude or the significance of the individual risks. The risks specified below could occur individually or cumulatively.

The following is a summary of the risk factors:

1.7.1 Market Related Risks

- Fluctuations in the global economy could materially and adversely affect the economy of the PRC.
- Fluctuations in consumer spending caused by changes in macroeconomic conditions in the PRC may significantly affect KINGHERO Group's business, financial condition, results of operations and prospects.
- Fluctuation in foreign exchange rates and revaluation of the Renminbi (RMB) could adversely affect KINGHERO Group's business, financial condition, results of operations and prospects.

1.7.2 Risks related to KINGHERO Group’s Operations

- KINGHERO Group operates in a highly competitive environment. Increased competition or the entry of new competitors, combined with any failure to compete effectively with its competitors, may result in lower margins or in a loss of KINGHERO Group's market share.
- Rapid changes in fashion trends, consumer preferences or spending patterns may adversely affect KINGHERO Group’s business.
- Failure to successfully promote KINGHERO Group’s brand may materially and adversely affect its business and results of operations.
- KINGHERO Group’s margins and profitability may be adversely affected if KINGHERO Group is unable to reduce or pass on increased costs.
- Unscheduled production plant shutdowns, shortages or disruptions in the supply of raw materials, components or finished goods sourced from third parties, or electricity shortages may reduce sales.
- KINGHERO Group may fail to implement successfully its production expansion strategy, with the consequence that its business, results of operations and financial position could be materially and adversely affected.
- KINGHERO Group currently conducts all its business activities in, and derives all of its revenue from, the PRC market.
- Infringement of intellectual property rights of KINGHERO Group, inability to protect adequately its know-how and the sale of counterfeit products may adversely affect KINGHERO Group’s reputation and profitability.
- KINGHERO Group might infringe upon third-party intellectual property rights.
- KINGHERO Group could be harmed by consumer complaints.
- KINGHERO Group depends on certain key personnel.
- Labour costs in PRC have risen significantly in recent years and could continue to rise significantly.
- KINGHERO Group relies on contract manufacturers to manufacture a certain amount of its products. There is no assurance that the services rendered by these contract manufacturers will be satisfactory or that it will match the level of quality that KINGHERO Group requires. Moreover, contract manufacturers may experience financial or other difficulties that may affect their ability to carry out the work for which they were contracted, thus delaying the completion of KINGHERO Group’s products or resulting in additional costs for KINGHERO Group.
- KINGHERO Group’s brand image and business may be negatively affected by actions of its independent contractors.
- KINGHERO Group relies on a small number of designated distributors for the sale of KINGHERO Group’s products and failure to renew distributorship agreements with its major distributors or a breach of such distributorship agreements by them may materially and adversely affect KINGHERO Group’s results of operations.

- KINGHERO Group's future growth depends on the successful establishment and expansion of its domestic distribution network.
- KINGHERO Group may require further financing for future growth. There is no assurance that KINGHERO Group will have sufficient sources and amount of funds to finance its expansion plans in the future. In such an event, its business and financial condition may be materially and adversely affected. Moreover, even if KINGHERO Group can obtain financing, additional equity financing may lead to a dilution in the interests of its shareholders whereas additional debt financing may restrict its ability to pay dividends.
- KINGHERO Group's future success depends on recruiting and retaining qualified personnel.
- Not all members of the Management Board (*Vorstand*) are experienced with regard to German legal requirements and KINGHERO Group currently does not yet have a comprehensive corporate compliance system.
- The Company's Supervisory Board (*Aufsichtsrat*) may have difficulties in adequately supervising the Management Board (*Vorstand*) since the majority of the management is located in China and the majority of the members of the Supervisory Board (*Aufsichtsrat*), in particular the Chairman of the Supervisory Board (*Aufsichtsratsvorsitzender*), reside in Germany.
- The Company's CEO, Mr. ZHANG Yu, is also its major shareholder which could subject him to conflicts of interest.
- The entities of the KINGHERO Group maintain and may continue to maintain business and legal relationships for their business operations with companies or persons that are related to the Company or its board members which are not concluded at arm's length.
- The insurance coverage of KINGHERO Group may not be adequate to cover all potential liability or losses.
- KINGHERO Group may be liable for the payment of outstanding social security and housing funds contributions.
- KINGHERO Group is legally obliged to apply for the inspection and acceptance of the environment facilities to the competent environmental protection authority for its new and expanded production facilities in Jimei.
- There are certain legal risks associated with the acquisition of the new production facilities.
- KINGHERO Group may not be able to maintain and/or obtain approvals and licenses from PRC authorities necessary to carry out its business or to cope with future regulatory requirements.
- The Company is a holding company the liquidity of which depends upon having access to the liquid funds of its operating subsidiaries located in the PRC, which might not be able to remit profits.
- The lease agreement for the current production facilities of Kinghero Xiamen in Jimei expires on 31 December 2010. If Kinghero Xiamen is not able to move production to the new production facilities by then or to extend the lease agreement this may cause disruption of production and thereby

materially and adversely affect results of operations of the KINGHERO Group.

1.7.3 Risks related to Conducting Business in the PRC

- KINGHERO Group is exposed to general risks relating to business operations in emerging markets.
- Changes in the PRC's political and economic policies could have a material adverse effect on the business operations of the KINGHERO Group.
- New PRC legislation on offshore special purpose vehicles ("**SPV**") which are formed by PRC legal entities and/or individuals for the purpose of indirect listings and that control PRC companies directly or indirectly, may have a material adverse effect on KINGHERO Group's business.
- *The PRC State Administration of Foreign Exchange* ("**SAFE**") regulations relating to offshore investments by PRC residents or passport holders, may adversely affect KINGHERO Group's business operations and financing alternatives.
- PRC regulations pertaining to loans and direct capital investments by offshore parent companies to PRC entities may delay or prevent KINGHERO Group from using the proceeds of this offering.
- A material disruption of the operations of KINGHERO Group or the operations of its distributors and/or sub-distributors from force majeure events could materially and adversely affect the results of operations.
- Health epidemics and outbreaks of contagious diseases, including avian, swine and other new types of influenza or severe acute respiratory syndrome (SARS) could materially and adversely affect PRC economy.
- The PRC legal system contains inherent uncertainties and inconsistencies.
- Restrictions might be imposed upon foreign control of PRC companies.
- The tax status of KINGHERO Group or tax legislation or its interpretation might change.
- KINGHERO Group's tax burden may increase as a result of tax audits.
- KINGHERO Group entities may become subject to PRC income tax on any future global income.
- The value of any future dividends may be reduced by PRC withholding taxes.
- PRC accounting requirements may adversely affect the ability to pay dividends.
- A destabilization of the political system could threaten China's economic liberalization.
- The Chinese judiciary's lack of independence and limited experience and the difficulty of enforcing court decisions and governmental discretion in enforcing court orders could prevent KINGHERO Group from obtaining effective remedies in a court proceeding.
- There are difficulties in seeking recognition and enforcement of foreign judgments in China.

- Certain facts, forecasts and other statistics with respect to China, China's economy and the casual wear market in this prospectus are derived from official government publications and may not be reliable.

1.7.4 Risks Related to the Offering

- Future Sales of a considerable number of shares in the Company may have a negative impact on the Company's stock price.
- Public trading in the Company's shares might not develop.
- A volatile stock exchange price for the shares might develop.
- Shares may be diluted in case of future capital measures.
- Forward-looking information contained in this prospectus may prove inaccurate.
- Investors should not rely on any information contained in press articles or other media regarding KINGHERO Group and the Offering.
- There are risks for investors who engage in short sales before the delivery of the shares.

2. GERMAN TRANSLATION OF THE SUMMARY (ZUSAMMENFASSUNG)

Die folgende Zusammenfassung ist als Einführung zu diesem Prospekt zu verstehen. Anleger sollten jede Entscheidung zur Anlage in Aktien der KINGHERO AG (die „**Gesellschaft**“ und, gemeinsam mit ihren unmittelbaren und mittelbaren Tochtergesellschaften „**KINGHERO Konzern**“) aufgrund der wesentlich ausführlicheren Informationen, die sich an anderer Stelle in diesem Prospekt finden, auf die Prüfung des gesamten Prospekts und etwaiger Nachträge stützen.

Die KINGHERO AG übernimmt im Sinne von § 5 Abs. 2 Satz 3 Nr. 4 Wertpapierprospektgesetz (WpPG) die Verantwortung für den Inhalt dieser Zusammenfassung. Die Gesellschaft kann jedoch für den Inhalt der Zusammenfassung nur haftbar gemacht werden, falls die Zusammenfassung irreführend, unrichtig oder widersprüchlich ist, wenn sie zusammen mit den anderen Teilen dieses Prospekts gelesen wird.

Für den Fall, dass vor einem Gericht Ansprüche eines Anlegers aufgrund der in diesem Prospekt oder etwaigen Nachträgen enthaltenen Informationen geltend gemacht werden, könnte der als Kläger auftretende Anleger in Anwendung einzelstaatlicher Rechtsvorschriften die Kosten für die Übersetzung des Prospekts vor Prozessbeginn zu tragen haben.

2.1 Allgemeine Informationen zum KINGHERO Konzern und seiner Geschäftstätigkeit

Der KINGHERO Konzern ist im Modebereich tätig und entwirft vorwiegend Freizeitbekleidung, stellt diese her und verkauft sie auf dem chinesischen Markt. Der KINGHERO Konzern ist in diesem Bereich seit mehr als 25 Jahren tätig und bietet Kunden Kleidung für alle Jahreszeiten unter der Marke KINGHERO. Die Produktpalette schließt Anzüge, Jacken, Hemden, Hosen, Pullover etc. ein und ist unterteilt in eine Linie für Business Casual und eine Linie für General Casual. Die Gesellschaft profitiert von der zunehmenden sozialen Bedeutung von persönlichem Stil und Geschmack in China, die mit dem wachsenden Wohlstand und den steigenden Haushaltseinkommen des Landes einhergeht.

In 2009 haben die operativen Gesellschaften des KINGHERO Konzerns Erträge von Tausend Euro (TEUR) 48.942, einen Bruttogewinn von TEUR 15.741, ein EBIT von TEUR 13.290 und einen Nettogewinn von TEUR 10.651 erzielt, was einer Steigerung von jeweils 52,3% (Erträge), 52,1% (Bruttogewinn), 59,4% (EBIT) und 54,5% (Nettogewinn) im Vergleich zu 2008 entspricht. Im ersten Quartal 2010 erzielten die operativen Gesellschaften des KINGHERO Konzerns Erträge von TEUR 14.925, einen Bruttogewinn von TEUR 5.543, ein EBIT von TEUR 4.694 und einen Nettogewinn von TEUR 3.667.

Der KINGHERO Konzern stellt Kleidung her und legt dabei besonderen Wert auf Design und Qualität. 57% des Umsatzes wird mit Herrenbekleidung erzielt (2009). Der KINGHERO Konzern hat 2007 eine Damenbekleidungslinie auf den Markt gebracht, die 2009 bereits 43% zum Konzernumsatz beitrug. KINGHERO ist in der VR China zu einem bekannten Markennamen geworden, was durch verschiedene Auszeichnungen dokumentiert wird, die die Marke in den vergangenen Jahren erhalten hat.

Das ausgedehnte Vertriebsnetz der Gesellschaft deckt 30 Großstädte in 17 Provinzen einschließlich vier der fünf bevölkerungsreichsten chinesischen Städte ab. Das Vertriebsnetz basiert auf 34 ernannten Vertriebspartnern, mit denen der KINGHERO Konzern eine langfristige intensive Kooperation eingegangen ist als integrierter und werterhöhender Teil seiner Marketing-Strategie.

Dem Gründer des KINGHERO Konzerns und Vorstandsvorsitzenden der Gesellschaft, Herrn ZHANG Yu, kommt eine Pionierrolle in der modernen Textilindustrie Chinas zu. Die Erfahrung der Geschäftsführung des KINGHERO Konzerns und ihr Netzwerk an Kontakten in dieser Industrie tragen zu einem tiefen Einblick in die Marktanforderungen und Designtrends bei. Dies ermöglicht dem KINGHERO Konzern einen Zugang zu einem weiten Netzwerk an Lieferanten, was zu einer Stärkung der Produktionsbasis führt.

Die Produktentwicklungs- und Designabteilung besteht aus 32 professionellen Designern und Spezialisten (Stand 31. März 2010), die unter anderem für das Design, die Farbgebung und Schnittmusterherstellung verantwortlich sind. Die Investitionen in Forschung und Entwicklung („**F&E**") sind auf ca. 1% des jährlichen Umsatzes angestiegen und es ist geplant, diese Zahl auf mindestens 1,5% in den nächsten Jahren zu steigern. Es wird erwartet, dass neue Technologien und Materialien dazu beitragen werden, Kundenanforderungen zu erkennen und zu erfüllen und dass der KINGHERO Konzern seine Kompetenz in Forschung, Entwicklung und zeitiger Einführung neuer Produktlinien weiter stärken wird, um so Wettbewerber zu überholen. Zwischen Design und Markteinführung eines Produktes liegen beim KINGHERO Konzern im Durchschnitt etwa 100 Tage; hierin eingeschlossen sind eine Sommerkollektion und eine Winterkollektion sowie drei bis vier Modeserien pro Monat. In der VR China beträgt dieser Zeitraum im Durchschnitt 180 Tage. Der KINGHERO Konzern ist in der Lage, Kundenansprüche und Stil-Trends frühzeitig aufzuspüren und diese durch eine flexible und kosteneffiziente Kombination von eigener Produktion und Outsourcing gewinnbringend umzusetzen.

Die Kleidung wird in Produktionsstätten in Xiamen, Fujian Province, VR China hergestellt. Es ist zu erwarten, dass Anlagen, die in 6 kürzlich erworbenen Fabrikgebäuden mit einer Gesamtfläche von über 70.000m² installiert wurden, zum Jahresbeginn 2011 in Betrieb genommen werden. Der KINGHERO Konzern ist außerdem dabei, sein technologisches Potential in der Herstellung von Textilien weiter auszubauen und so die Möglichkeiten des Aufbaus seiner Marken zu erweitern, um weiterhin in der Lage zu sein, kurzfristig auf den sich ändernden Markt zu reagieren. Die Auftragseingänge übersteigen die Produktionskapazitäten, weshalb der KINGHERO Konzern bis zu 50% des Produktionswertes an externe Dritte auslagert.

Die Gesellschaft hat ihren Sitz in München, Deutschland. Die Hauptproduktionsanlagen befinden sich in Xiamen, Fujian Province, VR China. Zum 31. März 2010 beschäftigte der KINGHERO Konzern 896 Mitarbeiter. Bis zum Datum dieses Prospektes hat sich die Mitarbeiterzahl nicht wesentlich verändert.

2.2 Wettbewerbsstärken des KINGHERO Konzerns

Nach Ansicht des KINGHERO Konzerns sind die folgenden Wettbewerbsstärken die Hauptantriebskräfte für zukünftiges Wachstum:

2.2.1 Klarer Produktfokus

2.2.2 Enge Beziehungen zu designierten Vertriebspartnern, wodurch eine zeitnahe Rückmeldung und Zugang zu Marktinformationen sichergestellt ist

2.2.3 Weitreichende Vertriebsmöglichkeiten und starke Vertriebswege

2.2.4 Exzellente Produktdesignfähigkeit

2.2.5 Fähigkeit zur frühzeitigen Aufspürung von Kundenanforderungen und Stil-Trends

2.2.6 Günstige Beschaffungs- und Produktionsmöglichkeiten durch eine Kombination aus eigener Produktion und flexiblem Outsourcing durch enge Beziehungen zu anderen Herstellern, verbunden mit einer starken Kontrolle der Betriebskosten

2.2.7 Insgesamt starkes und ausgedehntes Netzwerk in allen Teilen der Bekleidungslieferungskette einschließlich Gespür für Modetrends, Design, Lieferanten, Hersteller und Vertriebskanäle

2.2.8 Erfahrenes Management Team mit mehr als 25 jähriger Erfahrung in der Bekleidungsindustrie

2.3 Strategie

Die Strategie des KINGHERO Konzerns besteht darin, durch Umsetzung der folgenden Zielvorgaben weiterhin ein rentables Wachstum zu erreichen:

2.3.1 **Stärkung des Markenaufbaus.** Der KINGHERO Konzern beabsichtigt, die Merkmale seiner Marke weiter herauszubilden und ein einheitliches Markenimage vom Produktdesign bis zu allen Vertriebs– und Marketingtätigkeiten zu erbringen. Um dieses Ziel zu erreichen, beabsichtigt der KINGHERO Konzern, in den nächsten Jahren 30 Flagship Stores in China zu eröffnen. Zusätzlich beabsichtigt der KINGHERO Konzern, sein Budget für die Werbung seiner Marken und Produkte zu erhöhen.

2.3.2 **Weitere Stärkung des Vertriebsnetzes.** Der KINGHERO Konzern beabsichtigt, die Anzahl seiner Vertriebspartner zu erhöhen, um das Absatzvolumen zu steigern und das Markenimage aufzuwerten. Die Anzahl der designierten Vertriebspartner soll in den nächsten Jahren von 34 (in ca. 30 Städten) auf etwa 60 in 60 Städten (Tier 1 bis Tier 3 Städten) steigen. Es wird erwartet, dass dies nicht nur zu einer Stärkung der Beziehung zu Endkunden, sondern auch zu einer Beschleunigung und Verbesserung der Resonanz und des Informationsflusses führen wird;

2.3.3 **Weitere Erhöhung der Produktionskapazität.** Um den anhaltenden Bedarf an Produkten zu decken, hat der KINGHERO Konzern im September 2009 Kaufverträge zum Erwerb von sechs Fabrikgebäude mit einer Fläche von 70.000 m² abgeschlossen. Noch vor Jahresende 2010 wird der KINGHERO Konzern mit der Ausstattung der Gebäude und dem Erwerb von Anlagen beginnen. Es wird erwartet, dass diese neuen Fabriken zu Beginn des Jahres 2011 voll betriebsfähig sein werden.

2.3.4 **Erwerb neuer Technologien.** Um die Einzigartigkeit und den Gewinn, das Markenimage als auch die Qualität der Produkte zu verbessern, plant der KINGHERO Konzern den Erwerb einer Fabrik für die Herstellung von Strickwaren sowie einer Fabrik für die Herstellung von Reißverschlüssen. Es wird erwartet, dass die Wertschöpfungskette der Bekleidungsherstellung des KINGHERO Konzerns weiter ergänzt wird und dadurch die Reaktionszeiten und Flexibilität verbessert werden.

2.3.5 **Stärkung der Produktentwicklung und des Designs und rechtzeitige Einführung neuer Produktlinien.** Der KINGHERO Konzern beabsichtigt, seine Investitionen in Forschung und Entwicklung („**F&E**") von zur Zeit ca. 1% des jährlichen Umsatzes auf über 1,5% zu erhöhen.

2.3.6 **Schnelle Reaktion auf den sich verändernden Markt sowie weitere Verkürzung der Zeit zwischen Design und Einführung auf den Markt.** In der VR China beträgt der Zeitrahmen zwischen Design und Einführung eines Produktes auf dem Markt durchschnittlich 180 Tage. Der KINGHERO Konzern hat diesen Zeitrahmen auf durchschnittlich 100 Tage verkürzt, hierin eingeschlossen ist eine Sommerkollektion und eine Winterkollektion sowie drei bis vier Modeserien pro

Monat. Der KINGHERO Konzern ist der Ansicht, dass diese Reaktionszeit weiter verkürzt werden kann.

2.4 Weitere wesentliche Angaben betreffend die Gesellschaft

Gesellschaftsname	*KINGHERO AG*
Eingetragener Sitz und Handelsregister	*Die Gesellschaft hat ihren eingetragenen Sitz in München, Deutschland und ist im Handelsregister des Amtsgerichts München unter der Handelsregisternummer HRB 178935 eingetragen.*
Rechtsform	*Aktiengesellschaft*
Geschäftszweck	*Halten, Verwaltung und Veräußerung von direkten und indirekten Beteiligungen an Unternehmen und Beteiligungen aus dem Bereich der Mode- und Textilindustrie sowie Herstellung und Vertrieb von Modeartikeln und Accessoires und aller damit zusammenhängender Geschäfte sowie Erbringung von Dienstleistungen für Beteiligungsunternehmen*
Unmittelbare und mittelbare Tochtergesellschaften	*Die Gesellschaft hält 100% der Anteile an der Kinghero Group Holdings Limited, die am 11. Dezember 2007 nach dem Recht von Hong Kong gegründet wurde („**Kinghero HK**") und die alleinige Anteilseignerin der Xiamen Michelle Fashion Co., Ltd., einer Gesellschaft mit beschränkter Haftung nach dem Recht der VR China, ist. Xiamen Michelle Fashion Co., Ltd. ist die alleinige Anteilseignerin der Kinghero Fashion (Xiamen) Co. Ltd., ebenfalls eine Gesellschaft mit beschränkter Haftung nach dem Recht der VR China.*
Vorstand	*Herr ZHANG Yu, Frau HE Xiuming, Frau Xiaoping Zhao-Moll*
Aufsichtsrat	*Herr Marcus Wenzel, Dr. Christoph Dylla und Herr CHEN Xiaofeng*
Geschäftsjahr und Abschlussprüfer	*Das Geschäftsjahr der Gesellschaft entspricht dem Kalenderjahr. Der gegenwärtige Abschlussprüfer der Gesellschaft ist Grant Thornton GmbH Wirtschaftsprüfungsgesellschaft, Domstrasse 15, 20095 Hamburg, Deutschland („**Grant Thornton**").*
Kapitalerhöhung durch Sacheinlage	*Als Teil der kürzlich erfolgten Restrukturierung wurden sämtliche Anteile an der Kinghero HK auf die Gesellschaft übertragen gegen Ausgabe von 5.000.000 neuen auf den Inhaber lautende Stammaktien ohne Nennwert (Inhaber-Stückaktien) mit einem anteiligen Betrag am Grundkapital der Gesellschaft von je EUR 1,00 und mit voller Gewinnanteilsberechtigung ab 1. Januar 2010. Unmittelbar nach dieser Kapitalerhöhung, die mit Eintragung am 12. März 2010 wirksam wurde, verteilte sich das Grundkapital der Gesellschaft wie folgt:*

Aktionär (gemeinsam die "**Altaktionäre** ")	**Anzahl der Aktien**	**Prozentsatz am Grundkapital (%)**
ZHANG Yu	3.610.000	71,49
TU Ho Hsuan	175.000	3,47
CHIN Kai	677.500	13,42
WONG Chit Fu	147.500	2,92
CHONG Yue Fung	400.000	7,92
LEE Chih Wen	40.000	0,79
Gesamt	**5.050.000**	**100**

Am 30. April 2010 schlossen Herr ZHANG Yu und die anderen Altaktionäre eine Treuhandvereinbarung, gemäß der die anderen Altaktionäre ihre Anteile an der Gesellschaft auf Herrn ZHANG YU übertragen und Herr ZHANG Yu sich bereit erklärte, diese Anteile treuhänderisch für die anderen Aktionäre zu halten. Entsprechend wurde Herr ZHANG Yu am 30. April 2010 rechtlicher Eigentümer sämtlicher 5.050.000 Aktien des Grundkapitals der Gesellschaft.

Kapitalerhöhung durch Bareinlage

Um die Anforderung der Deutschen Börse AG an die Mindestbareinlage in Höhe von EUR 250.000 für die Einbeziehung in den Handel im Freiverkehr / Entry Standard zu erfüllen, war eine Barkapitalerhöhung in Höhe von EUR 200.000 nötig. Am 31. Mai 2010 beschloss die Hauptversammlung der Gesellschaft, das Grundkapital von EUR 5.050.000 um EUR 200.000 auf EUR 5.250.000 durch Bareinlage zu erhöhen gegen Ausgabe von 200.000 neuen auf den Inhaber lautende Stammaktien ohne Nennbetrag (Inhaber-Stückaktien) mit einem anteiligen Betrag am Grundkapital der Gesellschaft von je EUR 1,00 und mit voller Gewinnanteilsberechtigung ab 1. Januar 2010. Alle 200.000 neuen Aktien wurden durch Herrn ZHANG Yu im Namen aller Altaktionäre gezeichnet, so dass sich das Beteiligungsverhältnis aller Aktionäre untereinander wirtschaftlich auch nach der Barkapitalerhöhung nicht verändert hat. Aufgrund der technischen Natur dieser Transaktion und der wie beschriebenen wirtschaftlich unveränderten Beteiligungsrelation der Aktionäre wurde vor der Barkapitalerhöhung keine Unternehmensbewertung erstellt oder eine sonstige Ermittlung des Marktwertes der Aktien vorgenommen. Die Barkapitalerhöhung wurde wirksam mit ihrer Eintragung in das Handelsregister am 25. Juni 2010.

Grundkapital

Zum Datum dieses Prospektes beträgt das Grundkapital der Gesellschaft EUR 5.250.000 unterteilt in 5.250.000 auf den Inhaber lautende Stammaktien ohne Nennwert (Inhaber-Stückaktien). Jede Inhaber-Stückaktie repräsentiert EUR 1,00 am Grundkapital mit voller

Gewinnanteilsberechtigung für das gesamte Geschäftsjahr 2010. Jede Aktie gewährt eine Stimme in der Hauptversammlung der Gesellschaft.

Herr ZHANG Yu hält diese Anteile wie folgt:

Aktionär	**Anzahl der Aktien**	**Prozentsatz am Grundkapital (%)**
ZHANG Yu (im eigenen Namen und auf eigene Rechnung)	3.752.969	71,49
ZHANG Yu (als Treuhänder zugunsten der anderen Altaktionäre)	1.497.031	28,51
Gesamt	**5.250.000**	**100%**

Wirtschaftliches Eigentum am Grundkapital

Aufgrund der Treuhandvereinbarung zwischen Herrn ZHANG Yu und den anderen Altaktionären, die am 25. Juni 2010 entsprechend ergänzt wurde, wird das wirtschaftliche Eigentum am Grundkapital wie folgt gehalten:

Altaktionäre	**Anzahl der Aktien, an denen wirtschaftliches Eigentum besteht**	**Prozentsatz des wirtschaftlichen Eigentums (%)**
ZHANG Yu	3.752.969	71,49
TU Ho Hsuan	181.931	3,47
CHIN Kai	704.332	13,42
WONG Chit Fu	153.342	2,92
CHONG Yue Fung	415.842	7,92
LEE Chih Wen	41.584	0,79
Gesamt	**5.250.000**	**100**

2.5 Gegenstand dieses Prospektes

Platzierung und Angebot

*Gegenstand dieses Prospektes ist das öffentliche Angebot (die „**Platzierung**“) in Deutschland und Österreich sowie mögliche Privatplatzierungen außerhalb Deutschlands, Österreichs und den U.S.A. von bis zu 2.070.000 auf den Inhaber lautenden Stammaktien ohne Nennbetrag, jede mit einem anteiligen Betrag am Grundkapital der Gesellschaft von je EUR 1,00 und mit voller*

*Gewinnanteilsberechtigung für das gesamte Jahr 2010, bestehend aus bis zu 1.800.000 auf den Inhaber lautenden Stammaktien ohne Nennbetrag aus der Kapitalerhöhung durch Bareinlage gemäß dem Beschluss der außerordentlichen Hauptversammlung, die voraussichtlich am oder um den 4. August 2010 abgehalten wird gemäß § 182 Abs. 1 und § 186 Abs. 3 und 4 des deutschen Aktiengesetzes (AktG) (die „**Neuen Aktien**") und von bis zu 270,000 bestehenden auf den Inhaber lautenden Stammaktien ohne Nennbetrag aus dem Anteilsbesitz von Herrn ZHANG Yu (der "**Abgebende Aktionär**") im Zusammenhang mit einer möglichen Mehrzuteilung (die „**Greenshoe Aktien**"). Die Neuen Aktien bilden zusammen mit den Greenshoe Aktien die "**Platzierungsaktien**". Die Platzierung wird vor Einbeziehung der Aktien der Gesellschaft in den Handel im Freiverkehr (Entry Standard) der Frankfurter Wertpapierbörse stattfinden. Die Greenshoe Aktien werden von dem Abgebenden Aktionär, die Neuen Aktien von der Gesellschaft angeboten. Die Gesellschaft erhält im Zusammenhang mit der Platzierung die Nettoerlöse aus der Emission der Neuen Aktien. Die Gesellschaft erhält keinerlei Erlöse aus dem Verkauf der Greenshoe Aktien.*

*Gegenstand dieses Prospektes ist außerdem die Einbeziehung von 5.250.000 zur Zeit bestehenden auf den Inhaber lautenden Stammaktien ohne Nennbetrag (die „**Bestehenden Aktien**") in den Handel im Freiverkehr (Entry Standard) der Frankfurter Wertpapierbörse (die „**Einbeziehung**") und von bis zu 1.800.000 im Zusammenhang mit der Platzierung ausgegebenen Neuen Aktien. Die Bestehenden Aktien bilden zusammen mit den Neuen Aktien die „**Ausgegebenen Aktien**". Aufgrund von geplanten Maßnahmen der Öffentlichkeits- und Investorenarbeit der Gesellschaft im Zusammenhang mit der Einbeziehung können die Ausgegebenen Aktien als öffentlich angeboten angesehen werden (das „**Angebot**").*

Zweck der Platzierung und Einbeziehung

Mit der Einbeziehung in den Handel im Freiverkehr (Entry Standard) verfolgt die Gesellschaft das primäre Ziel der Handelbarkeit der Aktien auf dem öffentlichen Markt.

Weitere Gründe für die Platzierung und die Einbeziehung sind eine Steigerung der öffentlichen Visibilität und Bekanntheit (Markenbildung) des KINGHERO Konzerns und die Finanzierung der weiteren Expansion. Insbesondere strebt die Gesellschaft die Ausweitung ihrer Wertschöpfungskette und ihrer Produktionskapazität durch die Errichtung von neuen Produktionsstätten und den möglichen Erwerb von neuen Herstellungstechnologien zum Ausbau der Wertschöpfungskette an. Zusätzlich plant der KINGHERO Konzern die Ausweitung seiner Vertriebskanäle sowie die Stärkung seines Marketings und des Working Capital. Weiterhin beabsichtigt die Gesellschaft, sich damit besser zu positionieren, um zukünftige Möglichkeiten der Finanzierung zu nutzen und plant in diesem Zusammenhang die Ausweitung der Öffentlichkeits- und Investorenarbeit für mögliche zukünftige Aktienplatzierungen in 2010 und/oder 2011.

Bedingungen der Platzierung

Die Angebotsfrist, innerhalb welcher Anleger die Möglichkeit haben, Kaufangebote für die Platzierungsaktien abzugeben, wird voraussichtlich am 27. Juli 2010 beginnen und voraussichtlich am 4. August 2010 enden.

Die Preisspanne, innerhalb welcher Kaufangebote abgegeben werden können, liegt zwischen EUR 14,50 und EUR 18,50 je Platzierungsaktie.

Die Gesellschaft behält sich das Recht vor, weniger als die höchstmögliche Anzahl Neuer Aktien auszugeben. Die Gesellschaft, gemeinsam mit den Lead Managern, behalten sich außerdem vor, die Anzahl der Angebotsaktien zu reduzieren, die Höchst- und/oder Untergrenze der Preisspanne zu erhöhen oder zu reduzieren, und/oder die Angebotsfrist zu verlängern oder zu verkürzen. Im Falle einer Änderung der Platzierungsbedingungen wird die Änderung durch eine Mitteilung über elektronische Medien wie Reuters oder Bloomberg sowie auf der Internetseite der Gesellschaft (www.kinghero.de) und, soweit dies nach dem Wertpapierprospektgesetz (WpPG) erforderlich ist, als Nachtrag zu diesem Prospekt veröffentlicht werden. Eine individuelle Unterrichtung der Anleger, die Kaufangebote abgegeben haben, erfolgt nicht. Eine Änderung der Anzahl der Platzierungsaktien oder der Preisspanne oder die Verlängerung oder Verkürzung der Angebotsfrist führt nicht zu einer Aufhebung von bereits abgegebenen Kaufangeboten. Anleger, die bereits vor Veröffentlichung eines Nachtrages Kaufangebote abgegeben haben, haben gemäß dem Wertpapierprospektgesetz (WpPG) das Recht, ihre Kaufangebote innerhalb von zwei Geschäftstagen nach Veröffentlichung des Nachtrages zurückzunehmen. Anstatt ihr Kaufangebot zurückzunehmen, können Anleger auch ihre vor Veröffentlichung des Nachtrages abgegebenen Kaufangebote ändern oder innerhalb von zwei Geschäftstagen nach Veröffentlichung des Nachtrages neue begrenzte oder unbegrenzte Kaufangebote abgeben. Kaufangebote für Platzierungsaktien können bis zum Ende der Angebotsfrist frei zurückgezogen werden.

Bedingungen des Angebots

Die Ausgegebenen Aktien der Gesellschaft können im Rahmen des Angebots gemäß der Allgemeinen Geschäftsbedingungen der Deutsche Börse AG für den Freiverkehr an der Frankfurter Wertpapierbörse in der jeweils gültigen Fassung erworben werden. Kaufangebote können über jede Bank abgegeben werden, die über Zugang zur Frankfurter Wertpapierbörse verfügt oder als Bank an dieser zugelassen ist. Die Aktien können in Stückelungen ab einer Aktie erworben werden. Die Angebotspreise werden in Tageszeitungen, durch Nachrichtendienste oder im Internet veröffentlicht und können üblicherweise durch die ISIN oder durch das Börsenkürzel ermittelt werden. Eine Begrenzung der Anzahl

	der Kaufangebote ist nicht geplant. Der Angebotspreis entspricht der Börsennotierung, für die Angebote an der Wertpapierbörse ausgeführt werden und ist damit abhängig von Marktangebot und – nachfrage. Der Angebotspreis wird mit dem Ziel, die beste Abwicklung zwischen Kauf- und Verkaufsangeboten zu erzielen, durch den zuständigen Skontroführer gemäß den Vorschriften der Frankfurter Wertpapierbörse festgelegt. *Ein bei einer Bank abgegebenes Kaufangebot kann nicht mehr reduziert werden, sofern dies nicht mit der betreffenden Bank vereinbart wurde.* *Abhängig von der Marktbelieferung und der Nachfrage nach im Markt verfügbaren Aktien, werden die Ausgegebenen Aktien nach ihrer Einbeziehung in den Handel sämtlichen interessierten Parteien gleichermaßen zur Verfügung stehen. Das Angebot ist nicht unterteilt in Tranchen. Es besteht keine Mindestzuteilung. Jeder Käufer kann mehrere Kaufangebote abgeben.*
Lieferung und Abrechnung	*Die Platzierungsaktien werden voraussichtlich drei Bankarbeitstage nach Beginn des Handels der Platzierungsaktien gegen Zahlung des Platzierungspreises und der üblichen Wertpapierprovision geliefert.* *Nach Beginn des Handels werden im Rahmen des Angebots erworbene Ausgegebene Aktien üblicherweise ungefähr zwei Handelstage nach Erwerb durch den Abgebenden Aktionär gegen Barzahlung zuzüglich der Bankprovision über eine Depotbank geliefert. Bankprovisionen werden durch die Depotbanken der Käufer festgelegt und sind der Gesellschaft daher nicht bekannt.* *Die Ausgegebenen Aktien der Gesellschaft werden den Aktionären in Form des Miteigentums an der jeweiligen Globalurkunde eingeräumt.* *Gemäß der Platzierung und gemäß dem Angebot erworbene Ausgegebene Aktien werden einem von einer Bank für Rechnung des jeweiligen Käufers bei der Clearstream Banking AG, Neue Börsenstrasse 1 in 60487 Frankfurt am Main, Deutschland geführten Wertpapierdepot gutgeschrieben.*
Joint Lead Managers und Sole Bookrunner	*BankM – Repräsentanz der biw Bank für Investments und Wertpapiere AG, Mainzer Landstraße 61, 60329 Frankfurt, Deutschland (“**BankM**”) und Silvia Quandt & Cie AG, Grüneburgweg 18, 60322 Frankfurt, Deutschland sind die Joint Lead Managers (die „**Lead Managers**“). BankM ist der Sole Bookrunner und Settlement Agent.*
Stabilisierungsmaß-nahmen	*In Zusammenhang mit der Platzierung der Platzierungsaktien können im rechtlich zulässigen Umfang Mehrzuteilungen und so genannte Stabilisierungsmaßnahmen vorgenommen werden, um den Börsen- oder den Marktpreis der Aktien der Gesellschaft zu stützen und einen bestehenden Verkaufsdruck auszugleichen. Stabilisierungsmaßnahmen können mit dem Zeitpunkt der Aufnahme des Handels der Aktien der Gesellschaft eingeleitet werden und müssen spätestens am darauf folgenden 30. Kalendertag abgeschlossen sein.*

	Stabilisierungsmaßnahmen können dazu führen, dass der Börsen- oder Marktpreis der Aktien der Gesellschaft höher ist als er ohne diese Maßnahmen sein würde. Zusätzlich können solche Maßnahmen zu einem Wert des Börsen- oder Marktpreises führen, welcher nicht nachhaltig ist.
Greenshoe Option	*Herr ZHANG Yu hat BankM bis zu 270,000 auf den Inhaber lautende Stammaktien ohne Nennbetrag im Rahmen einer sogenannten Wertpapierleihe zur Verfügung gestellt, um eine eventuelle Mehrzuteilung zu ermöglichen. Im Hinblick auf die Rückführung dieser Wertpapierleihe hat Herr ZHANG Yu BankM die Option eingeräumt, diese Aktien zum Angebotspreis abzüglich vereinbarter Provisionen zu erwerben ("**Greenshoe Option**"). Diese Greenshoe-Option erlischt 30 Kalendertage nach Beginn des Handels der Aktien im Freiverkehr im Entry Standard-Segment der Frankfurter Wertpapierbörse.*
Allgemeine Zuteilungskriterien	*Hinsichtlich der Platzierung werden die Gesellschaft und die Lead Manager die Grundsätze für die Zuteilung von Aktienemissionen an Privatanleger beachten, die am 7. Juni 2000 von der Börsensachverständigenkommission beim Bundesministerium der Finanzen herausgegeben wurden.*
Designated Sponsor	*Die Gesellschaft hat BankM als Designated Sponsor nach Beginn des Handels der Ausgegebenen Aktien beauftragt.*
Einbeziehung in den Handel	*Die Einbeziehung der Ausgegebenen Aktien der Gesellschaft zum Handel im Freiverkehr (Entry Standard) an der Frankfurter Wertpapierbörse und der Beginn des Handels der Aktien werden voraussichtlich am 6. August 2010 erfolgen.*
Vorzeitige Beendigung des Angebots	*Der Übernahmevertrag sieht vor, dass BankM den Übernahmevertrag bei Vorliegen von bestimmten Umständen bis zum letzten Bankarbeitstag vor der Einbeziehung der Ausgegebenen Aktien der Gesellschaft zum Handel im Freiverkehr (Entry Standard) an der Frankfurter Wertpapierbörse kündigen kann.* *Im Falle einer Kündigung des Übernahmevertrags erfolgt keine Platzierung. In einem solchen Fall werden die Aktienzuteilungen an die Anleger für ungültig erklärt und die Anleger haben keinen Lieferungsanspruch. Ansprüche bezüglich gezahlter Zeichnungsgebühren und im Zusammenhang mit der Zeichnung entstandene Kosten von Anlegern unterliegen ausschließlich dem rechtlichen Verhältnis zwischen dem jeweiligen Anleger und der Institution, bei der dieser ein Kaufangebot abgegeben hat.*
Marktschutzvereinbarung (Lock-up)	*Herr ZHANG Yu und die anderen Altaktionäre haben sich gegenüber BankM verpflichtet, für einen Zeitraum von 12 Monaten nach erstmaliger Einbeziehung der Aktien in den Handel im Freiverkehr (Entry Standard) der Frankfurter Wertpapierbörse, ohne vorherige schriftliche Einwilligung von BankM weder an einer Börse noch woanders und weder direkt noch indirekt Aktien der Gesellschaft zu verkaufen, anzubieten oder für den Verkauf zu*

bewerben, oder andere Maßnahmen zu ergreifen, die einer Veräußerung gleichstehen.

Verwendung des Platzierungserlöses und Kosten der Platzierung und Einbeziehung	*Die Gesellschaft erhält die Nettoerlöse aus der Platzierung, d.h. die Bruttoerlöse aus dem Verkauf der Neuen Aktien aus der Kapitalerhöhung abzüglich von der Gesellschaft gezahlte Provisionen an die Lead Manager und der Kosten der Platzierung. Die Bruttoerlöse sowie die Kosten der Platzierung hängen von der Gesamtanzahl der platzierten Neuen Aktien und dem Platzierungspreis ab. Die Gesellschaft erhält keine Erlöse aus dem Verkauf der Greenshoe Aktien. Vorbehaltlich der Ungewissheit, die einer solchen Schätzung innewohnt und anderer verschiedener relevanter Faktoren, die Einfluss haben können, aber derzeit nicht vorausgesehen werden können, geht die Gesellschaft davon aus, dass unter der Annahme der Platzierung sämtlicher Neuer Aktien Gesamtbruttoerlöse von zwischen ca. EUR 26,1 Millionen und ca. EUR 33,3 Millionen erzielt werden können.* *Vorbehaltlich der obigen Ungewissheiten geht die Gesellschaft davon aus, dass Gesamtkosten der Platzierung und der Einbeziehung der Aktien der Gesellschaft in den Handel im Freiverkehr (Entry Standard) zwischen EUR 0,6 Millionen und EUR 2,51 Millionen und Nettoerlöse für die Gesellschaft zwischen EUR 24 Millionen und EUR 30,8 Millionen möglich sind.* *Die Gesellschaft plant, die Nettoerlöse, die sie vom Verkauf der Neuen Aktien erhält, für die weitere Expansion des Geschäfts des KINGHERO Konzerns zu nutzen.* *Der KINGHERO Konzern plant insbesondere, die Nettoerlöse für die folgenden Investitionen einzusetzen: Installation von neuen Produktionsanlagen, Stärkung der Marke, Erweiterung des Vertriebsnetzes, Erwerb neuer Technologien.* *Abhängig von der Höhe der im Zusammenhang mit der Platzierung der Neuen Aktien erzielten Summe, werden die oben beschriebenen Investitionen teilweise oder vollständig aus den Erlösen der Platzierung der Neuen Aktien umgesetzt. Verbleibende Investitionen werden aus dem operativen Cash Flow der Gesellschaft und/oder möglichen weiteren Kapitalerhöhungen umgesetzt. Die Kosten der Platzierung und der Einbeziehung der Aktien der Gesellschaft in den Handel im Freiverkehr (Entry Standard) werden durch die Erlöse der Platzierung und/oder durch den operativen Cash Flow der Gesellschaft abgedeckt.* *Herr ZHANG Yu wird den auf den Verkauf der Greenshoe Aktien entfallenden Anteil der Gebühren des Lead Managers begleichen. Auf Basis der Preisspanne und unter Annahme voller Platzierung der Greenshoe Aktien schätzt die Gesellschaft die Nettoerlöse des Abgebenden Aktionärs auf ungefähr EUR 4,2 Millionen.*
Wertpapier-Kenn-Nummer (WKN)	*A0XFMW*

Internationale Wert-Papier-Kenn-Nummer (ISIN)	*DE000A0XFMW8*
Ticker Symbol	*KH6*
Paying Agent	*Bankhaus Gebr. Martin AG, Kirchstraße 35, 73033 Göppingen*

2.6 Ausgewählte Finanzangaben

Der KINGHERO Konzern ist am 31. März 2010 nach Umsetzung verschiedener Restrukturierungsmaßnahmen (siehe Kapitel 14.5 „*General Information on the Company – Recent Restructuring of KINGHERO Group*") entstanden und verfügt aus diesem Grund über keine historischen Finanzinformationen im Sinne von Anhang 1 Ziffer 20.1. der Verordnung (EG) Nr. 809/2004. Das operative Geschäft der Gesellschaft wurde und wird durch die Kinghero Fashion (Xiamen) Co. Ltd. ("**Kinghero Xiamen**") und die Xiamen Michelle Fashion Co., Ltd. ("**Michelle**") ausgeübt.

Kinghero Xiamen und Michelle sind hundertprozentige, mittelbare Tochtergesellschaften der Gesellschaft, die ihren Sitz in Xiamen, Volksrepublik China haben und das operative Geschäft des KINGHERO Konzerns ausschließlich ausüben.

Am 14. Juli 2009 schloss die Kinghero Group Holdings Limited ("**Kinghero HK**") einen Anteilskaufvertrag über den Erwerb sämtlicher Anteile der Michelle. Am 8. November 2009 schloss Michelle einen Anteilskaufvertrag über sämtliche Anteile der Kinghero Xiamen.

Kinghero Xiamen war während des Berichtszeitraums die einzige wesentliche operativ tätige Tochtergesellschaft des KINGHERO Konzerns. Dies liegt daran, dass Michelle erst im Juli 2009 ihre Geschäftstätigkeit aufgenommen hat. Um die Geschäfte, die Finanzlage und die Geschäftsergebnisse für die letzten drei Geschäftsjahre im Hinblick auf das operative Geschäft des KINGHERO Konzern darzustellen, hat die Gesellschaft daher Einzelabschlüsse für Kinghero Xiamen für die am 31. Dezember 2007, 31. Dezember 2008 und 31. Dezember 2009 endenden Geschäftsjahre nach IFRS erstellt, wie sie in der EU anzuwenden sind.

Die Gesellschaft hat auch einen Einzelabschluss der Michelle für das am 31. Dezember 2009 endende Geschäftsjahr nach IFRS erstellt, wie sie in der EU anzuwenden sind; vorangegangene historische Daten sind aufgrund des Beginns der Geschäftstätigkeit im Jahr 2009 nicht relevant.

Weiterhin hat die Gesellschaft einen Einzelabschluss für das Rumpfgeschäftsjahr vom 16. April 2009 bis zum 31. Dezember 2009 nach den Vorschriften des Handelsgesetzbuches erstellt.

Die ausgewählten Finanzangaben, die in diesem Abschnitt enthalten sind, wurden den vorgenannten Abschlüssen entnommen. Diese Abschlüsse wurden von Grant Thornton GmbH Wirtschaftsprüfungsgesellschaft, Domstrasse 15, 20095 Hamburg, Germany ("**Grant Thornton**") geprüft.

Zusätzlich wurden vorläufige Finanzangaben für den Zeitraum der ersten drei Monate bis zum 31. März 2010 für Kinghero Xiamen und auch für Michelle, die von den vorläufigen Abschlüssen der beiden Gesellschaften für das am 31. März 2010 endende Quartal mit vergleichenden Angaben für den Zeitraum bis zum 31. März 2009 entnommen wurden, nach

IFRS erstellt, wie sie in der EU anzuwenden sind. Diese vorläufigen Abschlüsse wurden einer prüferischen Durchsicht von Grant Thornton unterzogen.

Da die Entstehung des KINGHERO Konzerns zum 31. März 2010 rechtlich wirksam wurde, wurden die ersten konsolidierten Finanzdaten des KINGHERO Konzerns der Konzernbilanz zum 31. März 2010 nach IFRS entnommen. Da dieses Datum den Beginn der rechtlichen Existenz des KINGHERO Konzerns markiert, stehen zwangsläufig keine konsolidierten Angaben der Gesamtergebnisrechnung, der Eigenkapitalveränderung oder der Kapitalflussrechnung zur Verfügung. Deshalb hat die Gesellschaft nur eine Konzernbilanz zum 31. März 2010 erstellt. Diese konsolidierten Angaben wurden einer prüferischen Durchsicht von Grant Thornton unterzogen.

Die vorgenannten Abschlüsse sind nicht die gesetzlich vorgeschriebenen Abschlüsse der Gesellschaft, sondern sind auf freiwilliger Basis für den Zweck dieses Angebots erstellt worden. Der Zweck dieser Abschlüsse liegt darin, Anlegern eine bessere Vergleichbarkeit der Entwicklung der Geschäfte, der Finanzlage und der Geschäftsergebnisse des KINGHERO Konzerns in den letzten drei Jahren zu ermöglichen.

Die folgenden Zahlenangaben wurden nach anerkannten Grundsätzen gerundet. Additionen der Zahlenangaben in einer Tabelle können daher zu anderen als den ebenfalls in der Tabelle dargestellten Summen führen.

Kinghero Fashion (Xiamen) Co. Ltd

Ausgewählte Kennzahlen

	Geschäftsjahr zum 31. Dezember						**Drei Monate zum 31. März**			
	2007		**2008**		**2009**		**2009**		**2010**	
	(geprüft)[1]		**(geprüft)[1]**		**(geprüft)[1]**		**(nicht geprüft)[2]**		**(nicht geprüft)[2]**	
	TEUR	**%**	**TEUR**	**%**	**TEUR**	**%**	**TEUR**	**%**	**TEUR**	**%**
Umsatzerlöse	24.272	100%	32.142	100%	48.921	100%	10.447	100%	14.902	100%
Umsatzkosten	-15.957	66%	-21.790	68%	-33.193	68%	-6.715	64%	-9.375	63%
Bruttogewinn	**8.315**	**34%**	**10.352**	**32%**	**15.728**	**32%**	**3.732**	**36%**	**5.527**	**37%**
Sonstige betriebliche Erträge	0	0%	0	0%	89	0%	19	0%	23	0%
Marketing- und Vertriebskosten	-2.656	11%	-1.694	5%	-2.144	4%	-534	5%	-551	4%
Verwaltungsaufwendungen	-234	1%	-318	1%	-379	1%	-282	3%	-308	2%
Betriebsergebnis	**5.425**	**22%**	**8.340**	**26%**	**13.294**	**27%**	**2.935**	**28%**	**4.691**	**31%**
Finanzerträge	8	0%	16	0%	12	0%	2	0%	8	0%
Finanzkosten	-10	0%	0	0%	0	0%	0	0%	0	0%
Gewinn vor Ertragsteuer	**5.423**	**22%**	**8.356**	**26%**	**13.306**	**27%**	**2.937**	**28%**	**4.699**	**32%**
Ertragsteuer	-818	3%	-1.461	5%	-2.652	5%	-578	6%	-1.034	7%
Periodengewinn	**4.605**	**19%**	**6.895**	**21%**	**10.654**	**22%**	**2.359**	**23%**	**3.665**	**25%**
Ausgewählte Angaben aus der Bilanz										
Summe der Vermögenswerte	12.175		14.281		24.289				33.392	
Summe der Verbindlichkeiten	4.095		4.188		4.233				8.103	
Summe des Eigenkapitals	8.080		10.093		20.056				25.289	
Ausgewählte Angaben aus der Kapitalflussrechnung										
Cashflow aus betrieblicher Tätigkeit	4.596		6.303		2.832		1.448		6.961	
Cashflow aus Investitionstätigkeit	-2.357		-530		0		0		0	
Cashflow aus Finanzierungstätigkeit	-1.682		-5.904		0		0		0	
Zahlungsmittel zum Periodenende	1.796		1.878		4.651		3.298		11.578	
Weitere ausgewählte Finanzinformationen										
Bruttogewinn-Marge	34,3%		32,2%		32,1%		35,7%		37,1%	
EBITDA	5.487		8.403		13.412		2.967		4.721	
EBITDA-Marge	22,6%		26,1%		27,4%		28,4%		31,7%	
EBIT	5.425		8.340		13.294		2.935		4.691	
EBIT-Marge	22,4%		25,9%		27,2%		28,1%		31,5%	
Gewinn-Marge	19,0%		21,5%		21,8%		22,6%		24,6%	
Zahlungsmittel abzüglich Finanzierungsmittel	1.796		1.878		4.651		3.298		11.578	

[1] Geprüfte Informationen mit Ausnahme der "weiteren ausgewählten Finanzinformationen"

[2] Die Quartalszahlen wurden einer prüferischen Durchsicht unterzogen

Xiamen Michelle Fashion Co. Ltd

Ausgewählte Kennzahlen

	Geschäftsjahr zum 31. Dezember		Drei Monate zum 31. März	
	2009		2010[2]	
	(geprüft)[1]		(nicht geprüft)[3]	
	TEUR	%	TEUR	%
Umsatzerlöse	21	100%	23	100%
Umsatzkosten	-8	38%	-7	30%
Bruttogewinn	**13**	**62%**	**16**	**70%**
Sonstige betriebliche Erträge	17	81%	15	65%
Sonstige betriebliche Aufwendungen	-17	81%	-14	61%
Marketing- und Vertriebskosten	-3	14%	-3	13%
Verwaltungsaufwendungen	-14	67%	-11	48%
Betriebsergebnis	**-4**	**19%**	**3**	**13%**
Finanzerträge	0	0%	0	0%
Finanzkosten	0	0%	0	0%
Verlust/Gewinn vor Ertragsteuern	**-4**	**19%**	**3**	**13%**
Ertragsteuer	1	5%	-1	4%
Periodenverlust/-gewinn	**-3**	**14%**	**2**	**9%**
Ausgewählte Angaben aus der Bilanz				
Summe der Vermögenswerte	4.356		13.402	
Summe der Verbindlichkeiten	3.545		3.802	
Summe des Eigenkapitals	811		9.600	
Ausgewählte Angaben aus der Kapitalflussrechnung				
Cashflow genutzt in/aus betrieblicher Tätigkeit	-815		8	
Cashflow aus Investitionstätigkeit	0		0	
Cashflow aus Finanzierungstätigkeit	819		8.721	
Zahlungsmittel zum Periodenende	4		8.733	
Weitere ausgewählte Finanzinformationen				
Bruttogewinn-Marge	61,9%		69,6%	
EBITDA	-4		3	
EBITDA-Marge	-19,0%		13,0%	
EBIT	-4		3	
EBIT-Marge	-19,0%		13,0%	
Gewinn-Marge	-14,3%		8,7%	
Zahlungsmittel abzüglich Finanzierungsmittel	4		8.733	

[1] Geprüfte Informationen mit Ausnahme der "weiteren ausgewählten Finanzinformationen"

[2] Da die Gesellschaft vor Juli 2009 nicht tätig war, liegen keine Vergleichszahlen zum 31. März 2009 vor

[3] Die Quartalszahlen wurden einer prüferischen Durchsicht unterzogen

Kinghero AG

Ausgewählte konsolidierte Kennzahlen

	31. März
	2010
	(nicht geprüft)[1]
	TEUR
Ausgewählte Angaben aus der Konzernbilanz	
Summe der Vermögenswerte	45.608
Summe der Verbindlichkeiten	12.218
Summe des Eigenkapitals	33.390

[1] Die Quartalszahlen wurden einer prüferischen Durchsicht unterzogen

Kinghero AG

Ausgewählte Kennzahlen

	Rumpfgeschäftsjahr vom 16. April bis zum 31. Dezember	Drei Monate zum 31. März
	2009	2010
	(geprüft)[1]	(nicht geprüft)[2]
	EUR Tausend	EUR Tausend
Sonstige betriebliche Aufwendungen	-64	-145
Ergebnis der gewöhnlichen Geschäftstätigkeit	**-64**	**-145**
Verlust vor Ertragsteuer	**-64**	**-145**
Periodenverlust	**-64**	**-145**
Ausgewählte Angaben aus der Bilanz		
Summe der Vermögenswerte	118	29.121
Summe der Verbindlichkeiten	102	250
Summe des Eigenkapitals	16	28.871

[1] Geprüfte Informationen mit Ausnahme der "weiteren ausgewählten Finanzinformationen"

[2] Die Quartalszahlen wurden einer prüferischen Durchsicht unterzogen

Das Bankguthaben zum 31. März 2010 beträgt TEUR 20.337 gemäß der konsolidierten Abschlüsse nach IFRS aufgrund einer Kapitalerhöhung den operativen chinesischen Gesellschaften im 1. Quartal 2010 und den ertragreichen Geschäften den operativen chinesischen Gesellschaften in den ersten drei Monaten in 2010.

Die Konzernbilanzsumme zum 31. Mai 2010 nach IFRS beträgt TEUR 52.694 und das konsolidierte Eigenkapital TEUR 39.524. Die konsolidierte Eigenkapitalquote (Eigenkapital durch Bilanzsumme) beträgt 75%.

Das Eigenkapital zum 31. Mai 2010 enthält nicht die Barkapitalerhöhung der Gesellschaft in Höhe von TEUR 200, da diese Kapitalerhöhung erst zum 25. Juni 2010 wirksam wurde.

Die kurzfristigen Finanzverbindlichkeiten beinhalten Verbindlichkeiten aus Lieferung und Leistung und sonstige Verbindlichkeiten. Es gibt keine Bankverbindlichkeiten, weder innerhalb der kurzfristigen noch der langfristigen Finanzverbindlichkeiten. Zum 31. Mai 2010 betrugen die Barmittel und barmittelähnlichen Bestände TEUR 22.401 und die kurzfristigen finanziellen Vermögenswerte überstiegen die Finanzverbindlichkeiten um TEUR 24.405.

2.7 Zusammenfassung der Risikofaktoren

Anleger sollten gewisse Risiken sorgfältig abwägen, bevor sie die Entscheidung zum Kauf von Aktien der Gesellschaft treffen. Diese Risiken schließen die unten angeführten wesentlichen Risiken ein, die im Kapitel 3 „Risk Factors“ näher beschrieben sind. Das Eintreten von einem oder mehreren der mit diesen Risiken verbundenen Ereignisse kann sich wesentlich nachteilig auf die Geschäftstätigkeit des KINGHERO Konzerns auswirken und die Vermögens-, Finanz- und Ertragslage des KINGHERO Konzerns erheblich beeinträchtigen. Es ist möglich, dass infolge eines mit dem Eintreten dieser Risiken verbundenen Ereignisses der Börsenkurs der Aktien sinkt und Anleger ihr investiertes Kapital ganz oder teilweise verlieren.

Es könnte sein, dass die nachstehend genannten Risiken sich im Nachhinein als nicht vollständig herausstellen und daher möglicherweise nicht die einzigen Risiken darstellen, denen die Gesellschaft ausgesetzt ist. Zusätzliche Risiken und Unsicherheiten, von denen die Gesellschaft derzeit keine Kenntnis hat, könnten erhebliche nachteilige Auswirkungen auf den Geschäftsbetrieb und den Cash Flow, die Finanzlage und das operative Geschäftsergebnis des KINGHERO Konzerns haben. Anleger sollten insbesondere den Umstand beachten, dass alle operativen Gesellschaften des KINGHERO Konzerns operativ in der VR China tätig sind und sich in einem rechtlichen und regulatorischen Umfeld befinden, welches sich in verschiedenen Aspekten von dem anderen Länder unterscheidet.

Die Reihenfolge der nachfolgend dargestellten Risikofaktoren gibt nicht Aufschluss über die Wahrscheinlichkeit des Eintretens oder des Umfangs oder der Erheblichkeit des einzelnen Risikos. Die unten genannten Risiken können einzeln oder kumulativ eintreten.

Nachfolgend handelt es sich um eine Zusammenfassung der Risikofaktoren:

2.7.1 Marktbezogene Risiken

- Fluktuationen in der globalen Wirtschaft könnten die Wirtschaft der VR China erheblich und nachteilig beeinträchtigen.

- Fluktuationen der Verbraucherausgaben aufgrund von Änderungen der makroökonomischen Bedingungen in der VR China könnte den

Geschäftsbetrieb, die Finanzlage, das operative Geschäftsergebnis und die Aussichten des KINGHERO Konzerns erheblich beeinträchtigen.

- Fluktuationen in Devisenumrechnungskursen und die Aufwertung des Renminbi (RMB) könnte den Geschäftsbetrieb, die Finanzlage, das operative Geschäftsergebnis und die Aussichten des KINGHERO Konzerns erheblich beeinträchtigen.

2.7.2 Risiken bezüglich der Geschäftstätigkeit des KINGHERO Konzerns

- Der KINGHERO Konzern ist in einem Umfeld mit intensivem Wettbewerb tätig. Erhöhter Wettbewerb oder der Eintritt von neuen Wettbewerbern, kombiniert mit dem Misslingen, effektiv mit seinen Wettbewerbern zu konkurrieren, könnte zu niedrigeren Margen oder einem Verlust von Markanteilen des KINGHERO Konzerns führen.

- Schnelle Veränderungen in Modetrends, Konsumentenvorlieben oder Konsumausgaben könnten sich nachteilig auf das Geschäft des KINGHERO Konzerns auswirken.

- Das Misslingen, die Marke des KINGHERO Konzerns erfolgreich voranzutreiben, könnte das Geschäft und das Ergebnis der Geschäftstätigkeit erheblich und nachteilig beeinträchtigen.

- Die Margen und die Profitabilität des KINGHERO Konzerns könnte nachteilig beeinträchtigt werden, wenn der KINGHERO Konzern nicht in der Lage ist, gestiegene Kosten zu reduzieren oder weiterzugeben.

- Ungeplante Schließungen von Produktionsstätten, Engpässe oder Unterbrechungen der Lieferungen von Rohmaterialien, Komponenten oder fertigen Waren, die von Dritten bezogen werden oder Elektrizitätsengpässe könnten den Absatz reduzieren.

- Der KINGHERO Konzern könnte es nicht schaffen, seine Strategie zur Ausweitung der Produktion erfolgreich umzusetzen mit der Folge, dass sein Geschäft, das Ergebnis der Geschäftstätigkeit und die Finanzlage erheblich und nachteilig beeinträchtigt werden könnte.

- Der KINGHERO Konzern betreibt zur Zeit seine sämtlichen Geschäftsaktivitäten auf und erhält seine sämtlichen Erlöse aus dem Markt der VR China.

- Die Verletzung von gewerblichen Schutzrechten des KINGHERO Konzerns, die Unfähigkeit, sein Know-How angemessen zu schützen und der Verkauf von gefälschten Produkten könnten den Ruf und die Profitabilität des KINGHERO Konzerns nachteilig beeinträchtigen.

- Der KINGHERO Konzern könnte gewerbliche Schutzrechte Dritter verletzen.

- Der KINGHERO Konzern könnte durch Kundenbeschwerden Nachteile erleiden.

- Der KINGHERO Konzern ist abhängig von bestimmtem Schlüsselpersonal.

- Die Personalkosten in der VR China sind in den letzten Jahren signifikant gestiegen und könnten weiterhin erheblich steigen.

- Der KINGHERO Konzern ist auf Auftragsfertigung angewiesen, um einen bestimmten Anteil seiner Produkte herzustellen. Es ist nicht gewährleistet, dass die von den Auftragsfertigern erbrachten Leistungen ausreichend sind oder der Qualität entsprechen, die der KINGHERO Konzern benötigt. Außerdem könnten die Auftragsfertiger in finanzielle oder andere Schwierigkeiten geraten, wodurch ihre Fähigkeit zur Ausführung der Arbeit, zu der sie durch Vertrag verpflichtet sind, beeinträchtigt werden könnte, was zu einer Verzögerung der Fertigstellung der Produkte des KINGHERO Konzerns oder zu zusätzlichen Kosten für den KINGHERO Konzern führen kann.

- Das Markenimage und das Geschäft des KINGHERO Konzerns könnten durch Handlungen seiner unabhängigen Vertragspartner negativ beeinträchtigt werden.

- Der KINGHERO Konzern ist beim Verkauf der Produkte des KINGHERO Konzerns auf eine geringe Anzahl von ernannten Vertriebspartnern angewiesen und das Misslingen, Vertriebsverträge mit seinen bedeutenden Vertriebspartnern zu erneuern oder eine Verletzung solcher Vertriebsverträge durch den Vertriebspartner könnte das Ergebnis der Geschäftstätigkeit des KINGHERO Konzerns erheblich und nachteilig beeinträchtigen.

- Das zukünftige Wachstum des KINGHERO Konzerns hängt von dem erfolgreichen Aufbau und Expansion seines inländischen Vertriebsnetzes ab.

- Der KINGHERO Konzern könnte für sein zukünftiges Wachstum weiteren Finanzierungsbedarf aufweisen. Es kann nicht gewährleistet werden, dass der KINGHERO Konzern über ausreichende Bezugsquellen und Finanzmittel verfügen wird, um seine Expansionspläne in der Zukunft zu finanzieren. In einem solchen Fall könnte seine Geschäfts- und Finanzlage erheblich und nachteilig beeinträchtigt werden. Außerdem könnte, falls der KINGHERO Konzern eine Finanzierung erhält, eine zusätzliche Eigenkapitalfinanzierung zu einer Verwässerung der Anteile der Aktionäre führen, während eine zusätzliche Fremdfinanzierung seine Möglichkeit zur Dividendenzahlung einschränken könnte.

- Der zukünftige Erfolg des KINGHERO Konzerns hängt von der Rekrutierung und dem Verbleib von qualifiziertem Personal ab.

- Nicht alle Mitglieder des Vorstands verfügen über Erfahrung im Hinblick auf die gesetzlichen Anforderungen in Deutschland und der KINGHERO Konzern verfügt derzeit noch über kein umfassendes Corporate Compliance System.

- Der Aufsichtsrat der Gesellschaft kann möglicherweise bei der angemessenen Überwachung des Vorstands auf Schwierigkeiten treffen, da die Mehrheit des Vorstandes in China ansässig ist und die Mehrheit der Mitglieder des Aufsichtsrats, insbesondere der Aufsichtsratsvorsitzende in Deutschland ansässig ist.

- Der Vorstandsvorsitzende der Gesellschaft, Herr ZHANG Yu, ist gleichzeitig ihr Hauptaktionär, was zu Interessenkonflikten führen kann.

- Die Gesellschaften des KINGHERO Konzerns haben und könnten weiterhin geschäftliche und rechtliche Beziehungen zu verbundenen Personen der Gesellschaft und deren Vorstandsmitglieder haben, die einem Drittvergleich nicht standhalten.

- Der Versicherungsschutz des KINGHERO Konzerns ist möglicherweise nicht ausreichend, um sämtliche potentiellen Haftungen oder Verluste zu decken.

- Der KINGHERO Konzern könnte für die Zahlung von ausstehenden Beiträgen zur Sozialversicherung und zum Wohnungsfonds haftbar gemacht werden.

- Der KINGHERO Konzern ist rechtlich verpflichtet, die Überprüfung und Abnahme der Umweltschutzanlagen für die neuen und erweiterten Produktionsanlagen in Jimei bei der zuständigen Umweltschutzbehörde zu beantragen.

- Der Erwerb der neuen Produktionsstätte ist mit rechtlichen Risiken verbunden.

- Der KINGHERO Konzern ist möglicherweise nicht in der Lage, die für seine Geschäfte erforderlichen Genehmigungen und Lizenzen von Behörden in der VR China aufrechtzuerhalten und/oder zu erlangen oder zukünftige regulatorische Anforderungen zu erfüllen.

- Die Gesellschaft ist eine Beteiligungsgesellschaft, deren Liquidität von dem Zugang zu den liquiden Mitteln ihrer in der VR China ansässigen operativen Tochtergesellschaften abhängt, die möglicherweise nicht in der Lage sind Gewinne auszuschütten.

- Der Mietvertrag für die derzeitige Produktionsstätte der Kinghero Xiamen in Jimei läuft am 31. Dezember 2010 aus. Wenn Kinghero Xiamen nicht in der Lage sein sollte, die Produktion bis dahin auf die neue Produktionsstätte zu verlagern oder den Mietvertrag zu verlängern, kann dies zu einer Unterbrechung der Produktion führen und damit das Ergebnis der Geschäftstätigkeit des KINGHERO Konzerns erheblich und nachteilig beeinträchtigen.

2.7.3 Risiken bezüglich der Geschäftstätigkeit in der VR China

- Der KINGHERO Konzern ist allgemeinen Risiken in Zusammenhang mit Geschäftstätigkeiten in Wachstumsmärkten ausgesetzt.

- Änderungen der in der VR China geltenden politischen und wirtschaftlichen Grundsätze könnten die Geschäftsaktivitäten des KINGHERO Konzerns in einem erheblichen Maße negativ beeinflussen.

- Die neue Gesetzgebung der Volksrepublik China zu **SPV**, die von chinesischen Gesellschaften und/oder Einzelpersonen zum Zweck einer indirekten Börsennotierung gegründet werden und die Unternehmen der Volksrepublik China direkt oder indirekt kontrollieren, kann sich in erheblichem Maße negativ auf die Geschäfte des KINGHERO Konzerns auswirken.

- Die Rechtsvorschriften der SAFE der staatlichen Devisenverwaltung, in Bezug auf Offshore-Investitionen, die von in China ansässigen Personen oder Inhabern eines chinesischen Passes getätigt werden, können die geschäftlichen Aktivitäten und Finanzierungsalternativen des KINGHERO Konzerns negativ beeinflussen.

- Chinesische Vorgaben bezüglich Darlehen und Eigenkapitalzufuhr durch ausländische Muttergesellschaften an chinesischen Tochtergesellschaften können dazu führen, dass der KINGHERO Konzern die Erlöse aus der Platzierung der neuen Aktien nur zu einem späteren Zeitpunkt oder gar nicht nutzen kann.

- Eine erhebliche Unterbrechung der Geschäfte des KINGHERO Konzerns oder der Geschäfte seiner Vertriebspartner und/oder Sub-Vertriebsmitarbeiter durch Ereignisse höherer Gewalt könnte das Ergebnis der Geschäfte in einem erheblichen Maße negativ beeinflussen.

- Krankheitsepidemien oder der Ausbruch von ansteckenden Krankheiten, einschließlich der Vogel- und Schweinegrippe oder anderer neuer Typen der Influenza oder des schweren akuten respiratorischen Syndroms (SARS) könnten sich in einem erheblichen Maße negativ auf die Wirtschaft der VR China auswirken.

- Das Rechtssystem der Volksrepublik China beinhaltet Unsicherheiten und Inkonsistenzen.

- Es können Einschränkungen hinsichtlich einer ausländischen Kontrolle von chinesischen Gesellschaften eingeführt werden.

- Der steuerrechtliche Status des KINGHERO Konzerns oder die Steuergesetzgebung oder deren Auslegung könnten sich ändern.

- Die steuerliche Belastung des KINGHERO Konzerns könnte sich aufgrund von Betriebsprüfungen erhöhen.

- Die Gesellschaften des KINGHERO Konzerns könnten der Zahlung von Körperschaftsteuer in der VR China auf zukünftiges globales Einkommen unterliegen.

- Der Wert von zukünftigen Dividenden könnte durch Quellensteuer der VR China reduziert werden.

- Rechnungslegungsstandards in der VR China könnten sich negativ auf die Möglichkeit zur Ausschüttung von Dividenden auswirken.

- Eine Destabilisierung des politischen Systems könnte die wirtschaftliche Liberalisierung der VR China gefährden.

- Die mangelnde Unabhängigkeit und geringe Erfahrung des chinesischen Gerichtswesens und die Schwierigkeiten bei der Vollstreckung von richterlichen Entscheidungen sowie der Ermessensspielraum der staatlichen Behörden bei der Durchsetzung von Gerichtsentscheidungen könnten den KINGHERO Konzern daran hindern, effektiven Rechtsschutz in einem Gerichtsverfahren zu erlangen.

- Es gibt Schwierigkeiten bei der Anerkennung und Vollstreckung von ausländischen Gerichtsurteilen in China.

- Bestimmte Fakten, Prognosen und anderer Statistiken in Bezug auf China, die Wirtschaft Chinas und den Markt für Freizeitkleidung in diesem Prospekt stammen von offiziellen Behördenpublikationen und könnten nicht verlässlich sein.

2.7.4 Risiken hinsichtlich des Angebots

- Zukünftige Verkäufe einer beachtlichen Anzahl von Aktien an der Gesellschaft könnten den Wert der Aktien negativ beeinflussen.

- Der öffentliche Handel mit Aktien der Gesellschaft könnte sich möglicherweise nicht entwickeln.

- Der Aktienkurs der Aktien könnte volatil werden.

- Die Aktien könnten durch zukünftige Kapitalmaßnahmen verwässert werden.

- Auf die Zukunft gerichtete, in diesem Prospekt enthaltene Informationen könnten sich als unzutreffend erweisen.

- Anleger sollten sich nicht auf Informationen aus Presseartikeln oder sonstigen Medien hinsichtlich des KINGHERO Konzerns und des Angebots verlassen.

- Das Eingehen von Leerverkäufen vor Lieferung der Aktien ist mit Risiken behaftet.

3. RISK FACTORS

In addition to the other information included in this Prospectus, potential investors should peruse and carefully consider specific risk factors cited below before coming to a decision about purchasing shares of the Company. The business operations and net assets, financial position and results of operations of KINGHERO Group may suffer substantial harm due to the materialization of any one or several of these risks. The risks described below are not the only risks to which KINGHERO Group is exposed. Other uncertainties and risks which are currently unknown to the Company may also impair the operations of KINGHERO Group and cause considerable harm to its business and its net assets, financial position and results of operations. The sequence in which the following risks are presented does not contain any statement about the probability that they will occur or the extent of the financial impact if the risks mentioned below materialize. The stock price of the Company's shares might drop considerably if any one of these risks occurs and investors might lose all or part of their investment.

3.1 Market Related Risks

Fluctuations in the global economy could materially and adversely affect the economy of the PRC.

The economy of the PRC is vulnerable to market downturns and to economic slowdowns elsewhere in the world. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in the PRC or in emerging economies in general could dampen foreign investment in the PRC and businesses could face severe liquidity constraints, further materially adversely affecting these economies. As a result, disruptions in the development of the global economy could have material adverse effects on the business, financial condition and results of operations of KINGHERO Group.

Fluctuations in consumer spending caused by changes in macroeconomic conditions in the PRC may significantly affect KINGHERO Group's business, financial condition, results of operations and prospects.

KINGHERO Group derives almost all of its turnover from sales of the products in the PRC. The success of the business depends on the condition and growth of the PRC consumer market, which, in turn, depends on worldwide economic conditions and individual income levels in the PRC and their impact on levels of consumer spending, which have recently deteriorated significantly in many countries and regions and may remain depressed for the near future. There are many factors affecting the level of consumer spending, including but not limited to interest rates, currency exchange rates, recession, inflation, deflation, political uncertainty, taxation, stock market performance, unemployment level and general consumer confidence. There can be no assurance that historical growth rates of the PRC economy will continue or that projected growth rates of the PRC economy and the PRC consumer market, including those described in the section headed ''Market Environment and Competitive Situation'', will be realized. Any future slowdowns or declines in the PRC economy or consumer spending may materially and adversely affect KINGHERO Group's business, financial condition and results of operations.

Fluctuation in foreign exchange rates and revaluation of the Renminbi ("RMB") could adversely affect KINGHERO Group's business, financial condition, results of operations and prospects.

The financial statements contained in this Prospectus for the periods under review were prepared in EUR and its future consolidated financial statements will be prepared in EUR, while KINGHERO Group's operating currency is RMB, which is currently not a freely convertible currency. The value of the RMB is controlled by PRC authorities. It is pegged to a basket of foreign currencies and is allowed to float within a narrow 0.3% daily band against this basket of currencies. This basket is dominated by the U.S. Dollar, Euro, Japanese Yen and South Korean Won, with a smaller proportion made up of the British Pound, Thai Baht, Russian Rouble, Australian Dollar, Canadian Dollar and Singapore Dollar. Recently, the international pressure on the Chinese government to revalue its currency has increased, especially from the part of the United States. Moreover, Chinese officials have repeatedly hinted at the possibility of such a revaluation in the future.

A devaluation of the RMB versus the EUR would have an adverse currency translation effect on the Company's consolidated financial statements and the value of the potential dividend payments by KINGHERO AG to its shareholders. Furthermore, KINGHERO Group's proceeds from this Offering may decrease in value if the Company chooses not to or is unable to convert the proceeds into RMB and the EUR devalues against the RMB during such period.

3.2 Risks related to KINGHERO Group's Operations

KINGHERO Group operates in a highly competitive environment. Increased competition or the entry of new competitors, combined with any failure to compete effectively with its competitors, may result in lower margins or in a loss of KINGHERO Group's market share.

Competition in the Chinese and global markets for clothing is particularly intense and KINGHERO Group expects this competition to continue to increase and intensify in the future. KINGHERO Group's current competitors include Chinese companies such as Fujian Septwolves Industry Co., Ltd., Fujian Seven Brand Group Co., Ltd., LILANZ (China) Co., Ltd., Joeone (Fujian) Fashion & Development Co., Ltd., and K-boxing Men's Wear Co., Ltd.

New competitors could arise at any time. Existing and new competitors might have stronger and more established brands, a larger customer base, more advanced production facilities or greater financial resources, which allow them to compete aggressively in this market by lowering their prices and/or expanding their production capacity. To remain competitive, KINGHERO Group must continue to invest significant resources in the ongoing development of new products and improvement of existing products. There can be no assurance that KINGHERO Group will have sufficient resources to make these investments or that such investments will improve KINGHERO Group's position in the Chinese market as compared to its competitors.

In addition, in connection with the economic slowdown and the results of the financial crisis in industrialized countries, KINGHERO Group expects more of its international competitors to increase their sales activities in the Chinese market, which is believed to be one of only a few growth markets worldwide. This could lead to intensified competition with respect to high-quality products and for qualified personnel in China.

Increased competition or the entry of new competitors could result in lower margins or a loss of market share, either of which could have a material adverse effect on KINGHERO Group's business, financial condition and results of operations.

Rapid changes in fashion trends, consumer preferences or spending patterns may adversely affect KINGHERO Group’s business.

KINGHERO Group depends on the development and market acceptance of new products and may not be able to effectively predict or react quickly to changing consumer preferences that could render its products obsolete.

The markets in which KINGHERO Group competes are characterized by the frequent introduction of new products, changing consumer preferences and demands as well as changing consumer spending patterns. The Company believes that its future success will depend on KINGHERO Group's ability to continually develop and bring to market new products with high quality standards, innovative designs and other features in a timely manner.

Product cycles in the fashion industry generally tend to be shorter than in other industries. For this reason, KINGHERO Group may in the future be required to substantially increase its investments in research, development and design in order to maintain its market share and reputation. KINGHERO Group's products can only remain competitive if they meet consumer preferences in terms of quality and design and can react to rapid changes of customers’ preferences. KINGHERO Group cannot predict which new products or product designs will emerge to meet changing consumer preferences and demands. KINGHERO Group might not be able to adapt to changing consumer preferences and offer attractive products on a timely basis. If KINGHERO Group does not anticipate or adequately respond to evolving market demands or meet changing consumer preferences, its ability to sell its products may be limited and the appeal of its brand may be reduced

The materialization of any of these risks could have a material adverse effect on KINGHERO Group's business, financial condition and results of operations.

Failure to successfully promote KINGHERO Group’s brand may materially and adversely affect its business and results of operations.

Brand image is a key factor in consumer purchasing decisions for clothing products. KINGHERO Group is committed to building its brand through the introduction of stylish and quality designs as well as through national advertising campaigns. KINGHERO Group’s ability to maintain and further develop its brand in the PRC depends, in part, on its ability to meet changing consumer tastes and preferences and the effectiveness of its advertising campaigns. KINGHERO Group may misjudge changes in fashion trends or fail to respond to such changes in a timely manner. In addition, KINGHERO Group may embark on unsuccessful advertising campaigns that do not achieve their intended results or engage spokespersons who could generate negative publicity over which it has no control. If KINGHERO Group is unable to successfully maintain and promote its brand, its business, financial condition and results of operations may be materially and adversely affected.

KINGHERO Group’s margins and profitability may be adversely affected if KINGHERO Group is unable to reduce or pass on increased costs.

KINGHERO Group is dependent on third-party suppliers for the raw materials and KINGHERO Group's operating profit could decrease if KINGHERO Group is unable to pass increases in costs of raw materials, components and finished goods sourced from third parties to its customers

Any further increase in prices for raw materials, finished goods and components or any adverse currency-related effects from the purchase of such products sourced from third parties which cannot be passed on to KINGHERO Group's customers could reduce

KINGHERO Group's operating profit and could have a material adverse effect on its business, financial condition and results of operations.

Unscheduled production plant shutdowns, shortages or disruptions in the supply of raw materials, components or finished goods sourced from third parties, or electricity shortages may reduce sales.

Production at KINGHERO Group's manufacturing facilities could be adversely affected by the occurrence of one or more unexpected events such as technical failures, strikes, natural disasters, supply shortages, regulatory rulings or other factors. These factors could also partially or completely impede KINGHERO Group's intended expansion of production capacity and capability. In addition, KINGHERO Group's production processes are power-intensive and require a constant supply of electricity. Any failure in power generation facilities, transmission systems and other infrastructure or a general scarcity of electricity could therefore also result in a decline in production output or even a suspension of production.

KINGHERO Group also depends on a steady supply of certain raw materials, in particular fabrics and certain components and finished goods sourced from third parties. Disruptions or shortfalls in the supply, late deliveries or a low quality of delivered materials and fabrics that do not possess the necessary quality could lead to a decline in production or even a suspension of production

If, for these or other reasons, KINGHERO Group's production output declines temporarily or for a longer period, its sales could decline, it might be exposed to damage claims asserted by its customers and its reputation could be harmed. Any of these circumstances could have a material adverse effect on KINGHERO Group's business, financial condition and results of operations.

KINGHERO Group may fail to implement successfully its production expansion strategy, with the consequence that its business, results of operations and financial position could be materially and adversely affected.

In order to meet the needs of the customers and as part of its strategy, KINGHERO Group has expanded its production in recent years and plans to continue to expand its production capacity. This business expansion has, and will continue to put pressure on the managerial, technical, financial, production, operational and other resources, and requires to add production capacity and increase the product expertise and areas of operations. To manage the growth, KINGHERO Group must continue to improve its managerial, technical, operational and other resources, and implement an effective management information system. In addition, the ongoing operations and future growth, including the current development of the new production facilities, may require significant funding either through internal or external sources.

KINGHERO Group cannot assure that any future expansion plans will not adversely affect its existing operations, since implementation of expansion plans often involves challenges that could make it difficult to implement the expansion plans successfully or in a timely manner, which could, among other things, adversely affect the ability to satisfy customer demands and maintain product quality.

Future expansion, including the current development of the new production facility, may result in operational difficulties due to capacity constraints, construction delays or difficulties in upgrading or expanding production facilities. As a result, KINGHERO Group might not be able to manage the future expansion effectively. If KINGHERO Group is unable to effectively manage its expanding operations, its business, results of operations and financial condition could be materially and adversely affected.

KINGHERO Group currently conducts all its business activities in, and derives all of its revenue from, the PRC market.

KINGHERO Group currently conducts all of its business activities in the PRC, and derives all of its revenue from the PRC. As such, a number of factors affecting its business and results of operations, to the extent they are applicable to the PRC, are particularly important. These factors include:

- changes in fashion trends and consumer preferences in the PRC;
- economic conditions in the PRC; and
- the availability of raw material supplies at commercially acceptable prices in the PRC.

An adverse change in these and any other factors that adversely affect KINGHERO Group's business activities and revenue derived from the PRC may have a material adverse effect on its business, results of operations and financial condition.

Infringement of intellectual property rights of KINGHERO Group, inability to protect adequately its know-how and the sale of counterfeit products may adversely affect KINGHERO Group's reputation and profitability.

KINGHERO Group's business depends on the know-how of its key employees. To protect such know-how KINGHERO Group has entered into confidentiality and non-competition agreements with some of its employees. There can however be no guarantee that these measures will be sufficient to prevent its competitors from gaining access to KINGHERO Group's know-how. Key employees might move to competitors or form a competing company and use their know-how to compete with KINGHERO Group, which could lead to lower profits for KINGHERO Group.

KINGHERO Group has registered trademarks for its brands in China. Effective trademark protection requires extensive controls and subsequent research. If KINGHERO Group does not identify the illegal use of its trademarks early enough or at all, or if KINGHERO Group is unsuccessful in taking court action to protect its trademark rights, this could adversely affect KINGHERO Group's reputation and lead to a loss of profits. The infringement of intellectual property rights in China can be particularly difficult to demonstrate and prove. KINGHERO Group could find it necessary to enforce its intellectual property rights by taking legal action. Such processes can be time consuming, expensive and difficult, due to, inter alia, the procedural rules in China. Moreover, it cannot be guaranteed that all of KINGHERO Group's intellectual property rights can be maintained or that KINGHERO Group has sufficient legal protection against infringement and circumvention of its intellectual property rights.

If KINGHERO Group is unable to protect its know-how and/or intellectual property rights from misappropriation or infringement, the value of its products and its brand could be harmed. A materialization of any of the above risks may have a material adverse effect on KINGHERO Group's business, financial condition and results of operations.

KINGHERO Group might infringe upon third-party intellectual property rights.

There can be no assurance that KINGHERO Group's products do not or will not infringe upon the intellectual property rights of third parties. KINGHERO Group cannot guarantee that it does not and will not infringe third- party trademarks or other intellectual property rights. The exact determination of the scope of an intellectual property right can be very complex. KINGHERO Group could therefore become involved in intellectual property litigation, e.g. with respect to its Michelle trademark "金米雪儿" (Pinyin: “Jin Mi Xue Er”; in English: “Golden Michelle”) as there are two other companies who have registered similar trademarks. Intellectual property disputes may last a significant period of time and require considerable personnel and financial resources. If the outcome of such a legal dispute is adverse to KINGHERO Group, KINGHERO Group could be ordered to pay substantial license fees, royalties and/or damages. Any infringement of third-party patents or other intellectual property rights or any lawsuits relating hereto could have a material adverse effect on KINGHERO Group's business, financial condition and results of operations.

KINGHERO Group could be harmed by consumer complaints.

KINGHERO Group's products are subject to contractual and statutory warranties given to its customers for defective products. Statutory warranties may require KINGHERO Group to provide free replacement or repair of products or to pay damages if its products are found to be defective. In particular if defective products result from e.g. the use of harmful materials or fabrics which affects a number of products, KINGHERO Group could be subject to extensive end customer claims. Under the new PRC Tort Liability Law, taking effect in July 2010, the manufacturer is subject to statutory tort liability strengthening the rights of consumers.

Defects in KINGHERO Group's products may also result in product liability claims, adverse customer reaction and negative publicity about KINGHERO Group and its products. Defects may also require expensive modifications to KINGHERO Group's products and may adversely affect its reputation and the market acceptance of its products.

The occurrence of any of these events could have an adverse effect on KINGHERO Group's business, financial condition and results of operations

KINGHERO Group depends on certain key personnel.

The success of KINGHERO Group's business will depend largely on its ability to retain its key personnel, in particular the CEO, Mr. ZHANG Yu, whose business network and industry experience are of particular importance to KINGHERO Group.

KINGHERO Group cannot guarantee that it will be able to retain its key personnel. These individuals might move to competitors or form a competing company and compete with KINGHERO Group for customers, business partners, and other key professionals at KINGHERO Group using their experience and expertise.

The loss of any of its key personnel without adequate replacement could have a material adverse effect on KINGHERO Group's business, financial condition and results of operations.

Labour costs in PRC have risen significantly in recent years and could continue to rise significantly.

Almost the entire workforce of KINGHERO Group is located in China. Labour costs comprise wages, social security contributions and other welfare benefits. In the first six months of 2009, the average wage per capita of urban employees in the PRC increased by approximately 12.9% compared to the first six months 2008. Minimum wages paid to workers in Xiamen City where KINGHERO Group's factories are located are also regulated by local legislation and have increased from RMB 600 per month as at 1 January 2006 to RMB 900 per month in March 2010 and are likely to increase further. Such increases in minimum wages also affect the wages KINGHERO Group must pay in order to remain an attractive employer. In addition, new obligations imposed on employers and enhanced employee protection measures, such as restrictions on the dismissal of employees, and the requirement to pay a severance payment in case of expiry of an employment agreement, as introduced by the PRC Labour

Contract Law that came into effect on 1 January 2008 and its interpretative rules that came into effect on 18 September 2008 are also likely to lead to an increase in KINGHERO Group's labour costs.

In the future, labour costs could continue to increase significantly and additional legislation could be enacted that further increases an employer's obligations to pay employee benefits. As KINGHERO Group intends to significantly expand its workforce as a result of its growth strategy, any such increases in labour costs and employee benefits could have a material adverse effect on KINGHERO Group's business, financial condition and results of operations.

KINGHERO Group relies on contract manufacturers to manufacture a certain amount of its products. There is no assurance that the services rendered by these contract manufacturers will be satisfactory or that it will match the level of quality that KINGHERO Group requires. Moreover, contract manufacturers may experience financial or other difficulties that may affect their ability to carry out the work for which they were contracted, thus delaying the completion of KINGHERO Group’s products or resulting in additional costs for KINGHERO Group.

KINGHERO Group outsources part of the manufacturing of its products to contract manufacturers. KINGHERO Group may not always be able to find contract manufacturers operating at a standard acceptable to it. The contract manufacturers may not always be able to provide KINGHERO Group with products of sufficiently high quality in a sufficient quantity in a timely manner and at a competitive price. KINGHERO Group may, from time to time, reject products that do not meet its specifications, resulting in potential delays to customers. In addition, if there are significant increases in the prices quoted by the contract manufacturers, KINGHERO Group may not be able to fully pass these increases on to its customers due to competitive pricing pressures. In such cases, KINGHERO Group may have to seek alternative contract manufacturers with comparable prices and products which may result in delivery delays to its customers. If KINGHERO Group is unable to locate suitable alternative contract manufacturers or manufacture these products internally, it may not be able to deliver ordered products to its customers on time, thus materially and adversely affecting its business, financial condition and results of operations.

KINGHERO Group’s brand image and business may be negatively affected by actions of its independent contractors.

KINGHERO Group exercises only limited control over the operations of its contractors and is therefore not able to ensure their compliance with applicable laws and regulations. The failure on the part of the contractors to comply with certain laws, such as labour and environmental laws, may result in negative publicity which may damage its brand and undermine its brand building efforts. As a result, the business, financial condition and results of operations of KINGHERO Group may be adversely affected.

KINGHERO Group relies on a small number of designated distributors for the sale of KINGHERO Group’s products and failure to renew distributorship agreements with its major distributors or a breach of such distributorship agreements by them may materially and adversely affect KINGHERO Group’s results of operations.

KINGHERO Group primarily sells its products in the PRC to 34 designated distributors, who in turn sell the products to consumers through retail outlets directly operated by them or by sub-distributors. KINGHERO Group does not have control over sub-distributors or retail outlets and the ultimate sales by distributors, sub-distributors and the retail outlets that they operate. If the distributors do not continue to open new retail outlets, either by themselves or through their sub-distributors, or are otherwise unsuccessful in selling the products or

KINGHERO Group fails to effectively supervise and manage its distributors, their sub-distributors or the retail outlets they operate, the business, financial condition and result of operations of KINGHERO Group may be materially and adversely affected.

There is no assurance that KINGHERO Group will be able to renew its distributorship agreements or renew such agreements on terms that are favorable to KINGHERO Group, or that the distributors will place orders with KINGHERO Group at the same level as before. In addition, there is also no assurance that one or more of its major distributors will not breach their distributorship agreements or fail to comply with their obligations thereunder. In such event or events, the business, financial condition and results of operations of KINGHERO Group may be materially and adversely affected.

The reputation, brand image and sales of KINGHERO Group could be adversely affected if third party operators of retail outlets and third party distributors do not manage the retail outlets in accordance with KINGHERO Group’s standards, or if disputes occur between certain of the individual regional distributors and their customers.

KINGHERO Group's future growth depends on the successful establishment and expansion of its domestic distribution network.

KINGHERO Group has established a distribution network in the PRC consisting of 34 designated distributors operating a distribution system for KINGHERO Group products. KINGHERO Group's distribution network covers most major PRC cities and KINGHERO Group plans to further expand this network and to further improve and strengthen distribution.

KINGHERO Group intends to further substantially increase the total number of its designated distributors in order to cover all major business areas in the PRC. To achieve this goal, KINGHERO Group needs to find appropriate distributors as contractual partners. KINGHERO Group intends to invest significant funds to expand its distribution network. There can, however, be no assurance that KINGHERO Group will be able to establish as many distribution points successfully as it intends, or that demand for KINGHERO Group's products will grow sufficiently to justify the opening of these additional distribution points from an economic perspective.

The occurrence of any of these risks could have a material adverse effect on KINGHERO Group's business, financial condition and results of operations.

KINGHERO Group may require further financing for future growth. There is no assurance that KINGHERO Group will have sufficient sources and amount of funds to finance its expansion plans in the future. In such an event, its business and financial condition may be materially and adversely affected. Moreover, even if KINGHERO Group can obtain financing, additional equity financing may lead to a dilution in the interests of its shareholders whereas additional debt financing may restrict its ability to pay dividends.

In order to finance its growth strategy, KINGHERO Group may have to raise additional capital in the future through debt or equity offerings. KINGHERO Group cannot be certain that suitable financing will be available in the required amounts or on acceptable terms.

If additional equity or equity-linked securities are issued, this may result in the dilution of existing shareholders' holdings. If additional debt is incurred, this would result in debt service obligations which could have a negative impact on profitability and could expose KINGHERO Group to general adverse economic and industry conditions. In addition, the terms of any financing agreement could limit KINGHERO Group's ability to pay dividends or restrict KINGHERO Group's flexibility in planning for, or reacting to, changes in its business or its industry.

KINGHERO Group's subsidiaries in the PRC are also subject to foreign exchange registration and approval if they intend to borrow funds from entities outside of the PRC, e.g. from Kinghero HK. In addition, KINGHERO Group's PRC subsidiaries need to obtain approval or registration from Chinese government agencies if they intend to secure financing through equity contributions. In the event that KINGHERO Group cannot obtain necessary financing on reasonable terms, or at all, it may be forced to scale back its plans for future business expansion.

Furthermore, KINGHERO Group's subsidiaries in China are subject to certain restrictions on the amount of foreign debt they can borrow.

The occurrence of any of the aforementioned risks, restrictions or effects could have material adverse effects on the business, financial condition and results of operations of KINGHERO Group.

KINGHERO Group's future success depends on recruiting and retaining qualified personnel.

Competition for specialists is intense and well-educated specialists in the sectors in which KINGHERO Group operates are difficult to find in China and KINGHERO Group expects competition for qualified personnel to intensify due to increased competition in the clothing industry. Several competitors of KINGHERO Group work in the same region which leads to increased competition for skilled personnel and which may intensify in case of a further entry of international competitors into the Chinese clothing market. KINGHERO Group may therefore not be successful in finding suitable replacements for any key personnel who leave KINGHERO Group or may have to incur substantial time and expenses for compensating for such losses.

KINGHERO Group's future success will depend upon its ability to attract and retain qualified senior- and mid-level management and qualified personnel, in particular for its design and market research sections, to develop and expand its operations. There can be no assurance, however, that KINGHERO Group will be able to obtain the services of the personnel necessary for its growth and success, especially in light of the increasingly competitive labour market. In the recent past, the scarcity of qualified personnel in China has led to a substantial increase in wages for such personnel. Further increases could lead to significantly higher costs for senior management and other qualified staff. If KINGHERO Group is unable to recruit such qualified personnel or if their wages increase significantly, this could have a material adverse effect on KINGHERO Group's business, financial condition and results of operations.

Not all members of the Management Board (*Vorstand*) are experienced with regard to German legal requirements and KINGHERO Group currently does not yet have a comprehensive corporate compliance system.

The CEO and majority shareholder of the Company, Mr. ZHANG Yu, does not speak German. KINGHERO Group has until recently operated as a private Chinese company and maintains a small finance and accounting department. KINGHERO Group is therefore not experienced in dealing with increased legal, accounting, transparency and administrative requirements imposed on a publicly listed company in Germany. The shift from the application of Chinese generally accepted accounting principles to internationally accepted accounting standards and the requirement to comply with certain reporting, notification and publication obligations resulting from the inclusion of the Company’s shares for trading on the Open Market in the Entry Standard segment of the Frankfurt Stock Exchange will put increased demand on the compliance, finance and accounting departments. If KINGHERO Group fails to comply with such obligations it faces as a publicly listed company or fails to timely issue complete and correct financial reports and accounts, such actions could have material adverse effects on the business, financial condition, and results of operations of KINGHERO Group.

KINGHERO Group has not yet established a comprehensive corporate compliance system. The lack of an established comprehensive corporate compliance system increases KINGHERO Group's susceptibility to the aforementioned risks. In addition, any gaps or shortcomings of the existing compliance system could lead to a restriction of KINGHERO Group's ability to timely recognize and respond to risks and future developments. Such developments may have adverse effects on the business, financial condition and results of operations of KINGHERO Group.

The Company's Supervisory Board (*Aufsichtsrat*) may have difficulties in adequately supervising the Management Board (*Vorstand*) since the management is located in China and the majority of the members of the Supervisory Board (*Aufsichtsrat*), in particular the Chairman of the Supervisory Board (*Aufsichtsratsvorsitzender*), reside in Germany.

Substantially all of KINGHERO Group's assets are located in the PRC, and all of its senior management members and directors reside there. The Company is currently a holding company without any significant operational business of its own. The majority of the members of the Supervisory Board (*Aufsichtsrat*) reside in Germany and they are responsible for the supervision of the Company's Management Board (*Vorstand*).

However, it may be more difficult for them to fulfil their supervisory duties arising from the German Stock Corporation Act (*AktG*) vis-à-vis the management residing in the PRC e.g. according to section 111 AktG and/or to receive the reports required from the Management Board (*Vorstand*), e.g. according to section 90 AktG. It may in particular be difficult for the Supervisory Board (*Aufsichtsrat*) to receive at any time all documents that are required to inspect and examine the books and the records of the Company.

These circumstances could have a material adverse effect on the business, financial condition and results of operations of KINGHERO Group.

The Company's CEO, Mr. ZHANG Yu, is also its major shareholder which could subject him to conflicts of interest.

Immediately upon closing of the offering, Mr. ZHANG Yu will hold the majority of the Company's share capital and voting rights. Through his shareholdings Mr. ZHANG Yu will be in a position, irrespective of the voting behavior of other shareholders, to exercise considerable influence over all major decisions of the Company. In particular, he will be able to exercise considerable influence at General Shareholders' Meetings (*Hauptversammlung*), and consequently, over decisions regarding measures which are presented for a vote at the General Shareholders' Meeting (*Hauptversammlung*) (including the election of the Supervisory Board (*Aufsichtsrat*) and the approval for important capital measures). His interests as the major shareholder could conflict with his duties as CEO to act in the best interests of the Company and/or the interests of other investors and could have a material adverse effect on the business, financial condition and results of operations of KINGHERO Group.

The entities of the KINGHERO Group maintain and may continue to maintain business and legal relationships for their business operations with companies or persons that are related to the Company or its board members which are not concluded at arm's length.

The entities of the KINGHERO Group have entered and may continue to enter into transactions with related persons or related parties. According to the Company these related party transactions were not concluded and may not be concluded at arm's length.

Conflicts between the interests of the entities of the KINGHERO Group on the one hand and the interests of persons or companies related to the Company on the other hand may be resolved to the detriment of the entities of the KINGHERO Group and could lead, for example, to the conclusion of contractual terms and conditions which are disadvantageous to the KINGHERO Group. There is an increased risk in the case of contracts and relationships with related parties that the contractual terms and conditions are not in line with the market and may instead diverge from the market standard to the detriment of the KINGHERO Group. The above mentioned circumstances could materially adversely affect the financial condition and results of operations of the KINGHERO Group.

The insurance coverage of KINGHERO Group may not be adequate to cover all potential liability or losses.

Kinghero Xiamen has only recently taken out a property insurance for its machinery and equipment as well as a public liability insurance. However, other commercial insurance have not been taken out by KINGHERO Group. Additionally, natural disasters and/or other events outside the control of KINGHERO Group could result in substantial losses and the inability to repair damages in a timely manner or at all, causing significant harm to KINGHERO Group's operations and profitability. Furthermore, KINGHERO Group may become subject to liabilities for hazards that cannot be insured against or against which it may elect not to be so insured because of high premium costs or other reasons. The occurrence of such an event could have a material adverse effect on the business, financial condition and results of operations of KINGHERO Group.

KINGHERO Group may be liable for the payment of outstanding social security and housing funds contributions.

KINGHERO Group has not deducted social insurance or housing funds contributions for all of its employees in full during the period from 2006 until 2009 which may result in an administrative fine (0.2% of the default amount per day as of the default payment) in addition to the payment of the outstanding amount of the social insurance and housing funds contributions. As of the date of this Prospectus, this amounts to approx. TEUR 344. Even though the local competent authority stated on 21 December 2009 in writing that Kinghero Xiamen and Michelle both comply with all laws and regulations concerning social insurance and that there are no outstanding amounts, it cannot be excluded that an administrative fine will be imposed or other financial consequences for KINGHERO Group arise.

KINGHERO Group is legally obliged to apply for the inspection and acceptance of the environmental protection facilities to the competent environmental protection authority for its new and expanded production facilities in Jimei.

Under PRC law, a construction or production enterprise shall apply for inspection and acceptance of the environmental protection facilities to the competent environmental protection authority within 3 months from the commencement date of the trial production. If a construction or a production project is put into use without the inspection and acceptance of the environmental protection facilities, the environmental protection authority shall request the company to stop production and may impose a penalty of RMB 100,000 (TEUR 10.91 as of 31 March 2010).

KINGHERO Group is planning to apply for the inspection and acceptance of the environmental protection facilities at its new and expanded production facilities in Jimei to the competent environmental protection authority as soon as possible.

According to two confirmations issued by the competent environmental protection authority, Xiamen Environmental Protection Bureau Jimei Branch, dated 15 April 2010 KINGHERO Group has, in accordance with the applicable laws and regulations on environmental protection, obtained all permits, approvals and carried out all registrations necessary for their production and business operation; have paid the waste discharge fees on time; and their production activities are in line with the relevant laws and regulations on environmental protection. Since their establishment, Kinghero Xiamen and Michelle have not been imposed with any administrative punishment by the competent authority of environmental protection. However, it cannot be excluded that the competent environmental protection authority may deny acceptance of the environmental protection facilities. In case the acceptance is denied production could be stopped. This might have a material adverse effect on the business, financial condition and results of operation of KINGHERO Group.

There are certain legal risks associated with the acquisition of the new production facilities.

On 25 September 2009 Kinghero Xiamen and Michelle entered into real estate purchase contracts for the acquisition of land use rights and new production facilities at Houxi Zhen, Jimei District, Xiamen with Xiamen Jimei State-Owned Asset Investment Co., Ltd. These contracts contain certain conditions relating to the annual production level, capital investment and annual enterprise income tax payments. If these conditions are not fulfilled, an additional payment in the amount of 15% of the total purchase price becomes payable. Furthermore, in certain default events the seller has the right to unilaterally void the contracts and keep 10% of the purchase price or buy back the property at the net book value.

However, on 4 June 2010 Kinghero Xiamen and Michelle entered into two separate supplemental agreements with the Seller to amend the two real estate purchase contracts. According to the supplemental agreements, the conditions have been modified and the penalties that Kinghero and Michelle are subject to under the two real estate purchase contracts have been waived. Pursuant to the modified conditions Mr. ZHANG Yu shall ensure that Kinghero Xiamen and Michelle start production in the new factory buildings within six months after the Company has been listed and the annual gross revenue of Kinghero Xiamen and Michelle shall exceed the requirements under the provisions of the Jimei district.

Kinghero Xiamen and Michelle have not yet obtained the ownership of the subject real estate. It is not certain whether and when Kinghero Xiamen and Michelle will become the owners of the new production facilities. It is intended to move the production to the new production facilities within half a year after the Company has been listed on the Frankfurt Stock Exchange. If Kinghero Xiamen and Michelle should not obtain ownership of the new production facilities or if the relocation to the new production facilities should be delayed this could have a material adverse effect on the business, financial condition and results of operation of KINGHERO Group.

The land use rights for the two properties will expire on 2 December 2055. Under Chinese Law, Kinghero Xiamen and Michelle are entitled to apply for an extension of the of the term no later than one year ahead of the expiration. Such an application generally will be approved unless the land is reclaimed as required by public interests. However, there is no certainty that such extension will be granted.

KINGHERO Group may not be able to maintain and/or obtain approvals and licenses from PRC authorities necessary to carry out its business or to cope with future regulatory requirements.

KINGHERO Group requires certain approvals or licenses to conduct its business. Some permits and business licenses are subject to periodic renewal by competent PRC authorities, and the standards of compliance required may change. KINGHERO Group is subject to the supervision of several authorities, each of which may be able to revoke or refuse to grant and/or to extend permits, licenses, or approvals that are required for KINGHERO Group in the conduct of its business. Future changes in legal environmental standards, for example, may result in more elaborate requirements and stricter enforcement, increased fines and penalties for noncompliance, more stringent environmental assessments, and heightened responsibility for companies as well as their directors and employees. If any of the activities carried out by KINGHERO Group fails to meet the requirements of current rules or regulations and KINGHERO Group is held liable or responsible, or if KINGHERO Group fails to obtain the grant or renewal of the required permits, licenses, and approvals, such failure could have a material adverse effect on the business, financial condition and results of operations of KINGHERO Group.

The Company is a holding company the liquidity of which depends upon having access to the liquid funds of its operating subsidiaries located in the PRC, which might not be able to remit profits.

The Company is a holding company without any significant operating business of its own. Substantially all assets are located in the PRC, and all members of the senior management reside in the PRC. Current PRC regulations permit the payment of dividends only out of accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, a subsidiary in the PRC is required to set aside at least 10% of its after-tax profits each year, if any, to fund a statutory reserve fund until such reserves reaches 50% of its registered capital, and subsidiaries may be required to further set aside a portion of its after-tax profits to fund the employee welfare fund at the discretion of the board. These reserves are not distributable as cash dividends. Furthermore, if the operating entities in the PRC, as PRC subsidiaries of KINGHERO Group, incur additional debt on their own behalf in the future, the instruments governing the debt may restrict the operating entities' ability to pay dividends or make other payments to KINGHERO Group. Apart from raising debt and new equity, the Company's liquidity primarily depends on dividends and other distributions paid by its subsidiaries. Should the subsidiaries of the Company be or become restricted to and/or legally prohibited from and/or unable to pay dividends or other distributions outside of China this could have a material adverse effect on the business, financial condition and results of operations of the Company.

The lease agreement for the current production facilities of Kinghero Xiamen in Jimei expires on 31 December 2010. If Kinghero Xiamen is not able to move production to the new production facilities by then or to extend the lease agreement this may cause disruption of production and thereby materially and adversely affect results of operations of the KINGHERO Group.

Kinghero Xiamen is currently renting its production facilities in Jimei from Xiamen Hengwei Industry Co., Ltd. The lease agreement will expire on 31 December 2010. It is not certain whether Kinghero Xiamen will be able to move its production to the new production facilities or to extend the existing lease agreement prior to such date. If Kinghero Xiamen is not able to do either of the above, this may cause disruption of the production of Kinghero Xiamen and may have a material adverse effect on the business, financial condition and results of operations of the KINGHERO Group.

3.3 Risks related to Conducting Business in the PRC

KINGHERO Group is exposed to general risks relating to business operations in emerging markets.

The entire operational business of KINGHERO Group is conducted in the PRC. Investors should thus be aware that KINGHERO Group's operations are subject to greater risks than operations in more developed markets, including significant legal, economic and political risks. Moreover, emerging economies are subject to rapid change and the information set out herein may therefore become outdated quickly. Investments in emerging markets or in companies that operate in emerging markets are generally exposed to additional risk and are generally only suitable for sophisticated investors who fully appreciate the significance of the risks involved. Investors are urged to consult with their own legal and financial advisors before making an investment.

Changes in the PRC's political and economic policies could have a material adverse effect on the business operations of the KINGHERO Group.

The PRC economy has, since 1949, largely been a centrally planned economy subject to a series of state economic plans adopted by the PRC government. The PRC economy differs from the economies of most developed countries in many respects, including:

- structure;
- level of government involvement;
- level of development;
- growth rate;
- control of foreign exchange; and
- allocation of resources.

The PRC economy has been transitioning from a planned economy to a more market oriented economy. The PRC government has implemented economic reform measures emphasizing utilization of market forces in the development of the PRC economy for the past three decades, and is continuing to play a significant role in regulating industries by imposing industrial policies.

While the Chinese economy has grown significantly in the past 30 years, the growth has been uneven geographically among various sectors of the economy, and during different periods. There can be no assurance that the Chinese economy will continue to grow, or that if there is growth, such growth will be steady and uniform, or that if there is a slowdown, such slowdown will not have a negative effect on KINGHERO Group's business. For example, the Chinese economy experienced high inflation of 4.8% and 5.9% in 2007 and 2008 respectively, and decreased to -0.7% and 2.2% in 2009 and the first quarter of 2010 respectively. China's consumer price index increased significantly during the six months ended 30 June 2008 as compared to the same period in 2007. To combat inflation and prevent the economy from overheating, the PRC government adopted a number of tightening macroeconomic measures and monetary policies, including increasing interest rates, raising statutory reserve rates for banks and controlling bank lending to certain industries or economic sectors. However, due in part to the impact of the global crisis in financial services and credit markets and other factors, the growth rate of China's gross domestic product amounted to 6.8% in the fourth quarter of 2008 and to 6.1 % in the first quarter of 2009, and to 7.1 % in the second quarter of 2009, down from 11.9% reached in the second quarter of 2007. As a result, beginning in September 2008, among other measures, the PRC government began to loosen macroeconomic measures and monetary policies by reducing interest rates and decreasing the statutory reserve rates for banks. In addition, in November 2008, the PRC government announced an economic stimulus package in the amount of USD 586 billion. Although the growth rate of China's gross domestic product reached 8.7% and 11.9% in 2009 and the first quarter of 2010, whereas in 2009 most of the world's major economies were hit hard by the global recession, e.g. Germany (-5%), Japan (-5.3%) U.S (-2.4%), there can be no assurance that the various macroeconomic measures, monetary policies and economic stimulus package adopted by the PRC government to stimulate economic growth will be effective in sustaining the fast growth rate of the Chinese economy. In addition, such measures, even if they benefit the overall Chinese economy in the long-term, may adversely affect KINGHERO Group's business, financial condition and results of operation, if they reduce the disposable income of its end customers. Furthermore, it is uncertain how long the global financial crisis will continue and how much adverse impact it will have on the Chinese economy in general and on KINGHERO Group's end customers in particular.

Although KINGHERO Group believes that the continuing economic reforms will have a positive effect on the PRC's overall and long-term development, KINGHERO Group cannot predict whether changes in the political, economic and social conditions in the PRC will have any adverse effect on its current or future business, results of operations or financial condition

PRC legislation on offshore SPV which are formed by PRC legal entities and/or individuals for the purpose of indirect listings and that control PRC companies directly or indirectly, may have a material adverse effect on KINGHERO Group's business.

On 8 August 2006, six PRC regulatory agencies, including the *Ministry of Commerce* (the "**MOFCOM**") and the *China Securities and Regulatory Commission* (the "**CSRC**"), promulgated the *Provisions for the Acquisitions of Domestic Enterprises by Foreign Investors* ("**M&A Provisions**") which came into effect on 8 September 2006 and were further amended by MOFCOM on 22 June 2009. The M&A Provisions provide, among others, that an offshore SPV which is formed by PRC legal entities and/or individuals for indirect listings and that directly or indirectly controls PRC companies must obtain the approval of CSRC prior to the listing and trading of its shares on an overseas stock exchange. On 21 September 2006, CSRC published on its official website a notice specifying the documents and materials required to be submitted to it by SPVs seeking CSRC approval of an overseas listing. A number of additional requirements must be fulfilled in the course of an initial public offering, the violation of which may lead to regulatory actions or other sanctions from CSRC or other Chinese regulatory agencies. In addition to the provisions relating to foreign indirect listings, the M&A Provisions also stipulate that a domestic natural person or legal person must obtain approval from MOFCOM before acquiring an affiliated domestic company via a foreign company established or controlled by such domestic natural or legal person. This requirement may not be circumvented by using a foreign-invested enterprise as an acquisition vehicle or otherwise.

Various transactions were concluded during the corporate restructuring of KINGHERO Group prior to listing. The structure adopted by KINGHERO Group is commonly used by Chinese entities undergoing an overseas listing and has not yet been challenged by the Chinese authorities. KINGHERO Group believes that the M&A Provisions neither apply to the direct transfer of the shares in Kinghero Xiamen into Michelle nor its indirect transfer into the Company nor to the initial public offering of the Company's shares, because since its establishment Michelle had been actually controlled and held by a Hong Kong citizen and later by a Hong Kong corporate entity and thus, had been a foreign invested enterprise before the M&A Provisions came into effect. However, it cannot be excluded that CSRC will take an opposite view and require respective approvals in connection with the recent corporate structuring or in connection with the inclusion of the Company's shares for trading on the Open Market in the Entry Standard segment of the Frankfurt Stock Exchange.

Furthermore, the acquisition of Kinghero Xiamen by Michelle may be deemed as a circumvention of the approval of MOFCOM (Article 11 of the M&A Provisions). There is the possibility that MOFCOM will deem that Michelle is only an acquisition vehicle of Kinghero HK to acquire the domestic enterprise Kinghero Xiamen. In that case the acquisition may need to be approved by MOFCOM.

It cannot be ruled out that CSRC and/or the Ministry of Commerce will ultimately refuse to grant such approvals. If an approval is required and as long as such approval has not been granted, CSRC, the Ministry of Commerce or another competent government authority could prevent profits from being distributed by Kinghero Xiamen and Michelle to their respective parent companies and/or loans from being granted by the Company to Kinghero Xiamen and Michelle. Any of these actions could have material adverse effects on the business, financial condition and results of operations of KINGHERO Group.

SAFE regulations relating to offshore investments by PRC residents or passport holders, may adversely affect KINGHERO Group's business operations and financing alternatives.

In October 2005, SAFE issued a regulation regarding offshore investments by PRC residents, known as SAFE Notice 75. It requires PRC residents to register with and receive approval from SAFE in connection with certain offshore investment activities. In May 2007, SAFE issued Notice 106, which provides additional guidance as to registration requirements under Notice 75. Since certain of the Company's direct or indirect shareholders are PRC residents, KINGHERO Group may be effected by the registration requirements imposed by SAFE Notice 75. Further, if such shareholders are required to make SAFE registrations under Notice 75, they will also be required to amend their SAFE registrations under certain circumstances, including upon any further transfer of equity interests as well as any material change in the capital of the offshore company.

Mr. ZHANG Yu as a natural person residing in the PRC had obtained the relevant SAFE registration under Notice 75 when he established Kinghero HK in 2007. In addition, the relevant regulations do not specify the relevant procedures on registering foreign currency for the establishment of an overseas special purpose company after the implementation of SAFE No.75 Notice. However, the *State Administration of Foreign Exchange* issued a *Form of Foreign Exchange Registration of Overseas Investments of Domestic Individual Resident* with official seal to Mr ZHANG Yu on 17 July 2009.

Since Kinghero HK, by means of overseas stock right financing, increased Michelle's registered capital from RMB 8,000,000 (TEUR 872.8 as of 31 March 2010) to RMB 88,000,000 (TEUR 9,600.80 as of 31 March 2010), according to Article 3 of SAFE No.75 Notice, Mr ZHANG Yu's foreign exchange registration of overseas investments needs to be updated with regard to the net asset equities of the special purpose company he holds. Mr. ZHANG Yu has filed an application for modification of his foreign exchange registration with the competent authority and has been granted an approval on 30 April 2010.

The failure or inability to receive such approval could subject KINGHERO Group to fines and legal sanctions, restrict the Company's intended investments, or limit Kinghero Xiamen's or Michelle's ability to make distributions or pay dividends to KINGHERO Group and could thus have a material adverse effects on the business, financial condition and results of operations of KINGHERO Group.

PRC regulations pertaining to loans and direct capital investments by offshore parent companies to PRC entities may delay or prevent KINGHERO Group from using the proceeds of this offering.

If the Company finances Michelle through additional capital contributions, the amount of these capital contributions must first be approved by the competent governmental authority. Furthermore, SAFE 142 (see section 12.9.3 of the "*Regulatory Environment*") prohibits the use of Renminbi converted from foreign capital to purchase equity interests in Chinese companies, unless the equity investment is within the approved business scope of the foreign-invested enterprise and has been approved by SAFE.

In utilizing the proceeds of this Offering to finance KINGHERO Group’s business, the Company, as a holding company, may make loans or additional capital contributions to Michelle as the operating subsidiary in China. Any loans by an offshore parent company to a PRC subsidiary are subject to approvals and/or registration requirements and must be within the margin between each of their total investment amount and registered capital (e.g. the margin of Michelle: RMB 220 million (total investment amount) - RMB 88 million (registered capital) = RMB 132 million). Further, loans to any of its PRC subsidiaries have to be registered with SAFE or its local counterpart. In addition, if the Company finances Michelle through additional capital contributions, the amount of these capital contributions must first be approved by the competent government authority. There can be no assurance that KINGHERO Group will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by the Company to Michelle. If KINGHERO Group fails to receive such registrations or approvals, the ability to use the proceeds of this Offering and its ability to fund and expand the operational business in China could be adversely affected, which could have material adverse effects on the business, financial condition and results of operations of KINGHERO Group.

On 29 August 2008, SAFE promulgated Circular 142, a notice regulating the conversion by a foreign invested company of foreign currency into Renminbi by restricting how the converted Renminbi may be used. Circular 142 prohibits the use of Renminbi converted from foreign capital to purchase equity interests in Chinese companies, unless the equity investment is within the approved business scope of a foreign-invested enterprise (“**FIE**”) and has been approved by SAFE, or has been otherwise provided for.

In addition, SAFE increased its oversight of the flow and use of the registered capital of a foreign-invested company settled in Renminbi converted from foreign currencies. The use of such Renminbi capital may not be changed without SAFE's approval, and may not in any case be used to repay Renminbi loans if the proceeds of such loans have not been used. Violations of Circular 142 will result in severe penalties, such as significant fines. KINGHERO Group may therefore not be able to use the proceeds of the Offering to acquire Chinese companies or Chinese property.

If KINGHERO Group fails to receive the necessary registrations or approvals, the ability to use the proceeds of this Offering and its ability to fund and expand the operating business in China could be adversely affected, which could have material adverse effects on the business, financial condition and results of operations of KINGHERO Group.

A material disruption of the operations of KINGHERO Group or the operations of its distributors and/or sub-distributors from force majeure events could materially and adversely affect the results of operations.

The operations of KINGHERO Group are subject to uncertainties and contingencies beyond its control that could result in material disruptions and adversely affect its results of operations. These include war, riot, public disorder, civil commotion, fire, earthquake, flood, volcano eruption and other natural calamity, epidemic, outbreak of infectious disease, terrorism, whether locally or nationwide, or incidents such as industrial accidents, equipment failures, malfunction of information systems or other operational problems, strikes or other labour difficulties and disruptions of public infrastructure such as roads, ports or utilities. Any such disruption of the operations of KINGHERO Group could cause it to disrupt, limit or delay its production, prevent it from meeting customer orders, increase its costs of production or require it to spend additional capital expenditures, each of which could materially and adversely affect its results of operations. Force majeure events may also materially and adversely affect the operations performance of its distributors, sub-distributors and/or their respective retail outlets and/or the sales and demand of its products in the relevant markets. In such event, the business, financial condition and results of operations of KINGHERO Group may be materially and adversely affected.

Health epidemics and outbreaks of contagious diseases, including avian, swine and other new types of influenza or severe acute respiratory syndrome (SARS) could materially and adversely affect PRC economy.

There have been outbreaks of the highly pathogenic avian influenza, or avian flu, in certain regions of Asia and Europe. In 2005 and 2006, there were reports about the occurrence of avian flu in various parts of China, including some confirmed human cases. A major outbreak of avian, swine flu or any other new type of influenza in the human population could result in a widespread health crisis adversely affecting the economies and financial markets of many countries, particularly in Asia. Additionally, a recurrence of SARS, a highly contagious form of atypical pneumonia, similar to the occurrence in 2003 which affected China and certain other countries in Asia, would also have similar adverse effects. Since all of KINGHERO Group's operations and substantially all of KINGHERO Group's customers and suppliers are based in Asia, an outbreak of avian, swine flu or any other new type of influenza, SARS or other contagious diseases in the PRC, other places in Asia, or elsewhere, or the perception that such an outbreak could occur, as well as the measures taken by the governments of countries affected, could have material adverse effects on the business, financial condition and results of operations of KINGHERO Group. These could include illness and loss of its management and key employees, as well as temporary closure of its offices or adverse effects on its distribution network.

The PRC legal system contains inherent uncertainties and inconsistencies.

The PRC's legal system is based on written statutes. Prior legal decisions and judgments have limited precedential value. The PRC is still in the process of developing a comprehensive statutory framework and its legal system is still considered to be underdeveloped in comparison with the legal systems in some western countries. Since 1979, the PRC legislative bodies have promulgated laws and regulations dealing with such economic matters as foreign investment, corporate organization and governance, commerce, taxation and trade. Since then, there has been a tendency in legislation towards giving increasing protection to foreign investors and significant progress has been made in the legal system of the PRC.

Despite significant improvement in its developing legal system, however, the PRC does not have a comprehensive system of laws. The enforcement of existing laws and regulations may be uncertain or inconsistent, and the interpretation of these laws and regulations may change from time to time. Any such change could have an adverse impact on KINGHERO Group's business, financial condition and results of operation.

Furthermore, many laws, regulations and legal requirements have only recently been adopted by the central or local governments, and their implementation, interpretation and enforcement may involve uncertainty due to the lack of established practice available for reference. Depending on the government agency or how an application or a case is presented to such agency, KINGHERO Group may receive less favourable interpretations of law than its competitors. In addition, any litigation in the PRC may be protracted and result in substantial legal costs and diversion of resources and management attention. Similarly, legal uncertainty in the PRC may limit the legal protection available to potential litigants. The occurrence of one or several of these risks could have material adverse effects on the business, financial condition and results of operations of KINGHERO Group.

Restrictions might be imposed upon foreign control of PRC companies.

As part of PRC's accession to the WTO in 2001, the PRC undertook to eliminate certain trade-related investment measures and to open up specified industry sectors that had previously been closed to foreign investment. Even though the PRC has lived up to most of its WTO commitments, foreign investors still encounter barriers in practice as some of the newly enacted or modified laws and regulations are enforced in an inconsistent manner by different authorities. Additionally, there can be no assurance that the PRC government will not toughen its stance on foreign investors in other areas not covered by the WTO commitments and that the control of companies engaged in the textile sector will not change. The Ministry of Commerce (the "**MOFCOM**") and the State Development and Reform Commission (the "**SDRC**") have issued the Foreign Investment Industry Guidance Catalogue that divides certain investment projects into three categories: encouraged, restricted and prohibited, with industries and sectors that are not mentioned or listed deemed to be permitted. The Foreign Investment Industry Guidance Catalogue is regularly revised. It has last been amended in 2007 and the next revision is expected to occur in the near future. Should the textile industry in particular be subjected to restrictions or prohibitions in the course of this revision, this could have material adverse effects on the business, financial condition and results of operations of KINGHERO Group.

The tax status of KINGHERO Group or tax legislation or its interpretation might change.

The PRC Enterprise Income Tax Law (the "**EIT Law**") has taken effect on 1 January 2008, introducing a uniform income tax rate of 25% for all enterprises (including foreign-invested enterprises such as Michelle). The EIT Law also provides that an enterprise established outside of the PRC whose "de facto management body" is located in the PRC is considered a "resident enterprise" and will generally be subject to the uniform 25% enterprise income tax rate as to its global income, including income received from its subsidiaries. The EIT Law does not define the term "de facto management body" and it currently is unclear under which circumstances an enterprise would be considered to have a "de facto management body" located in the PRC. This issue may be resolved in future implementing legislation. According to the official explanation by PRC tax authorities on the new EIT law, the "de facto management body" shall satisfy all of the following three criteria: a) have actual management and control of the enterprise; b) have full or essential management and control of the enterprise; and c) have management and control on the enterprise with respect of its operation, personnel, accounts and assets.

Currently, substantially all of KINGHERO Group's management is based in the PRC, and may remain in the PRC after the EIT Law. As the new EIT law has come into effect since January 2008, the exemption of 20 % WHT on dividends distributed by foreign invested enterprises to their foreign investors under the old EIT law is no longer available.

Accordingly, dividends distributed by Michelle may be subject to such withholding tax. Kinghero Group Holdings Limited (Kinghero HK) and the Company are holding companies without any significant operations of their own, and much of their income depends on dividends from their operating subsidiary in the PRC. If Michelle, the operating subsidiary, is required to withhold PRC income tax on dividends paid to Kinghero HK, this would have a material effect on the profitability of the Company. The current tax rules and their interpretation relating to an investment in KINGHERO Group may be subject to further adverse changes in the future. The applicable tax rates and exemptions may change in the future. Any change in KINGHERO Group's tax status or in taxation legislation or its interpretation could affect the value of the investments held by the Company, its ability to provide returns to shareholders and/or alter the post-tax returns to shareholders. Statements in this Prospectus concerning the taxation of KINGHERO Group and the Company's investors are based on current tax laws and practices which are subject to change. In addition, the taxation regime applicable in China may change again and could have an adverse impact on the after-tax profits of KINGHERO Group.

As almost all operational profits are generated by Kinghero Xiamen and Michelle, which are subject to the tax legislation of the PRC, the materialization of the above risks could have a material adverse effect on the business, financial condition and results of operations of KINGHERO Group.

KINGHERO Group's tax burden may increase as a result of tax audits.

Until today the Chinese tax authorities have not used their right to conduct a tax audit with respect to companies of the KINGHERO Group and tax audits are not carried out on a regular basis by the Chinese tax authorities. Future tax audits may reveal that the tax authorities have views on tax regulations and circumstances that are different from those applied by the KINGHERO Group. In particular, the possibility cannot be excluded that the KINGHERO Group or certain entities of the KINGHERO Group will be required to make additional tax payments.

KINGHERO Group entities may become subject to PRC income tax on any future global income.

Under the New Income Tax Law and its implementing rules, enterprises established outside the PRC with their de facto management bodies located within the PRC may be considered a PRC resident enterprise and subject to PRC enterprise income tax on their global income at the rate of 25%. Since most of the management of Kinghero HK and the Company is currently located in the PRC, these entities may be subject to PRC income tax at the rate of 25% on their global income. In certain circumstances, dividends received by a PRC resident enterprise from another PRC resident enterprise may be exempted from this tax, but even if the KINGHERO Group entities are deemed as PRC tax residents, there is uncertainty that they will qualify for this exemption.

The value of any future dividends may be reduced by PRC withholding taxes.

Kinghero HK is a holding company and all of its income is derived from dividends that it receives from its subsidiaries. The previous PRC income tax law applicable to foreign invested enterprises specifically exempted withholding taxes on dividend payments to foreign investors. However, under the New Income Tax Law and its implementing rules, dividends payable to foreign investors that are non-resident enterprise (enterprise that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place) are subject to a 10% withholding tax, which may be reduced if the foreign jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding arrangement. Pursuant to a tax arrangement between the PRC and Hong Kong, companies incorporated in Hong Kong may be subject to withholding taxes at a rate of 5% on dividends they receive from their PRC subsidiaries of which they directly hold at least 25% equity interests. As dividends from its PRC subsidiaries will be paid to Kinghero HK, those dividends may be subject to a withholding tax at the rate of 5%.

Moreover, under the New Income Tax Law and its implementing rules, Kinghero HK may in the future be recognized as a PRC tax resident enterprise by the PRC taxation authorities. In that case, dividends on its shares as well as capital gains from sales of the shares in the Company realized by shareholders that are foreign corporations may be regarded as income from ''sources within the PRC'' and may be subject to a 10% withholding tax. If foreign shareholders are required to pay PRC withholding tax on dividends or capital gains from any sales of shares in the Company, the value of the investment in the shares may be materially and adversely affected.

PRC accounting requirements may adversely affect the ability to pay dividends.

The ability of the operating subsidiaries in the PRC to make dividend and other payments to the Company is restricted by PRC laws and regulations, which permit payment of dividends only out of accumulated profits, after making up prior year losses and allocations to various non-distributable reserve funds, as determined in accordance with generally accepted accounting principles in the PRC (the ''**PRC GAAP''**) and applicable regulations. These regulations may restrict the amount of profit available for distribution from the operating subsidiaries, which could affect the Company's liquidity and its ability to pay dividends. Moreover, the determination of profit available for distribution under PRC GAAP may differ from profit determined in accordance with IFRS. As a result, it is possible that the Company might not receive distributions from the operating subsidiaries, even if its IFRS financial statements indicate that its operations have been profitable.

A destabilization of the political system could threaten China's economic liberalization.

While the PRC economy has changed fundamentally from a centrally planned system to a more market-oriented economy over the last three decades, the political system in China still operates under communist control. Although political conditions in China seem to be generally stable, changes may occur in its political system which might affect the ownership or operation of KINGHERO Group's interests, including, among others, changes in government as well as in legislative and regulatory regimes.

A material change in China's economic liberalization triggered by political disruptions or by other means could impact the country's economic growth in general and KINGHERO Group's business in particular. Social instability could increase public support for renewed centralized authority, and nationalism or violence could lead to a tougher stance by the Chinese government on foreign investors operating in China or on foreign investment in general. Any such developments could have material adverse effects on the business, financial condition and results of operations of KINGHERO Group.

The Chinese judiciary's lack of independence and limited experience and the difficulty of enforcing court decisions and governmental discretion in enforcing court orders could prevent KINGHERO Group from obtaining effective remedies in a court proceeding.

China's judicial system may not be as independent or immune to economic, political and nationalistic influences as judicial systems in European jurisdictions. The court system in China is largely understaffed and under-funded. Since courts in China are financially dependent on the respective local governments, judges tend to favour the economic interests of the municipalities or provinces and the enterprises located there. The independence of judges is further undermined by the fact that Chinese judges are only appointed for a limited period of time and may be dismissed during their term of office. Many older judges have not had any prior legal education. Courts in China are often inexperienced in the area of business law. Not all PRC legislation and court decisions are readily available to the public or organized in a manner that facilitates understanding. Enforcement of court orders can, in practice, be very difficult in China. Additionally, court decisions are often used in furtherance of political and commercial aims. KINGHERO Group might be subjected to such claims by competitors or other parties and may not be able to receive a fair hearing in the course of the respective trial or legal procedure. Judicial decisions in China can also be unpredictable and may not provide effective remedies. These uncertainties also extend to property rights. Expropriation or nationalization of any of the Company's PRC subsidiaries, their assets or portions thereof, potentially without adequate compensation, could have material adverse effects on the business, financial condition and results of operations of KINGHERO Group.

There are difficulties in seeking recognition and enforcement of foreign judgments in China.

KINGHERO Group's assets are largely located in China and all of its management personnel and directors reside there. The Company is a holding company without any significant operational business of its own. China has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by the courts of Germany or most other jurisdictions, including judgments obtained in relation to claims investors may make with regard to this Offering. As a result, it will be difficult or impossible for investors to effect service of process or enforce judgments from courts of other jurisdictions against KINGHERO Group or its assets, management personnel or directors in China.

Certain facts, forecasts and other statistics with respect to China, China's economy and the casual wear market in this prospectus are derived from official government publications and may not be reliable.

Certain facts, forecasts and other statistics in this prospectus relating to China, China's economy and the casual wear market have been derived from official government publications generally believed to be reliable. However, the quality or reliability of such source materials is uncertain. They have not been prepared or independently verified and, therefore, no representation as to the accuracy or completeness of such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside China is made. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, such statistics may be inaccurate or may not be comparable to statistics produced for other economies and should not be unduly relied upon. Further, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy or completeness as may be the case elsewhere.

In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts, forecasts or statistics derived from the official government publications and should not place undue reliance on any of such information and statistics.

3.4 Risks Related to the Offering

Future Sales of a considerable number of shares in the Company may have a negative impact on the Company's stock price.

At the time of the approval of this Prospectus, Mr. ZHANG Yu, the Company's largest shareholder, holds a 71.49% stake in the Company for his own account and the remaining shares on behalf of the other Existing Shareholders under a Trust Agreement dated 30 April 2010. All of these shares are bound by lock-up agreements with BankM for 12 months after the inclusion of the Company's shares for trading on the Open Market in the Entry Standard segment of the Frankfurt Stock Exchange. Should Mr. ZHANG Yu sell a considerable number of shares on the stock market once the lock-up period expires or beforehand, or if the market becomes convinced that such sales are possible, there is a risk that the Company's stock price will fall. The Company may also have no choice but to obtain additional capital to finance the operations of KINGHERO Group. Should this capital be generated through the issuance of new shares in the Company, the Company's stock price could drop.

Public trading in the Company's shares might not develop.

Prior to the offering, there was no public trading in the Company's shares. As a result, no assurance can be given that liquid trading in the shares of the Company will develop after the offering and that the stock exchange price will not fall below the offer price. The offer price for the shares will be determined by way of a book-building procedure and will not necessarily provide any indication of the stock exchange price at which the shares will subsequently be traded at the Frankfurt Stock Exchange or any other exchange. The Company cannot forecast to what extent investors' interest in its shares will foster trading, nor whether a liquid trading market will develop. The stock exchange price of the Company's shares could become subject to greater volatility and consequently buy and sell orders might be executed less efficiently. Under certain circumstances, investors might not be able to sell their shares at the purchase price fixed for the offering or at a higher stock exchange price, or might not be able to sell them at all.

A volatile stock exchange price for the shares might develop.

After the offering, the stock exchange price of the Company's shares could fluctuate considerably, especially because of fluctuating actual or forecasted results, revised earnings outlooks, the failure to meet analysts' expectations, changed economic conditions in general, or other factors. The general volatility of stock exchange prices could also exert pressure on the stock exchange price of the Company's shares without there being any direct connection with KINGHERO Group's business, financial condition, results of operations or its business prospects. Because the shares are growth stocks, the Company's shares are particularly susceptible to fluctuations.

Shares may be diluted in case of future capital measures.

The Company might obtain additional funds on the capital market in order to finance its growth and operations. The procurement of additional equity in exchange for capital contributions, the exercise of - possibly yet to be issued - convertible bonds and warrants and the acquisition of other companies or corporate units in exchange for newly issued shares in the Company may lead to a dilution of the shareholders' interest in the Company insofar as their subscription rights are excluded or insofar as they choose not to exercise their subscription rights at the time of the measure.

Forward-looking information contained in this prospectus may prove inaccurate.

This prospectus contains certain statements that are ‘‘forward-looking’’ and uses forward-looking terminology such as ‘‘anticipate’’, ‘‘believe’’, ‘‘expect’’, ‘‘estimate’’, “may’’, ‘‘ought to’’, ‘‘should’’ and ‘‘will’’. These statements include, among other things, the discussion of KINGHERO Group’s business strategy and the expectations of its future operations, liquidity and capital resources. Investors are cautioned that reliance on any forward looking statement involves risk and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include those identified in the risk factors discussed above. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations or warranties by the Company that its plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. These forward-looking statements will not be up-dated. Investors should not place undue reliance on such forward looking information.

Investors should not rely on any information contained in press articles or other media regarding KINGHERO Group and the Offering.

Prior to the publication of this prospectus, there might have been press and media coverage regarding KINGHERO Group and the Offering which included certain information about KINGHERO Group that does not appear in this prospectus. The Company has not authorized the disclosure of any such information in the press or media and does not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. The Company makes no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. The Company disclaims all responsibilities and liabilities for any information appearing in publications other than this prospectus which is inconsistent or conflicts with the information in this prospectus. Investors should not rely on any such information and should only rely on information included in this prospectus in making any decision as to whether to purchase the Shares.

There are risks for investors who engage in short sales before the delivery of the shares.

The Service Agreement provides that the Lead Manager may terminate the underwriting agreement under certain circumstances. If the Service Agreement is terminated, the Offering might not take place. Investors who have engaged in so-called “short sales” will bear the risk of being unable to cover such short sales through the delivery of shares.

4. GENERAL INFORMATION

4.1 Responsibility Statement

KINGHERO AG, Montenstr. 11, 80639 Munich assumes responsibility for the content of this securities prospectus (the “**Prospectus**”) pursuant to Section 5 subsection 4 of the German Securities Prospectus Act (*Wertpapierprospektgesetz* (WpPG)) and declares that to its knowledge the information contained in the Prospectus is correct and that no material facts have been omitted.

KINGHERO AG further declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

4.2 Subject matter of this Prospectus

Subject matter of this prospectus is the public offering (the “**Placement**”) in Germany and Austria as well as potential private placements outside Germany, Austria, and the United States of up to 2,070,000 no par value ordinary bearer shares *(Inhaber-Stückaktien)* of the Company, each ordinary bearer share having a notional amount of the share capital of EUR 1.00 and each vested with full dividend rights for the entire financial year 2010, consisting of up to 1,800,000 no par value ordinary bearer shares from the capital increase against cash contributions pursuant to a resolution of the extraordinary shareholder’s meeting (*außerordentliche Hauptversammlung*) expected to be held on or around 4 August 2010 in accordance with section 182, subsection 1 and section 186, subsection 3 and subsection 4 of the German Stock Corporation Act (*Aktiengesetz*) (the “**New Shares**”), and up to 270,000 existing no par value ordinary bearer shares from the holding of Mr. ZHANG Yu (the “**Selling Shareholder**”) in connection with a potential over-allotment (the “**Greenshoe Shares**”). The New Shares together with the Greenshoe Shares are referred to as the “**Placement Shares**”.

The Placement will take place before inclusion of the shares of KINGHERO AG to trading on the Open Market (Entry Standard segment) of the Frankfurt Stock Exchange. The Greenshoe Shares are being offered by the Selling Shareholder and the New Shares are being offered by the Company. In connection with the Placement, the Company will receive the net proceeds from the issue of the New Shares. The Company will not receive any proceeds from the sale of the Greenshoe Shares.

Subject matter of this prospectus is furthermore the inclusion to trading on the Open Market (Entry Standard segment) of the Frankfurt Stock Exchange of 5,250,000 currently existing no par value ordinary bearer shares (the “**Existing Shares**”) and up to 1,800,000 New Shares issued in connection with the Placement. The Existing Shares together with the New Shares are referred to as “**Issued Shares**”. Due to intended public and investor relation measures by KINGHERO AG in connection with the inclusion, the Issued Shares can be regarded as publicly offered (the “**Offer**”).

BankM – representative office of biw Bank für Investments und Wertpapiere AG, Mainzer Landstraße 61, 60329 Frankfurt, Germany (“**BankM**”) and Silvia Quandt & Cie AG, Grüneburgweg 18, 60322 Frankfurt, Germany, are Joint Lead Managers (the “**Lead Managers**”). BankM is Sole Bookrunner and Settlement Agent.

4.3 Statutory Auditors

The Company's General Shareholders' Meeting (*Hauptversammlung*) on 10 February 2010 appointed Grant Thornton GmbH Wirtschaftsprüfungsgesellschaft, Domstrasse 15, 20095 Hamburg, Germany ("**Grant Thornton**") as statutory auditor of the individual financial statements for 2009 and on 9 March 2010 appointed Grant Thornton as statutory auditor of the individual and consolidated financial statements for 2010. Grant Thornton is a member of the German Chamber of Public Accountants *(Wirtschaftsprüferkammer)*.

The following financial statements contained in this Prospectus have been audited by Grant Thornton as stated in their reports appearing elsewhere herein and each are accompanied by an unqualified auditor's report, copies of which are included in this Prospectus:

- Kinghero Xiamen's IFRS single entity financial statements as of and for the years ended on 31 December 2007, 31 December 2008 and 31 December 2009
- Michelle's IFRS single entity financial statements as of and for the year ended on 31 December 2009
- the Company's single entity financial statements based on the German Commercial Code (*Handelsgesetzbuch)* for the short financial year from 16 April 2009 to 31 December 2009.

The following financial statements contained in this Prospectus were subject to a review by Grant Thornton as stated in its reports appearing elsewhere herein:

- Kinghero Xiamen's IFRS single entity interim financial statements for the three months period as of and ended 31 March 2010 with comparative information
- Michelle's IFRS single entity interim financial statement for the three months period as of and ended 31 March 2010 with comparative information
- the Company's single entity interim financial statements based on the German Commercial Code (*Handelsgesetzbuch)* for the three months period as of and ended 31 March 2010;
- the Company's combined consolidated IFRS interim financial statements (statement of financial position only) as of 31 March 2010.

4.4 Inspection of Documents

For the duration of the validity of this Prospectus, copies of the following documents may be inspected during normal business hours at the Company's office, Montenstrasse 11, 80639 Munich, Germany:

- the Company's Articles of Association *(Satzung)* and the rules of procedure for the Management Board and Supervisory Board;
- Kinghero Xiamen's IFRS single entity financial statements as of and for the years ended on 31 December 2007, 31 December 2008 and 31 December 2009 (audited);
- Michelle's IFRS single entity financial statements as of and for the year ended on 31 December 2009 (audited);
- the Company's single entity financial statements based on the German Commercial Code (*Handelsgesetzbuch)* for the short financial year from 16 April 2009 to 31 December 2009 (audited);
- Kinghero Xiamen's IFRS single entity interim financial statements for the three months period as of and ended 31 March 2010 with comparative information (reviewed);

- Michelle's IFRS single entity interim financial statements for the three months period as of and ended 31 March 2010 with comparative information (reviewed);
- the Company's single entity interim financial statements based on the German Commercial Code (*Handelsgesetzbuch)* for the three months period as of and ended 31 March 2010 (reviewed);
- the Company's combined consolidated IFRS interim financial statements (statement of financial position) as of 31 March 2010 (reviewed).

Future annual reports and interim reports of the Company will be available at its offices and the offices of the paying agent named in this Prospectus *(see: section 7.8 "Paying and Depositary Agent")*.

4.5 Statements Relating to Future Events, Statistical Data, Market Data and Estimates

This Prospectus contains certain statements relating to future events. Statements relating to future events include all statements which do not relate to historical facts and events. This particularly applies to statements in this Prospectus with respect to future earnings, projections and expectations as to the operations and management of KINGHERO Group, growth, profits, economic and regulatory conditions and other factors to which KINGHERO Group is exposed. Statements which use the words ''should'', ''might'', ''will'', ''believes'', ''assumes'', ''expects'', ''estimates'', ''plans'', ''is of the view that'', ''to the knowledge of'', ''in the estimation of'' or similar formulations are indicative of statements relating to future events.

Statements relating to future events are based on current estimates and assumptions made to the best of the Company's knowledge. The occurrence or non-occurrence of an uncertain event may lead to a situation in which actual results, including the net assets, financial position and results of operations of KINGHERO Group, deviate substantially from, or develop less favourably than, the results which are explicitly or implicitly assumed or described in those statements. The operations of KINGHERO Group are subject to a series of risks and uncertainties, as a result of which statements relating to future events, assessments or predictions may prove inaccurate. Therefore, investors are strongly advised to read *''Summary of the Prospectus"*, *"Risk Factors''*, *''Management's Discussion and Analysis of the Financial Condition and Results of Operations'', "Industry Overview", "Business", "Regulatory Environment",* and *"Recent Developments and Outlook"*, which contain a more detailed description of the factors which affect the business development of KINGHERO Group and the market in which KINGHERO Group operates.

In view of the risks, uncertainties and assumptions, the future events mentioned in this Prospectus may never occur. In addition, third-party assessments relating to future events (also see "*Note about Financial Data*'' and "*Third-Party Data''*) may prove inaccurate. Neither the Company, its Management Board and Supervisory Board nor the Lead Manager can guarantee that the views represented in this Prospectus will prove accurate or that the developments predicted will actually occur. It should also be noted that neither the Company nor the Lead Manager are obliged to update such statements relating to future events or to adapt them to future events or developments, except as required by law (esp. the duty to publish supplements pursuant to section 16 (1) WpPG).

4.6 Note Regarding Financial Data and Currency

Some figures cited in this Prospectus (including percentages) have been subjected to commercial rounding. Such commercially rounded figures and the associated percentages cited in the tables may not necessarily add up precisely to the totals given in the tables.

However, the percentages used in the text were computed based not on commercially rounded values, but on actual values. Therefore, the percentages in the text may differ in some cases from percentages calculated based on rounded values. All currency data in this Prospectus refer to EUR. If numerical data in other currencies are cited, this is expressly noted by specification of the appropriate currency or currency symbol.

The operational currency of KINGHERO Group is Renminbi ("**RMB**") whereas the financial statements are made in EUR. The RMB financial data has been translated to EUR using the following exchange rates:

Kinghero Xiamen

	Period end rates	Average rates
31 December 2007	EUR 1.00 = RMB 10.6496	EUR 1.00 = RMB 10.4167
31 December 2008	EUR 1.00 = RMB 9.5238	EUR 1.00 = RMB 10.1626
31 December 2009	EUR 1.00 = RMB 9.8328	EUR 1.00 = RMB 9.4877
31 March 2010	EUR 1.00 = RMB 9.1659	EUR 1.00 = RMB 9.4393

Michelle

	Period end rates	Average rates
31 December 2009	EUR 1.00 = RMB 9.8328	EUR 1.00 = RMB 9.9305*
31 March 2010	EUR 1.00 = RMB 9.1659	EUR 1.00 = RMB 9.4393

*The average rate for 2009 relates to the period from July 2009 to December 2009 which is the period during which Michelle was in operation in 2009.

Accordingly, the presentation of the financial statements in EUR for the periods under review are not fully comparable to each other because different RMB/EUR exchange rates were used for each period under review.

For the translation of RMB amounts which are not related to financial statements for the period under review, the exchange rate of RMB 9.1659 per EUR 1.00 as of 31 March 2010 has been used. Amounts used in industries reports may have been based on different exchange rates.

Kinghero HK has its legal seat in Hong Kong. The currency of Hong Kong is Hong Kong Dollar ("**HKD**"). On 31 March 2010, the exchange rate was HKD 10.4653 for EUR 1.00.

4.7 Third Party Data

This Prospectus contains a number of references to third-party data, statistical information and studies, especially regarding the market environment, advertising expenses and similar matters. The Company has accurately reported this data and, to the Company's knowledge and to the extent to which it could derive from the published information, that data does not leave out any facts which would render the published information inaccurate or misleading. Market studies are often based on information and assumptions which may be neither precise nor accurate, and their methodology is by nature imprecise and speculative. The Prospectus also contains assumptions by the Company which are based on third-party market data or numerical data from publicly available sources. In compiling this Prospectus, the Company relied on the sources mentioned below:

- National Bureau of Statistics of China, 2005-2009, website: http://www.stats.gov.cn/
- International Monetary Fund, 2008, website: http://www.worldbank.org/
- Ministry of Finance of China, 2009, website: http://www.mof.gov.cn/
- Eleventh Five-Year Plan, 2005, website: http://www.china.com.cn
- Chinese Stock Market, 2009, website: http://www.sse.com.cn/)
- Interbrand, 2010, website: http://www.interbrand.com/

The Company and the Lead Manager have not verified the figures, market data and other information used by third parties in their studies. The Company and the Lead Manager are therefore not responsible for the accuracy of data from third-party studies described in this Prospectus, including data with respect to market shares, growth rates and sales (except for those of KINGHERO Group).

5. THE OFFERING

5.1 The Placement and the Offer

5.1.1 The Placement of the New Shares and the Greenshoe Shares

Subject matter of this prospectus is the **Placement** in Germany and Austria as well as potential private placements outside Germany, Austria, and the United States of up to 2,070,000 no par value ordinary bearer shares *(Inhaber-Stückaktien)* of the Company, each ordinary bearer share having a notional amount of the share capital of EUR 1.00 and each vested with full dividend rights for the entire financial year 2010, consisting of:

- up to 1,800,000 New Shares from the capital increase against cash contributions pursuant to a resolution of the extraordinary shareholder's meeting (außerordentliche Hauptversammlung) expected to be held on or around 4 August 2010, and
- up to 270,000 Greenshoe Shares from the holding of the Selling Shareholder in connection with a potential over-allotment. The New Shares together with the Greenshoe Shares are referred to as the "**Placement Shares**".

The Placement will take place before inclusion of the shares of KINGHERO AG to trading on the Open Market (Entry Standard segment) of the Frankfurt Stock Exchange.

The Greenshoe Shares are being offered by the Selling Shareholder and the New Shares are being offered by the Company. To facilitate settlement of the Greenshoe Shares, Mr. ZHANG Yu has granted 270,000 shares to BankM by means of a securities loan. To repay the securities loan, BankM has agreed to subscribe for up to 270,000 no par value ordinary shares of the Company and Mr. ZHANG Yu has granted BankM an option exercisable within 30 calendar days after the commencement of trading to purchase up to 270,000 existing shares at the offer price less any agreed upon commission.

Upon implementation and registration of the capital increases against cash contributions as described above in the commercial register of the Company, the share capital of the Company will amount to up to EUR 7,050,000.

In connection with the Placement, the Company will receive the net proceeds from the issue of the New Shares. The Company will not receive any proceeds from the sale of Greenshoe Shares.

5.1.2 The Offer of the Issued Shares

Subject matter of this prospectus is furthermore the inclusion to trading on the Open Market (Entry Standard segment) of the Frankfurt Stock Exchange and the **Offer** of up to 7,050,000 no par value ordinary bearer shares (the "**Issued Shares**") consisting of:

- 5,250,000 currently existing no par value ordinary bearer shares (current share capital at the date of the prospectus) from the holding of the existing shareholders, and

- up to 1,800,000 New Shares issued in connection with the Placement.

Intended promotional activities by the Company in reference to the Issued Shares after their inclusion to trading on the Open Market (Entry Standard segment) of the Frankfurt Stock Exchange can be regarded as a public offer.

5.2 Conditions of the Placement and the Offer

5.2.1 Conditions of the Placement

The price for shares in the Placement will be denominated in EUR.

The placement period, within which investors will have the possibility to place purchase orders for the Placement Shares, is expected to commence on 27 July 2010 and presumably ends on 4 August 2010.

The price range within which purchase orders may be placed within the placement period is between EUR 14.50 and EUR 18.50 per Placement Share.

During the placement period, offers to purchase shares may be submitted by retail investors only via their depository bank to BankM - Repräsentanz der biw Bank für Investments und Wertpapiere AG as well as to selling agents. Institutional investors may submit their purchase orders via their depository bank or directly to BankM - Repräsentanz der biw Bank für Investments und Wertpapiere AG, Mainzer Landstr. 61, 60329 Frankfurt am Main, Tel. 069-7191 838-0, Fax 069-7191 838-50. On the last day of the placement period, retail investors will be able to submit offers to purchase shares until 12:00 noon (Central European Time) and institutional investors until 3:00 p.m. (Central European Time).

The Company reserves the right to issue less than the maximum possible amount of New Shares. The Company, together with the Lead Managers, also reserve the right to decrease the number of Placement Shares, to increase or decrease the upper limit and/or lower limit of the price range, and/or to extend or shorten the placement period. If any of the terms of the Placement are modified, the change will be published by means of an announcement through electronic information service such as Reuters or Bloomberg and on the Company's website (www.kinghero.de) and to the extent required under the German Securities Prospectus Act *(Wertpapierprospektgesetz (WpPG))* as a supplement *(Nachtrag)* to the Prospectus. Investors who have submitted purchase offers will not be notified individually. Any changes to the number of Placement Shares or the price range or any extension or shortening of the placement period will not nullify purchase orders that have already been placed. Investors who have already placed purchase orders prior to the publication of a supplement will have the right provided under the German Securities Prospectus Act *(Wertpapierprospektgesetz (WpPG))* to withdraw from these purchase orders within two business days following publication of the supplement. Instead of withdrawing their purchase orders, investors may also amend these purchase orders submitted prior to publication of the supplement *(Nachtrage)* or place new limited or unlimited purchase orders within two business days after publication of the supplement *(Nachtrag).*

As at the date of this Prospectus several existing shareholders have indicated that they intend to subscribe for shares in the Placement. Moreover, there is no indication as to whether members of the Company's management, supervisory or administrative bodies intend to subscribe for shares in the Placement, or whether any person intends to subscribe for more than 5% of the Placement.

The Placement is not divided into tranches. Multiple subscriptions are possible.

Purchase orders for the Placement Shares are freely revocable until the end of the placement period.

Once the placement price has been determined, the Placement Shares will be allotted to investors based on the orders submitted. The placement price is expected to be published on 4 August 2010 by means of an Corporate News notice on an electronic information system and on the Company's website and no earlier than the following business day, expected to be 5 August 2010, by an announcement in the *Börsen-Zeitung.* Investors who have submitted purchase orders with the Lead Managers will be able to obtain information from the Lead Managers with respect to the placement price and the number of Placement Shares allotted to them beginning no earlier than the banking day following the determination of the placement price. Book-entry delivery of the allotted shares against payment of the placement price is expected to occur two banking days following the commencement of trading of the Company's shares. Particularly in the event that the placement volume proves to be insufficient to satisfy all orders placed at the offer price, the Lead Managers reserve the right not to accept purchase orders, in whole or in part.

Purchase orders for Placement Shares must be for at least 100 shares and be expressed in full euro amounts or increments of 50 eurocents.

There will be a material disparity between the placement price per Placement Share and the effective cash costs at which the Existing Shareholders acquired shares in the Company in transactions during the past year. In particular, in order to fulfill the requirement of a minimum paid in equity of EUR 250,000 stipulated by the Deutsche Boerse AG for the inclusion to trading on the Open Market/Entry Standard, it was necessary for the Company to execute a capital increase in the amount of EUR 200,000 by cash contribution. On 31 May 2010 the general meeting of the Company resolved to increase the share capital from EUR 5,050,000 by EUR 200,000 to EUR 5,250,000 by cash contribution (*Barkapitalerhöhung*) against the issue of 200,000 new no par value ordinary bearer shares (*Inhaber-Stückaktien*) in the capital of the Company with a notional value of EUR 1.00 each and full dividend rights as of 1 January 2010. All 200,000 new shares were issued at an issue price of EUR 1.00 each to Mr. ZHANG Yu on behalf of all existing shareholders, resulting in an unchanged beneficial ownership percentage of each shareholder after the capital increase as compared to immediately prior to the capital increase. Due to the technical nature of the transaction and the unchanged beneficial ownership percentage of each existing shareholder, a company valuation or a discussion of the fair price of the shares was not facilitated prior to the capital increase.

5.2.2 Conditions of the Offer

The price for shares in the Offer will also be denominated in EUR.

As at the date of this Prospectus there is no indication as to whether major shareholders or members of the Company's management, supervisory or administrative bodies intend to subscribe for Issued Shares in the Offer, or whether any person intends to subscribe for more than 5% of the Offer.

The Issued Shares of the Company can be acquired in the Offer pursuant to the General Terms and Conditions of Deutsche Börse AG for the Regulated Unofficial Market on the Frankfurter Stock Exchange as amended (*Allgemeine Geschäftsbedingungen für den Freiverkehr an der Frankfurter Wertpapierbörse in der jeweils gültigen Fassung*). Purchase orders can be placed through any bank having access to or being a bank admitted at the Frankfurt Stock Exchange. The shares can be bought in denominations starting with one share. The offer prices are announced in daily papers, news services or in the Internet and are usually found through the ISIN or the stock exchange symbol. A limitation for the number of purchase orders is not envisaged. The offer price is equal to the market quotation for which orders are executed at the stock exchange and is thus dependent on market offers and demands. The offer price is determined by the responsible lead broker (*Skontroführer*) in accordance with the regulations of the Frankfurt Stock Exchange and with the aim to achieve the best settlement between buy and sell orders.

It will not be possible to reduce purchase orders after they have been placed with a bank if this has not been agreed upon with the respective bank.

After the inclusion of the shares for trading on the Open Market in the Entry Standard segment of the Frankfurt Stock Exchange, the shares will be available to all interested parties equally subject to market supply and demand of the available shares in the market. The Offer is not divided into tranches. There is no minimum allotment. Each purchaser may place several purchase orders.

5.3 Timetable for the Placement

The scheduled timetable for the Placement is as follows:

Event	Date
Approval of the Prospectus by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* – "**BaFin**") and notification of the Prospectus to the Austrian Financial Supervisory Authority (*Österreichische Finanzmarktaufsicht* – "**FMA**")	22 July 2010
Publication of the Prospectus on the website of KINGHERO AG (www.kinghero.de)	22 July 2010
Expected date for the commencement of the Placement Period in Germany	27 July 2010
Expected date for the commencement of the Placement Period in Austria	27 July 2010
Expected date for the end of the Placement Period for retail investors at 12:00 noon (Central European Time) and for institutional investors at 3:00 pm (Central European Time)	4 August 2010
Subscription of the New Shares	4 August 2010
Registration of the completion of the capital increase with the commercial register and approval for inclusion for trading on the Open Market (Entry Standard segment) issued by Frankfurt Stock Exchange	5 August 2010
Expected date for the commencement of trading of the Company's shares	6 August 2010
Expected date for the book-entry delivery of Placement Shares against payment of the placement price	10 August 2010

The Prospectus will be published on the Company's website at www.kinghero.de. The Prospectus is also expected to be available in printed form as of 26 July 2010 free of charge during regular business hours from the Company and the Lead Managers.

5.4 Allotment Criteria

With regard to the Placement, no agreements exist between the Company and the Lead Managers as to the allotment procedure in regard to the allotment of Placement Shares prior to the commencement of the placement period. The Company and the Lead Managers will comply with the "Principles for the Allotment of Share Issues to Private Investors" ("***Grundsätze für die Zuteilung von Aktienemissionen an Privatanleger***"), which were issued on 7 June 2000 by the Exchange Expert Commission *(Börsensachverständigenkommission)* of the German Federal Ministry of Finance *(Bundesministerium der Finanzen)*. After the placement period has ended, the Company and the Lead Managers will determine and publish the details of the allotment method in accordance with the "Principles for the Allotment of Share Issues to Private Investors".

With regard to the Offer those allotment criteria are not relevant as the execution of a purchase order solely depends on the market situation and the price offered by the buyer.

5.5 Delivery and Settlement

Delivery of the Placement Shares against payment of the placement price and the customary securities commission is expected to take place three banking days following commencement of trading of the Issued Shares.

After commencement of trading, Issued Shares being purchased in the Offer are usually delivered by the selling shareholder against cash payment plus the banking commission through a deposit bank approx. two trading days after the sale. Banking commissions are determined by the buyers securities depository bank and thus are not known to the Company.

The Issued Shares of the Company will be made available to shareholders as co-ownership interests in the respective global certificate.

Shares purchased pursuant to the Placement and pursuant to the Offer will be credited to a securities deposit account maintained by a bank at Clearstream Banking AG, Neue Börsenstrasse 1, in 60487 Frankfurt am Main, Germany, for the account of such buyer.

5.6 Stabilization Measures, Over-Allotments, and Greenshoe Option

In connection with the Placement of the Placement Shares, BankM or persons acting on its behalf will act as stabilization manager and may take measures aimed at supporting the stock exchange or market price of the Company's shares in order to offset any sales pressure that may exist (so-called stabilization measures).

A stabilization manager is under no obligation to take stabilization measures. Therefore, there is no guarantee that any such stabilization measures will be effected. If stabilization measures are taken, they may be terminated at any time without prior notice. Such measures may be taken beginning as of the date of inclusion of the shares for trading on the Open Market (*Entry Standard*) of the Frankfurt Stock Exchange and must be completed no later than the 30th calendar day after such date (so-called stabilization period).

Stabilization measures may lead to the stock exchange or market price of the Company's shares being higher than they would have been in the absence of such measures. In addition, such measures may result in a stock exchange or market price at a level that is not sustainable. With regard to potential stabilization measures, investors may be allotted up to

270,000 additional shares of the Company in addition to the New Shares, as part of the allotment of the shares to be placed by the Company in the Placement (so-called over-allotment).

With regard to a potential over-allotment, up to 270,000 no par value ordinary bearer shares (*Inhaber-Stückaktien*) of the Selling Shareholder will be made available to BankM by way of a securities loan. The Selling Shareholder has granted BankM the option of purchasing these shares of the Company at the Placement price, less agreed commissions (the "**Greenshoe Option**"). This option expires 30 calendar days following the date of commencement of trading of the shares on the Open Market in the Entry Standard segment of the Frankfurt Stock Exchange.

Mr. ZHANG Yu will pay that portion of the fees of the Lead Managers attributable to the sale of the Greenshoe Shares. Based on the price range and assuming full placement of the Greenshoe Shares, the Company estimates that the net proceeds to the Selling Shareholder would amount to approximately EUR 4.2 million.

Within one week after the end of the stabilization period, information will be announced in the Börsen-Zeitung and on the Company's website at (www.kinghero.de) as to whether a stabilization measure was taken or not, the date on which such stabilization measure was commenced, the date on which the last stabilization transaction was taken, and the price range within which such stabilization was effected for each date on which a stabilization measure was effected. The exercise of the Greenshoe Option, the date of such exercise and the number and type of shares involved will also be published without delay (*unverzüglich*) in the manner described above for the publication of information regarding the implementation of stabilization measures following the end of the stabilization period.

5.7 Transferability of Shares

The Company's shares are freely transferable. No legal restrictions exist with respect to their trading, aside from those mentioned under "*Market Protection and Lock-Up Agreements*".

5.8 Market Protection and Lock-Up Agreements

The existing shareholders that are named in item 14.5.1 have agreed with BankM that they will not sell, offer or advertise for sale, either on an exchange or elsewhere, directly or indirectly, any shares of the Company, nor take any other action which is consistent with a disposal, without the prior written consent of BankM for the following periods:

- Mr. ZHANG Yu: twelve months from the date on which the shares were first included to trading on the Frankfurt Stock Exchange's Open Market (Entry Standard); and
- All other existing shareholders: twelve months from the date on which the shares were first included to trading on the Frankfurt Stock Exchange's Open Market (Entry Standard segment).

Furthermore, the Company has agreed not to take any capital measures without the prior written approval of BankM for a period of twelve months from the date on which the shares were first included to trading on the Frankfurt Stock Exchange's Open Market (Entry Standard segment).

5.9 Dilution

The book value of the shareholders' equity of the Company as reflected in its IFRS consolidated financial statements as of 31 March 2010 amounted to EUR 33,389,077. This is equivalent to approximately EUR 6.6117 per share (calculated on the basis of 5,050,000 outstanding shares as 31 March 2010). However, this does not include the capital increase that became effective on 25 June 2010. Such capital increase increased the equity of the Company by EUR 200,000.

Assuming that all 1,800,000 New Shares in the Company are placed and based on the price range per Placement Share between EUR 14.50 and EUR 18.50, the gross issue proceeds obtained by the Company are between EUR 26.1 million and EUR 33.3 million. If the placement price were to correspond to the midpoint of the price range at EUR 16.50 per Placement Share, the Company would obtain gross proceeds of approximately EUR 29.7 million and net proceeds of approximately EUR 27.4million. If the Company had obtained this amount as at 31 March 2010, the book value of shareholders' equity at that time would have been EUR 60,781,327 in total or around EUR 8.87 per share (based on the increased number of shares after the Placement of 1,800,000 New Shares). Consequently, under the above-mentioned assumptions, the implementation of the Placement would lead to a direct increase in the book value of shareholders' equity of about EUR 2.26 per share for the current shareholders and a direct dilution of about EUR 7.63 per share for the purchasers of the Placement Shares and thus investors who acquire shares at the midpoint of the range at EUR 16.50 per Placement Share are diluted by about 46.22%.

5.10 Designated Sponsor and Listing Partner

The Company has engaged BankM as a designated sponsor for its shares. In this regard, BankM will assume the function of designated sponsor of the Company's shares traded on the Frankfurt Stock Exchange after commencement of trading of the shares. Pursuant to the designated sponsor agreement between BankM and the Company, BankM may, among other things, place limited orders to buy or sell shares of the Company in the electronic trading system of the Frankfurt Stock Exchange (XETRA) during daily trading hours. This measure is expected to improve liquidity of trading for the shares of the Company. BankM will receive a fee for its services.

Further, BankM is Deutsche Börse Listing Partner in accordance with the conditions of the unregulated market (Open Market/*Freiverkehr*) at the Frankfurt Stock Exchange. BankM has thereby undertaken to accompany and advise the Company in compliance with and fulfilment of any consequential obligations under the conditions of the unregulated market (Open Market/*Freiverkehr*) at the Frankfurt Stock Exchange in the special segment Entry Standard. The Deutsche Börse Listing Partner will among others hold an annual information meeting with the issuer and will support the issuer in publishing any material news about the business.

6. PURPOSE OF THE PLACEMENT AND THE INCLUSION, USE OF PROCEEDS, COSTS AND INTERESTS OF THIRD PARTIES INVOLVED IN THE PLACEMENT

6.1 Purpose of the Placement and the Inclusion

With the inclusion of the Company's shares to trading in the Open Market (Entry Standard), the company pursues the first goal of producing the tradability of the shares in a public market.

Further reasons for the Placement and the inclusion of the Issued Shares of the Company to trading on the Open Market in the Entry Standard segment of the Frankfurt Stock Exchange are to increase KINGHERO Group's public visibility and recognition (brand building) and to finance its further expansion. Particularly, the Company aspires to expanding its value chain and production capacity by the installation of new production facilities and possible acquisitions of new manufacturing technologies to expand the value chain. Additionally, KINGHERO Group plans to expand its distribution channels as well as to strengthen its marketing capabilities and working capital. Moreover, KINGHERO AG intends to bring itself into a better position to take advantage of future opportunities for further funding and, in this connection, intends to increase public and investor relations activities for possible future share placements in 2010 and /or 2011.

6.2 Use of Proceeds and Costs

The Company will receive the net proceeds from the Placement, i.e. the gross proceeds from the sale of the New Shares resulting from the capital increase less commissions paid by the Company to the Lead Managers and its costs. The gross proceeds as well as the costs of the Placement depend on the total number of New Shares placed and the Placement price. The Company will not receive any proceeds from the sale of Greenshoe Shares.

Subject to the uncertainty associated with such estimate and due to numerous relevant factors which may exercise an influence but cannot be foreseen at the present time, the Company believes, assuming that all of the New Shares are placed, that the total gross issue proceeds of between approximately EUR 26.1 million and approximately EUR 33.3 million are attainable.

Subject to the above uncertainties, the Company believes that the total cost of the Placement and the inclusion of the Company's shares to trading on the Open Market (Entry Standard segment) will be between EUR 0.6 million and EUR 2.51 million and net proceeds to the Company of between EUR 24 million and EUR 30.8 million are possible.

The Company plans to use the net proceeds that it will receive from the sale of the New Shares to finance the further expansion of its business. KINGHERO Group particularly plans to use the net proceeds for the following investments in order of priority:

(1) *Brand building:* In order to enhance KINGHERO's brand image, KINGHERO Group intends to establish 30 flagship stores in China in the upcoming six years. KINGHERO Group's management expects total investment for the flagship stores, including refurbishment, rental, personnel expenses and utilities, to reach approximately TEUR 17,500.

(2) *Expansion of sales network*: KINGHERO Group intends to extend its number of designated distributors in various provinces to increase sales volume. KINGHERO Group's management thus plans to increase the number of designated distributors from 34 (in approximately 30 cities) to 60 designated distributors in approximately 60 first-tier to third-tier cities within the next years to generate additional growth. KINGHERO Group's management expects an initial investment from this expansion to amount to approximately TEUR 5,000.

(3) *Installation of new production facilities*: In order to meet the continuous demand for its products, KINGHERO Group purchased six factory buildings of approximately 70,000 sqm in September 2009 and has commenced refurbishment of these facilities. KINGHERO Group's management is preparing to purchase equipment for production before the end of 2010. The management anticipates that these new factory buildings and equipments will be put into operation at the beginning of 2011 with total investments in refurbishment and purchase of equipment to reach approximately TEUR 5,000.

(4) *Acquisition of new manufacturing technologies:* In order to strengthen the product lines, KINGHERO Group plans to acquire a knitting factory for the production of men and ladies knitwear under the brand of KINGHERO. Furthermore, in order to expand by means of vertical integration, the management intends to acquire a zipper factory. The Company believes that this acquisition will further speed up the development process of new fashion products and help to guarantee the stable supply and quality of manufactured zippers to be used in the Company's fashion products. The total investments in the acquisition of further production facilities are expected to reach approximately TEUR 2,500.

Depending on the amount of funds raised in connection with the Placement of the New Shares, the above described investments will be partially or fully executed out of the proceeds from the placement of the New Shares. The remainder of the investments will be executed using the Company's operational cash flow and/or possible further capital raises. The costs for the Placement and the inclusion of the Company's shares to trading on the Open Market (Entry Standard segment) also will be covered by the proceeds of the Placement and/or by the Company's operational cash flow.

6.3 Interests of Natural and Legal Persons Involved in the Offering

Mr. ZHANG Yu, the owner of the Greenshoe Shares has an interest in the Placement because of the portion of the Placement proceeds he may receive. BankM has entered into a contractual relationship with the Company in connection with the implementation of the Placement. BankM and Silvia Quandt & Cie. AG are Joint Lead Managers and will advise the Company in connection with the implementation of the Placement and the inclusion and coordinate its structuring and execution and will purchase and sell the Placement Shares in accordance with the underwriting agreement expected to be executed at a date before the end of the placement period. The compensation of the Lead Managers is incentive based and depends, among other factors, on the amount of the placement proceeds such that the Lead Managers have an interest in the successful implementation of the Placement.

The Lead Managers and affiliated companies will be able to acquire Placement Shares of the Company on their own accounts, hold, purchase or sell them on their own accounts and offer or sell them outside the Placement. The Lead Managers do not intend to disclose the scope of such investments or transactions where such disclosure is not legally required.

7. GENERAL DESCRIPTION OF THE SHARES

7.1 Class of Shares, Voting Rights

All shares in the Company are bearer common shares with no par value (no-par value bearer shares) representing EUR 1.00 of the share capital each. Each share confers one vote in the Company's General Shareholder's meeting *(Hauptversammlung)*, provided relevant shareholders register prior to the General Shareholder's meeting *(Hauptversammlung)* and document their share ownership to the Company. The documentation of share ownership has to be issued by the depositary bank and must relate to the twenty-first day prior to the General Shareholder's meeting *(Hauptversammlung)*. The registration and documentation of share ownership must be received by the Company no later than the sixth day prior to the date of the General Shareholders' Meeting, in text form, not including the day of receipt. There are no other restrictions on voting rights. Current shareholders of the Company do not have different voting rights.

The current share capital of the Company in the amount of EUR 5,250,000 is represented by one or several global share certificates without dividend coupons, which are deposited with Clearstream Banking AG, Neue Börsenstrasse 1, 60487 Frankfurt am Main, Germany.

7.2 Certification of Shares

Pursuant to Section 6 Subsection 3 sentence 4 of the Company's Articles of Association (*Satzung*), the Company may issue multiple share certificates that evidence several individual shares (so-called global share certificates *(Globalurkunden*). To the extent that global share certificates have been issued in respect of the shares of the Company, the shareholders have no claim to the issue of individual share certificates.

7.3 Dividend Rights

The shares carry full dividend rights for the entire financial year 2010.

The shares of individual shareholders in the profit of the Company are determined in accordance with the number of shares they hold in the registered capital (Section 60, subsection 1 of the German Stock Corporation Act (AktG)).

The adoption of resolutions regarding the distribution of dividends on the Company's shares for a given financial year is the responsibility of the General Shareholders' Meeting *(Hauptversammlung)* held during the following financial year, which resolves on the utilization of the Company's distributable profits on the basis of the non-binding proposal of the Management Board *(Vorstand)* and the Supervisory Board *(Aufsichtsrat)*. If the Selling Shareholder holds an effective or, depending on his presence at the General Shareholders' Meeting (*Hauptversammlung*) of the Company, a factual majority of the voting rights present or represented at the General Shareholders' Meeting (*Hauptversammlung*), he may exercise further influence on the utilization of the Company's profits and/or the dividend policy *(see section 3.2 "Risk Factors – Risks Related to KINGHERO Group's Business – KINGHERO Group's CEO, Mr. ZHANG Yu, is also its major shareholder which could subject him to conflict of interest.")*. Under German law a resolution concerning dividends and the utilization of distributable profits may be adopted only on the basis of a balance sheet profit *(Bilanzgewinn)* shown in the Company's adopted annual individual financial statement *(festgestellter Jahresabschluss)* to be prepared in accordance with generally accepted German accounting principles, i. e. the accounting provisions of the German Commercial

Code *(Handelsgesetzbuch)*. In determining the balance sheet profit available for distribution, the annual net income *(Jahresüberschuss)* or annual net loss *(Jahresfehlbetrag)* of the respective year must be adjusted for profits and losses carried forward from the previous year and for deposits into or withdrawals from reserves. Certain reserves are to be created by law and must be deducted, where applicable, when calculating the balance sheet profits available for distribution. In a resolution regarding the utilization of balance sheet profits, the General Shareholders' Meeting *(Hauptversammlung)* can include further amounts in retained earnings or carry them forward as profit. Dividends resolved by the General Shareholders' Meeting (*Hauptversammlung*) are paid annually, shortly after the General Shareholders' Meeting (*Hauptversammlung*), in compliance with the rules of the respective clearing system. Dividend claims are subject to a three-year limitation period. Dividends which were not exercised by shareholders within this period shall be retained by the Company.

It is not intended to pay dividends for the financial year 2010. Future dividend distributions will depend on the results of operations of the Company, its financial situation, its need for cash and the legal, tax and regulatory environment as well as other factors. The Company intends to distribute profits only if and to the extent it is covered by the annual net income *(Jahresüberschuss)* which is shown in the respective Company's (individual) annual financial statement *(Jahresabschluss)*. The remaining profits, if any, shall be booked into retained earnings and be used to finance the further development of the Company's business and its internal growth. To report net profits available for distribution, the Company as a holding company depends on profit distributions from its subsidiaries (see section 3.2 "*Risk Factors – Risks Related to KINGHERO Group's Business – The Company is a holding company the liquidity of which depends upon having access to the liquid funds of its operating subsidiaries located in the PRC, which might not be able to remit profits*"). The expenditures and costs of this offering will have a one-time impact that will adversely affect its results of operations in 2009 and 2010.

Dividend income is subject to German dividend withholding tax (*Abgeltungsteuer*) (see "*Taxation in Germany – Taxation of Shareholders – Taxation of Dividends*").

7.4 Earnings per Share

The Company was incorporated in 2009 and therefore does not have a three-year financial history. On the basis of the Financial Statements as at and for the years ended 31 December 2007, 31 December 2008 and 31 December 2009 of Kinghero Xiamen, the following summary shows the earnings of Kinghero Xiamen (rounded to two decimal points), the earnings per share, each in accordance with IFRS and the distributed dividends as of and for the years ended 31 December 2007, 31 December 2008 and 31 December 2009.

	Financial Year ended 31 December		
	2007	**2008**	**2009**
Profit for the year (in **TEUR**)	4,605	6,895	10,654
Assumed number of shares on 31 December*	5,250,000	5,250,000	5,250,000
Earnings per share in EUR (undiluted) **	0.87	1.31	2.02
Earnings per share in EUR (diluted) ***	0.65	0.98	1.51
Dividends per share in EUR**	0.27	1.12	0

* For better comparability, the current number of shares in the Company of 5,250,000 has been used throughout the period.

** unaudited

*** unaudited, assumed number of shares: 7,050,000

7.5 Transferability

The Company’s shares are freely transferrable. No legal restrictions exist with respect to their trading, except for those mentioned under section 5.8 “*Market Protection and Lock-Up Agreements*”. In addition, there are no mandatory takeover bids and/or squeeze-out and sell-out rules.

7.6 Notices

In accordance with its Articles of Association (*Satzung*), notices of the Company will be made in the electric version of the German Federal Gazette (*elektronischer Bundesanzeiger*). Publications required by stock exchange laws will be made in a national journal designated for such purposes by the Frankfurt Stock Exchange.

Notices in connection with the approval of the Prospectus or regarding amendments to the Prospectus will be made in accordance with the provisions of the German Securities Prospectus Act (*Wertpapierprospektgesetz*) and will be published in the form intended for prospectuses, i.e., on the internet website of KINGHERO AG with a printed version available at the office of KINGHERO AG as well as through subsequent notice with publication in the *Börsen-Zeitung*.

7.7 Inclusion of Issued Shares to Trading, Securities Identification Number, Stock Symbol

Inclusion of the Issued Shares to trading on the Open Market in the Entry Standard segment of the Frankfurt Stock Exchange and commencement of trading of the Issued Shares on the Frankfurt Stock Exchange in the Open Market / Entry Standard Segment is expected to take place on 6 August 2010.

German Securities Identification Number (WKN): A0XFMW

International Securities Identification Number (ISIN): DE000A0XFMW8

Stock Symbol: KH6

7.8 Paying Agent *(Zahlstelle)*

The paying agent *(Zahlstelle)* for the shares in the Company is Bankhaus Gebr. Martin AG, Kirchstrasse 35, 73033 Göppingen, Germany.

8. CAPITAL STRUCTURE AND NET FINANCIAL LIABILITIES

8.1 Capitalisation and Indebtedness

The table below provides an overview of the capital structure and net financial liabilities of KINGHERO Group (not including retained earnings) as of 31 March 2010 on a consolidated basis. The data is unaudited and has been prepared in accordance with IFRS, as endorsed for application in the EU. As a result of the net proceeds obtained in the offering the capitalization of the Company will change following the offering. As the net proceeds of the Company depend on the number of shares placed and the offer price, the amount of proceeds the Company will receive in the offering can, at the earliest, be predicted once the price range has been determined. Details regarding the net proceeds and the potential effects thereof on the capitalization of KINGHERO Group will be published together with the supplement *(Nachtrag)* to the Prospectus announcing the price range.

Capitalization and indebtedness

	As at 31 May 2010 (in TEUR) (unaudited)
Capitalization	
Total Current Liabilities	13,102
thereof secured	0
thereof guaranteed	0
thereof unsecured / unguaranteed	13,102
Total Non Current Liabilities	68
thereof secured	0
thereof guaranteed	0
thereof unsecured / unguaranteed	68
Total Equity	39,524
thereof Share Capital	5,050
thereof Capital Reserves	4,081
thereof Statutory Reserves	243
thereof Currency Translation Reserves	4,854
thereof Retained Earnings	25,296
Indebtedness	
Cash and cash equivalents	22,401
Trading Securities	0
Liquidity	22,401
Current Financial Assets	37,575
Current Financial Liabilities	13,102
thereof Current Bank Debt	0
thereof Other Current financial debt	0
Net Current Financial Indebtedness	-24,473
Non-Current Financial Liabilities	68

thereof Non Current Bank Loans	0
thereof Preferred Shares	0
thereof Other Non Current Loan	0
Net Financial Assets	-24,405

The total assets in the consolidated statement in accordance with IFRS of financial position amount to TEUR 52,694 as of 31 May 2010 and consolidated equity amounts to TEUR 39,524. The consolidated equity ratio (equity divided by total assets) is 75.00%.

The equity as of 31 May 2010 does not include the capital increase by cash contribution of Kinghero AG in the amount of TEUR 200, since the capital increase became effective on 25 June 2010.

The current financial liabilities consist of trade and other payables. There are no bank borrowings included within either current financial liabilities or non-current financial liabilities. As of 31 May 2010, cash and cash equivalents were TEUR 22,401 and the current financial assets exceed the financial liabilities by TEUR 24,405.

8.2 Contingent Liabilities

As at 31 May 2010 KINGHERO Group has the following contingent liabilities:

- social insurance back payments
- potential trademark claims

as set out in further detail in section 10.4.4 "*Management's Discussion and Analysis of Financial Condition and Results of Operation – Contingent Liabilities*".

8.3 Working Capital Statement

The Company believes that, based on KINGHERO Group's current needs, KINGHERO Group's current working capital (not taking into account the proceeds from the Offering) is sufficient to cover at least those payment obligations which will become due within the next twelve months and that KINGHERO Group does not have any further financing needs.

9. SELECTED FINANCIAL INFORMATION

The Company was incorporated on 16 April 2009 as a shelf company *(Vorratsgesellschaft)* and was acquired in the course of certain restructuring steps and therefore has no historical financial data (within the meaning of Annex 1 No. 20.1 of (EC) Regulation No. 809/2004), except for its opening balance sheet and the stand alone financial statements in accordance with the German Commercial Code as at 31 December 2009 and for the short financial year from 16 April 2009 to 31 December 2009. However, the business of the Company essentially corresponds to the business activities that previously comprised the business of Kinghero Xiamen. The operational business of KINGHERO Group was and is managed by Kinghero Xiamen and Michelle, the wholly-owned and direct subsidiaries of Kinghero HK and the Company's indirect subsidiaries. The entities of KINGHERO Group existing prior to the restructuring and the Company are under common control within the meaning of IFRS 3 "Business Combinations".

Kinghero Xiamen was over the reporting period the only significant operating subsidiary of KINGHERO Group. This is due to the fact that Michelle only started business in July 2009. Hence in order to present the business, financial condition and result of operations for the last three financial years in relation to the business of KINGHERO Group, the Company has prepared financial statements of Kinghero Xiamen as at and for the years ended 31 December 2007, 31 December 2008, and 31 December 2009 prepared in accordance with IFRS, as endorsed for application in the EU.

The Company has also prepared financial statements of Michelle as at and for the year ended 31 December 2009, prepared in accordance with IFRS, as endorsed for application in the EU, prior historical data not being material due to the start up of business in 2009.

Furthermore, the Company has prepared its single entity financial statements based on the German Commercial Code (*Handelsgesetzbuch*) for the short financial year from 16 April 2009 to 31 December 2009.

The selected financial information, which is reflected in this section, was derived from the aforementioned financial statements. These financial statements were audited by Grant Thornton.

Additionally, interim financial information for the three month period ended 31 March 2010 has been presented for Kinghero Xiamen and also for Michelle as derived from both these companies' individual interim financial statements prepared in accordance with IFRS, as endorsed for application in the EU, as at and for the three month period ended 31 March 2010 with comparative information. These interim financial statements were reviewed by Grant Thornton.

As the formation of the Group had legal effect on 31 March 2010, the first consolidated financial data of KINGHERO Group is derived from the consolidated statement of financial position prepared in accordance with IFRS, as endorsed for application in the EU, as at 31 March 2010. As this date is the initial moment of the legal existence of KINGHERO Group, there is consequently no consolidated statement of comprehensive income, consolidated statement of changes in equity or consolidated statement of cash flow and hence the Company has only presented a consolidated statement of financial position as at 31 March 2010. This consolidated statement of financial position was reviewed by Grant Thornton.

Additionally, interim financial information for the three month period ended 31 March 2010 has been presented for the Company, as derived from its individual interim financial statements prepared in accordance with the German Commercial Code (*Handelsgesetzbuch*) as at and for the three month period ended 31 March 2010 with comparative information. These interim financial statements were reviewed by Grant Thornton.

The aforementioned financial statements are not the legally required financial statements of the Company but have been prepared on a voluntary basis for the purpose of this Offering. The purpose of these financial statements is to put the investor in the position to better compare the development of the business, financial condition and the results of operations of KINGHERO Group over the last three years.

The following figures were commercially rounded; their sums when added may not be the same as the sums indicated.

Kinghero Fashion (Xiamen) Co. Ltd

Selected Financial Information

	Twelve months ended 31 December						Three months ended 31 March			
	2007		2008		2009		2009		2010	
	(audited)[1]		(audited)[1]		(audited)[1]		(unaudited)[2]		(unaudited)[2]	
	EUR thousand	%	EUR thousand	%	EUR thousand	%	EUR thousand	%	EUR thousand	%
Revenue	24,272	100%	32,142	100%	48,921	100%	10,447	100%	14,902	100%
Cost of sales	-15,957	66%	-21,790	68%	-33,193	68%	-6,715	64%	-9,375	63%
Gross Profit	**8,315**	**34%**	**10,352**	**32%**	**15,728**	**32%**	**3,732**	**36%**	**5,527**	**37%**
Other operating income	0	0%	0	0%	89	0%	19	0%	23	0%
Selling and distribution expenses	-2,656	11%	-1,694	5%	-2,144	4%	-534	5%	-551	4%
Administrative expenses	-234	1%	-318	1%	-379	1%	-282	3%	-308	2%
Profit from operations	**5,425**	**22%**	**8,340**	**26%**	**13,294**	**27%**	**2,935**	**28%**	**4,691**	**31%**
Finance income	8	0%	16	0%	12	0%	2	0%	8	0%
Finance costs	-10	0%	0	0%	0	0%	0	0%	0	0%
Profit before income tax	**5,423**	**22%**	**8,356**	**26%**	**13,306**	**27%**	**2,937**	**28%**	**4,699**	**32%**
Income tax	-818	3%	-1,461	5%	-2,652	5%	-578	6%	-1,034	7%
Profit for the period	**4,605**	**19%**	**6,895**	**21%**	**10,654**	**22%**	**2,359**	**23%**	**3,665**	**25%**
Selected Balance Sheet Data										
Total assets	12,175		14,281		24,289				33,392	
Total liabilities	4,095		4,188		4,233				8,103	
Total equity	8,080		10,093		20,056				25,289	
Selected Cash Flow Data										
Cash flow from operating activities	4,596		6,303		2,832		1,448		6,961	
Cash flow used in investing activities	-2,357		-530		0		0		0	
Cash flow used in financing activities	-1,682		-5,904		0		0		0	
Cash at end of period	1,796		1,878		4,651		3,298		11,578	
Other Selected Financial data										
Gross profit margin	34.3%		32.2%		32.1%		35.7%		37.1%	
EBITDA	5,487		8,403		13,412		2,967		4,721	
EBITDA margin	22.6%		26.1%		27.4%		28.4%		31.7%	
EBIT	5,425		8,340		13,294		2,935		4,691	
EBIT margin	22.4%		25.9%		27.2%		28.1%		31.5%	
Net profit margin	19.0%		21.5%		21.8%		22.6%		24.6%	
Net funds	1,796		1,878		4,651		3,298		11,578	

[1] Audited information with the exception of "Other Selected Financial Data"
[2] The interim financial statements have been subjected to review

Xiamen Michelle Fashion Co. Ltd

Selected Financial Information

	Twelve months ended 31 December		Three months ended 31 March	
	2009		2010[2]	
	(audited)[1]		(unaudited)[3]	
	EUR thousand	%	EUR thousand	%
Revenue	21	100%	23	100%
Cost of sales	-8	38%	-7	30%
Gross Profit	**13**	**62%**	**16**	**70%**
Other operating income	17	81%	15	65%
Other operating expenses	-17	81%	-14	61%
Selling and distribution expenses	-3	14%	-3	13%
Administrative expenses	-14	67%	-11	48%
Loss/profit from operations	**-4**	**19%**	**3**	**13%**
Finance income	0	0%	0	0%
Finance costs	0	0%	0	0%
Loss/profit before income tax	**-4**	**19%**	**3**	**13%**
Income tax	1	5%	-1	4%
Loss/profit for the period	**-3**	**14%**	**2**	**9%**
Selected Balance Sheet Data				
Total assets	4,356		13,402	
Total liabilities	3,545		3,802	
Total equity	811		9,600	
Selected Cash Flow Data				
Cash flow used in/from operating activities	-815		8	
Cash flow used in investing activities	0		0	
Cash flow from financing activities	819		8,721	
Cash at end of period	4		8,733	
Other Selected Financial data				
Gross profit margin	61.9%		69.6%	
EBITDA	-4		3	
EBITDA margin	-19.0%		13.0%	
EBIT	-4		3	
EBIT margin	-19.0%		13.0%	
Net profit margin	-14.3%		8.7%	
Net funds	4		8,733	

[1] Audited information with the exception of "Other Selected Financial Data"
[2] The company did not trade prior to July 2009, consequently, comparative information for the three months ended 31 March 2009 is not available
[3] The interim financial statements have been subjected to review

Kinghero AG

Selected Consolidated Financial Information

	31 March 2010 (unaudited)[1] EUR thousand
Selected Consolidated Data	
Total assets	45,608
Total liabilities	12,218
Total equity	33,390

[1] The interim financial statements have been subjected to review

Kinghero AG

Selected Financial Information

	Short financial year from 16 April to 31 December 2009 (audited)[1] EUR thousand	Three months ended 31 March 2010 (reviewed)[2] EUR thousand
Other operating expenses	-64	-145
Loss from operations	**-64**	**-145**
Loss before income tax	**-64**	**-145**
Loss for the period	**-64**	**-145**
Selected Balance Sheet Data		
Total assets	118	29,121
Total liabilities	102	250
Total equity	16	28,871

[1] Audited information with the exception of "Other Selected Financial Data"
[2] The interim financial statements have been subjected to review

10. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis of the business, financial condition and results of operations of KINGHERO Group should be read in conjunction with the other information in this Prospectus, including the financial statements and the related notes which are reproduced in this Prospectus starting on page F-1.

The Company was founded on 16 April 2009 as a so called shelf-company (*Vorratsgesesellschaft*) and incorporated by registration in the commercial register (*Handelsregister*) with the local court (*Amtsgericht*) of Munich on 21 April 2009. On 13 August 2009 Mr. ZHANG Yu acquired all the shares in the Company and the Company subsequently underwent certain restructuring steps (see section 14.1 "*Incorporation, Company Name and Registered Office*" and section 14.5 "*Recent Restructuring of KINGHERO Group*").

Kinghero Xiamen and Michelle are wholly owned, indirect subsidiaries of the Company, having their legal domicile in Xiamen, PRC and exclusively carry out the operating business within KINGHERO Group.

In December 2007 Mr. ZHANG Yu established Kinghero HK. On 14 July 2009 Kinghero HK entered into a share purchase agreement to purchase all of the shares in Michelle. On 8 November 2009, Michelle entered into a share purchase agreement to purchase all of the shares of Kinghero Xiamen. Hence Kinghero Xiamen is held by Michelle and Michelle is held by the intermediate holding company Kinghero HK.

In order to present the business, financial condition and result of operations of KINGHERO Group, the Company has prepared single entity financial statements of the key operating subsidiary Kinghero Xiamen for the years ended 31 December 2007, 31 December 2008 and 31 December 2009 in accordance with IFRS, as endorsed for application in the EU. Michelle was dormant until July 2009, when it commenced trading. As there are no material transactions prior to 2009 for this company, financial statements have not been presented prior to 2009. Accordingly only the single entity financial statements of Michelle for the year ended 31 December 2009 in accordance with IFRS, as endorsed for application in the EU have been prepared. These financial statements were audited by Grant Thornton. They are not the legally required financial statements of the Company but have been prepared on a voluntary basis for the purpose of this Offering. The purpose of these financial statements is to put the investor in the position to better compare the development of the business, financial condition and the results of operations of KINGHERO Group over the last three years.

In addition interim single entity financial statements of Xiamen Kinghero and Michelle have been prepared for the three months ended 31 March 2010 in accordance with IFRS, as endorsed for application in the EU, including comparative figures.

Effective 31 March 2010, all of the shares in Kinghero HK were transferred to KINGHERO AG with the result that KINGHERO AG became the ultimate parent company of KINGHERO Group. As of this date, an opening consolidated statement of financial position of KINGHERO Group was prepared in accordance with IFRS, as endorsed for application in the EU for presentation in this prospectus. Due to the fact that the group only existed as of 31 March 2010, no consolidated statement of comprehensive income, consolidated statement of changes in equity or consolidated statement of cash flows could be prepared. The aforementioned interim financial statements and opening consolidated statement of financial position were reviewed by Grant Thornton.

This discussion and analysis contains some forward-looking statements that are subject to known and unknown risks and uncertainties. The actual results and the timing of events could differ materially from those expressed or implied by such forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Prospectus, particularly under the heading "Risk Factors".

The following figures were commercially rounded. It is therefore possible that the addition of such rounded amounts will not yield the same values as the sum of the full amounts.

10.1 Overview

KINGHERO Group is a profitable and rapidly developing fashion company designing, manufacturing and selling primarily casual wear in the PRC market. With more than 25 years of experience in the Chinese textile industry and its widespread sales network across major Chinese provinces, KINGHERO Group is able to detect consumer demand and style trends early and capitalize on them through flexible and cost-effective combination of in-house production and outsourcing. KINGHERO Group has increased its annual sales from TEUR 24,272 in 2007, to TEUR 32,142 in 2008 and TEUR 48,942 in 2009, which corresponds to sales growth rates of about 32.42% and 52.27% for 2008 and 2009 respectively. This is largely attributed to successful marketing and KINGHERO Group's operating strategy.

KINGHERO Group offers customers attire for all seasons under KINGHERO brand. The products are mainly designed for casual and business casual purposes and primarily target customers between the ages of 28 and 45. KINGHERO Group manufactures clothes of top design for different seasons, emphasizing quality and China's growing social demand of personal style and taste. 57% of turnover is generated with menswear (2009), KINGHERO Group has launched womenswear in 2007 and has managed to establish this product portfolio bringing it up to a significant business contribution from 42% in 2008 to 43% in 2009.

The product portfolio includes suits, jackets, shirts, pants, sweaters etc., which can be broadly divided into a business casual range and a general casual range. Since KINGHERO Group has launched the KINGHERO business casual range in 2005, the sale of this range has grown rapidly.

KINGHERO Group attaches great importance to design and production. It benefits from over 25 years of experience of its founder Mr. ZHANG Yu and KINGHERO Group's management team in the textiles industry. KINGHERO Group's network of contacts in this industry and experience add deep insight into market demand and design trends and allow KINGHERO Group access to a wide network of suppliers, strengthening the production base.

The product development and design department comprises 32 professional designers and specialists (as of 31 March 2010) being responsible, inter alia, for designing, coloration and plate-making. Ms. HE Xiuming is responsible for this department.

The designers attend various domestic and international trade exhibitions to keep themselves informed of the latest fashion trends. They also analyze past and ongoing sales performance, consumer surveys, feedback from distributors and retailers on end-customer preferences, fashion-related websites and magazines, market conditions and the competitive landscape to create the overall design concept.

The product development and design team of KINGHERO Group closely cooperates with suppliers and distributors on product design. The continuous feedback from distributors and the fashion trends information regarding popular colour and fabric from suppliers are collected and forwarded to the product development and design team, who work out the detailed plan, including new product development, launch and implementation, and adjustment of packaging, etc. KINGHERO Group seeks to create a unique Chinese style and new trends. KINGHERO Group believes that, through a range of clothing carrying a distinguished attitude and lifestyle, it can bring added value to customers. KINGHERO Group aims to promote products through a brand philosophy that adapts to long term social developments such as personalization and individualisation which is based on China's growing prosperity and income share disposable to shape and enhance personal expression and style.

The clothes are manufactured at production facilities in Xiamen City, Fujian Province, PRC. Because the sales exceed production capacity, KINGHERO Group outsources more than 50% of production value. Through this combination of its own production and outsourcing, KINGHERO Group is very flexible and can meet demand in a timely and cost-effective way. In order to ensure that all garments are in line with quality standards, KINGHERO Group works closely with contract manufacturers. KINGHERO Group gives priority to quality, and quality teams monitor all stages of the production process by auditing not only its own production but also the production of contract manufacturers.

KINGHERO Group has established a widespread sales network in recent years covering major cities of the PRC and reaching a high level of market penetration, including tier one, tier two and tier three cities like Sichuan, Shandong, Fujian, Jiangxi, Shenyang, Shanghai, Chongqing, etc. Within the 8 cities of highest population alone, KINGHERO Group distributors reach ca. 45,000,000 potential consumers. KINGHERO Group sells its products to designated distributors, and they in turn sell to retail shops and to end customers. KINGHERO Group expects to be able to add to this network in the coming years and intends to establish KINGHERO flagship stores at some strategic locations. Thus, KINGHERO Group intents to reach one of its core objectives, e.g. to continually strengthen the sales network, enhancing the speed of response to rapidly-changing demands of end customers.

KINGHERO Group attaches importance to brand building as key to its further development. Via local advertising campaigns within the various PRC provinces in which distributors and retailers are based, KINGHERO Group's brand has become a recognized brand name in the PRC. The KINGHERO brand has been awarded "Xiamen Top Ten Fashion Apparel Brand" by Xiamen Municipal Economic Development Bureau in July 2006, "Chinese Famous Brand" by Society of Chinese Garment & Cultural Research in September 2006 and "China Top Ten Men's Casual Brand" by Product Credit Investigation Dept. of the Chinese Institute of Social and Economic Survey in December 2006.

The specific measures include advertisements for attracting the distributors and for increasing sales to end costumers. The former is mainly composed of the means of fashion magazines, newspapers, outdoor posters, and bus advertisement, and the latter mainly comprises of point of purchase advertising (the "**store POP**") but also sponsoring. It is planned to engage celebrities as role models and brand communication catalysts.

The Company's registered office is located in Munich, Germany. The production facility of KINGHERO Group is located in Xiamen, Fujian Province, PRC.

10.2 Key Factors Affecting Results of Operations

KINGHERO Group believes that the following factors had and will continue to have a material effect on its results of operations and financial condition.

Growth of the PRC economy

The PRC economy has grown rapidly under the "open door" economic reforms begun in coastal areas in the 1970s and expanded to other parts of the PRC in the 1990s. In recent years, the PRC economy has continued to expand rapidly. Despite the global financial crisis, the economy of the PRC has shown signs of stabilization and steady improvement on the back of accelerated growth in domestic demand and investment spending. Given the Central

Government's determination to achieve a targeted growth of about 8% for the year 2010 by strictly following proactive financial policies and moderately relaxed monetary measures, and its active efforts on economic structural adjustments, the PRC is well placed to recover at faster pace than other countries, and its long-term economic prospects remain positive. KINGHERO Group is poised to benefit from the PRC's growth and supportive policies. However, KINGHERO Group remains alert to further difficulties and challenges that may arise in the operating environment. However, China is integrated in the global economy. Economic slowdowns elsewhere in the world can affect China's economy and KINGHERO Groups business.

Demand and Consumer Preferences for Business Casual Wear

KINGHERO Group's business focuses on the design, production and sale of primarily casual wear. Due to the economic growth and a corresponding rise of urban income levels and disposable incomes, as well as rising white-collar employment, potential demand for both formal and casual wear has expanded. The PRC clothing market has expanded rapidly in recent years. Between 2000 and 2006, the market consumption per capita has almost doubled (2000: 7,5 kg; 2006: 14 kg). The market development has exceeded government expectations and has shown growth rates of more than 20% annually in 2007 and 2008. In 2008, the overall market volume had a retail value of RMB 377.55 bn. The market share, however, is determined by customer preferences. It is generally accepted that consumer preferences are subject to trends, surroundings and other factors. The way to tackle changing consumer preference is to build a strong brand visibility and brand image.

Brand image

According to the survey of Hong Kong Trade Development Council more than half of Chinese Consumers in the 13 mayor cities have purchased domestic brands in the past year 2009. Despite increased global competition, Chinese brands are broadly accepted by the local customers. Brand image is a key factor in consumer purchasing decisions for clothing. In order to sustain and enlarge its market share, KINGHERO Group is committed to build the brand through various means, including the introduction of stylish quality designs, advertising campaigns, visibility image, store image design and brochure design. KINGHERO Group believes that it has been successful in establishing KINGHERO Group's brands in the PRC. Building up domestic brands is supported by a set of programs initiated by the PRC government. These programs also monitor brand recognition and image on a larger scale and provide feedback and information regarding KINGHERO Group's brands. KINGHERO Group's ability to maintain and further develop KINGHERO Group's brands is depending, to some extent, on the ability to satisfy changing consumer tastes and preferences and the effectiveness of the advertising campaigns. To judge changing trends and correspondingly respond to such changes in a timely manner is expected to boost KINGHERO Group's development.

Competition in the PRC Fashion Markets

KINGHERO Group competes in the PRC with an increasing number of local and international players. International brands traditionally dominate the high-end market, but local brands have advantages in price and sales network and are increasingly competitive in mid-to-high-end markets. KINGHERO Group believes it can compete with significant advantages on the basis of brand image, design, product mix, quality, price, customer service and the breadth of its retailer network. Competitors include those brands which target second and lower tier cities in the PRC. KINGHERO Group believes that the intense competition in the PRC casual wear market will continue in the future, which will exert influence on the performance of KINGHERO Group.

Regulatory Environment

The regulatory environment in PRC is quite complex and subject to frequent changes. In particular, the following PRC laws and regulations are applicable to KINGHERO Group's operations and business (*cf.* "*Regulatory Environment*" for a summary of the relevant laws):

- Foreign Investment Industrial Guidance, which came into effect on 1 January 2005. It was updated on 31 October 2007 and this update came into force on 1 December 2007.
- Product Quality Law, which was promulgated on 22 February 1993 and amended on 8 July 2000.
- Consumer Protection Law, which was promulgated on 31 October 1993 and came into effect on 1 January 1994.
- Trademark Law, which was promulgated on 23 August 1982, and subsequently amended on 22 February 1993 and on 27 October 2001.
- Environmental Protection Law, which came into effect on 26 December 1989.
- Labour Contract Law, which came into force on 1 January 2008.
- Social Insurance Regulations, including Interim Measures concerning the Maternity Insurance which became effective as of 1 January 1995; Interim Regulations concerning the Management of the Registration of Social Insurance which became effective as of 19 March 1999; and Regulations on Occupational Injury Insurance which became effective as of 1 January 2004.

KINGHERO Group's operation and business are subject to potential changes of above mentioned and other laws and regulations.

Product development and Design

KINGHERO Group believes that design is essential to attaining its success. KINGHERO Group attaches significant importance to product design with high quality tailoring. Through great emphasis on what KINGHERO Group believes are innovative designs, KINGHERO Group aims to become a fashion trend-leader in casual wear within the PRC.

The product development and design team takes into account KINGHERO Group's brand strategies, drawing inspirations from domestic and international fashion trends and collaborating with both suppliers and distributors to fine-tune designs, helping to adapt to the constantly changing consumer trends of the markets. Whether the designs are compatible to consumers' needs and preferences or not is essential to KINGHERO Group's growth.

Key Cost Factors

<u>Material Costs</u>

In 2007, 2008 and 2009 material costs in the cost of sales accounted for TEUR 14,027, TEUR 19,674 and TEUR 30,864, respectively, and constituted 57.79%, 61.21% and 63.06% respectively of KINGHERO Group's revenues. The increase in the percentage of material costs to revenues over this period reflects increase in raw material prices. If KINGHERO Group is not able to pass increased raw material costs to its distributors and customers, its results of operations will be adversely affected. If the costs of raw material decrease and KINGHERO Group does not have to lower the price of its products accordingly, its results of operations will be positively affected.

Labour Costs

The production of garments in the PRC is very labour intensive and all of KINGHERO Group's work force is located in the PRC. Average annual salaries of urban employees in the PRC increased significantly within the periods under review. This increase is also a result of the introduction of new labour law legislation in the PRC that became effective as of 1 January 2008 and general workforce shortages in the PRC. In the first six months of 2009, the average wage per capita of urban employees in the PRC increased by approximately 12.9% compared to the first six months of 2008 (Source: MOFCOM).

In 2007, 2008, 2009 and Q1 of 2010 labour costs accounted for TEUR 1,900, TEUR 2,407, TEUR 2,795, and TEUR 805, respectively, and constituted 7.8%, 7.5%, 5.7% and 5.4% respectively, of KINGHERO Group's revenues. The decline in the percentage of labour costs to revenues over this period reflects the improved economies of scale as KINGHERO Group's business grew.

To the extent that KINGHERO Group has an increase in labour costs without increase of revenues, this will adversely affect its business and results of operations.

Capacity Utilization

KINGHERO Group outsources to external contractors the production of certain products. KINGHERO Group believes that the outsourcing arrangements optimize the production flow and allow to leverage the expertise and resources of contractors. As a result the percentage of merchandise produced by external contractors is continuously growing; from 40.47% in 2007 to 67.93% in 2009.

From January to May 2010, the total sales of KINGHERO Group have increased by approximately 50% compared to the same period of last year. To meet this rapid growth of market demand, KINGHERO Group fully utilized its production capacities. In addition, it also increased its outsourcing of production since the new factory buildings have not been put into operation.

At the time being, Kinghero Xiamen and Michelle are renting factories from Xiamen Hengwei Industry Co. Ltd. According to the lease agreement, the term of lease is one year from January 2010 to December 2010. Up to now, the entire production of KINGHERO Group is implanted in these facilities. In September 2009 Kinghero Xiamen and Michelle have entered into real estate purchase contract for new production facilities. It is planned to set into operation these facilities at the beginning of 2011. Afterwards the share of outsourcing will be reduced. If the new production facilities cannot be set into operation as expected, this will adversely affect the business and results of operations of the KINGHERO Group.

Inventories

Inventories comprise of raw materials, work-in-progress and finished goods. Inventories of KINGHERO Group increased from TEUR 3,346 as of 31 December 2009 by TEUR 704 to TEUR 4,050 as of 31. March 2010. Inventories balance increased quarter-on-quarter as accumulated stocks based on orders, these orders are a result of stronger demand of the back of recovering economy coupled with new distributors. KINGHERO Group believes that stocks can be sold at the realizable value in the ordinary course of business.

In the event KINGHERO Group is unable to achieve its expected realizable value, the Group's operation and business may be influenced.

Price Level for the Products

In determining pricing policies, KINGHERO Group takes into account various factors such as internal production costs, competitors' pricing strategies, purchasing power of consumers in the PRC and general economic conditions in the PRC. KINGHERO Group has adopted a suggested retail pricing system that is applied nationwide to all of its designated distributors, to maintain brand image and avoid price competition amongst its designated distributors. KINGHERO Group sells products to all designated distributors at a uniform discount to the suggested retail price of the products. Designated distributors may, after taking into account local market conditions and consumer preferences, sell a product at a discount to the suggested retail price, but pricing policies are subject to KINGHERO Group's prior approval. Thus, KINGHERO Group's operation and business may also be influenced by the price level of the products.

Proposed establishment of flagship stores

It is proposed to sell KINGHERO Group's products to end consumers through flagship stores operated by KINGHERO Group. The opening of the flagship stores is expected to not only strengthen the connection with the end customers but also accelerate the feedback of the information flow. For this purpose, KINGHERO Group intends to put more investment in the future operation of flagship stores.

In addition, KINGHERO Group is planning to further consolidate the control of the sales network. Thus, the sales network is expected to be effectively managed and an uniform brand image may be well maintained, which may lead to the increasing growth of KINGHERO Group.

Effects of currency fluctuations

The consolidated financial statements of KINGHERO Group and the financial statements of its operating entities for the periods under audit or review were prepared in EUR and the Company's future consolidated financial statements will be prepared in EUR, while KINGHERO Group's operating currency is RMB, which is currently not a freely convertible currency. A devaluation of the RMB versus the EUR would therefore have an adverse foreign currency translation effect on KINGHERO Group's consolidated financial statements. For example, the aforementioned Financial Statements were prepared using an average exchange rate for the years ended 31 December 2007, 2008 and 2009 of 1 EUR = 10.4167 RMB, 1 EUR = 10.1626 and 1 EUR = 9.4877, respectively. KINGHERO Group's revenues increased by 32.42% (compared to an increase of 29.19% in RMB) from 2007 to 2008 and increased by 52.27% (compared to an increase of 42.15% in RMB) from 2008 to 2009. As the value of the RMB is controlled by PRC authorities, it is possible that foreign exchange policies of the PRC government could have a significant impact on foreign currency exchange rates. An increase in the value of the RMB against the EUR would therefore increase KINGHERO Group's profitability measured in EUR while alternatively a decrease in the value of the RMB against the EUR would decrease KINGHERO Group's profitability measured in EUR.

Fluctuation in corporate income tax

The corporate income tax rates applicable to companies in the PRC range between 18% and 25%. According to the China's Corporate Income Tax ("**CIT**") Law that was passed by the Standing Committee of the Tenth National People's Congress ("**NPC**") on 16 March 2007 and the Notice of the State Council on the Transitional Preferential Policy regarding implementation of the CIT Law (Guo Fa [2007] No.39) issued on 26 December 2007, the income tax rate has been revised to 25% with effect from 1 January 2008.

Michelle and Kinghero Xiamen subsidiaries in the PRC had been entitled to preferential income tax rate of 15% before the implementation of the CIT Law, the income tax rate applicable will be 18%, 20%, 22%, 24% and 25% in 2008, 2009, 2010, 2011, and 2012 and thereafter respectively.

10.3 Results of Operations

In order to present the business, financial condition and result of operations for the last three financial years in relation to the business of KINGHERO Group, the following table presents the statements of comprehensive income, statement of financial position and statement of cash flow of Kinghero Xiamen and Michelle and certain segment information as at and for the years ended 31 December 2007, 2008 and 2009, derived from the relevant audited financial statements.

10.3.1 **Statements of comprehensive income of Kinghero Xiamen**

	Year 2007		**Year 2008**		**Year 2009**	
	TEUR	**% of Revenue**	**TEUR**	**% of Revenue**	**TEUR**	**% of Revenue**
Revenue	**24,272**	**100**	**32,142**	**100**	**48,921**	**100**
Cost of sales	-15,957	-65.74	-21,790	-67.79	-33,193	-67.85
Gross profit	**8,315**	**34.26**	**10,352**	**32.21**	**15,728**	**32.15**
Other income	-		-		89	0.18
Selling and distribution expenses	-2,656	-10.94	-1,694	-5.27	-2,144	-4.38
Administrative expenses	-234	-0.96	-318	-0.99	-379	-0.77
Finance – net	-2	-0.01	16	0.05	12	0.02
Profit before taxation	**5,423**	**22.34**	**8,356**	**26.00**	**13,306**	**27.20**
Income tax expense	-818	-3.37	-1,461	-4.55	-2,652	-5.42
Net profit	**4,605**	**18.97**	**6,895**	**21.45**	**10,654**	**21.78**
Other comprehensive income	-240	-0.99	1,022	3.18	-691	-1.41
Total Comprehensive Income	**4,365**	**17.98**	**7,917**	**24.63**	**9,963**	**20.37**

The analysis of Kinghero Xiamen's statements of comprehensive income is as follows:

Revenue of Kinghero Xiamen

	Year 2007 TEUR	Year 2008 TEUR	Year 2009 TEUR
Sales of goods	24,272	32,142	48,921

Sales comprise the sales of menswear and womenswear, mainly including skirts, jacket, formal and casual suits, knitting sweater, T-shirts and shirts etc.

Sales increased from TEUR 24,272 in financial year 2007 by EUR 7,870, or 32.42%, to TEUR 32,142 in financial year 2008. Measured in RMB, sales increased by 29.19% during this period. This increase in sales was primarily due to an increase in the quantity of menswear sold from 1,649,785 in 2007 by approximately 49.66% to 2,469,024 in 2008. This effect was slightly offset by a decrease of 13.04%, measured in RMB, in the average sales price per unit of menswear during the period. In addition, this increase in sales was, in part, due to an increase in quantity of womenswear sold from 335,025 in 2007 by 87.08% to 626,751 in 2008.

Sales increased from TEUR 32,142 in financial year 2008 by TEUR 16,779 or 52.2% to TEUR 48,921 in financial year 2009. This increase in sales was primarily due to an increase in the quantity of menswear sold from 2,469,024 in 2008 by approximately 35.18% to 3,337,728 in 2009. This effect was slightly strengthened by an increase of 4.95%, measured in RMB, in the average sales price per unit of menswear during this period. In addition, this increase in sales was, in part, due to an increase in quantity of womenswear sold from 626,751 in 2008 by 110.06% to 1,316,527 in 2009.

The following table provides an overview of sales generated of menswear and womenswear in each period:

	Year 2007		Year 2008		Year 2009	
	TEUR	%	TEUR	%	TEUR	%
Menswear	13,435	55%	18,721	58%	27,692	57%
Womenswear	10,837	45%	13,421	42%	21,229	43%
	24,272	100%	32,142	100%	48,921	100%

The increase in sales is mainly attributable to the rapid expansion of Kinghero Xiamen's sales network and the individualistic designs that meet the needs of the target customers.

Cost of sales

Cost of sales comprises materials, labour costs for personnel employed in production, depreciation of property, plant and equipment used for production purposes, operating lease expenses, collection design and others (mainly utilities and maintenance costs). The following table shows a breakdown of costs of sales for the period under review for each category:

	Year 2007 TEUR	Year 2008 TEUR	Year 2009 TEUR
Materials	14,027	19,674	30,861
Labour	790	1,046	1,089
Depreciation of property, plant and equipment	52	53	108
Operating lease expense	156	161	213
Collection design	663	483	457
Others	269	373	465
	15,957	21,790	33,193

Cost of sales increased from TEUR 15,957 in financial year 2007 by TEUR 5,833, or 36.55%, to TEUR 21,790 in financial year 2008. This increase was primarily due to an increase of the costs of materials from TEUR 14,027 in 2007 by approximately 40.26% to TEUR 19,674 in 2008, which was in line with the 32.42% increase in sales during the period. In addition, the increase of labour costs from TEUR 790 in 2007 by approximately 32.41% to TEUR 1,046 in 2008 also contributes to the increase of cost of sales. The increase of cost of sales was slightly offset by a decrease of TEUR 180 in collection design costs. In addition, the operating lease expenses remained relatively stable during this period.

Cost of sales increased from TEUR 21,790 in fiscal year 2008 by TEUR 11,403, or 52.33%, to TEUR 33,193 in fiscal year 2009, which closely matched the 52.2% increase in sales during the period. This increase was primarily due to an increase of the costs of materials from TEUR 19,674 in 2008 to TEUR 30,861 in 2009. The labour costs, collection design costs and operating lease expenses remained relatively stable during this period.

Gross profit

The overall gross profit margin decreased from 34.26% in 2007, to 32.21% in 2008 and to 32.15% in 2009.

The overall gross profit margin remained relatively stable during last three financial years. The slight decrease in gross profit margin from 34.26% in 2007 to 32.21% in 2008 was primarily due to the greater decrease in unit sales price than the decrease in cost of raw material during this period.

Selling and distribution expenses and administrative expenses

Selling and distribution expenses and administrative expenses mainly comprise advertising expenses, personnel costs, depreciation of property, plant and equipment, operating lease expense, and other miscellaneous expenses.

Selling and distribution expenses and administrative expenses decreased from TEUR 2,890 in fiscal year 2007 by TEUR 878, or 30.38%, to TEUR 2,012 in fiscal year 2008. This decrease was primarily due to the decrease of advertising expenses from TEUR 1,599 in 2007 by approximately 74.23% to TEUR 412 in 2008. This decrease in advertising expenses was a result of KINGHERO Xiamen’s decreased budget in advertising activities during this period. This decrease was slightly offset by an increase in the personnel costs from TEUR 1,043 in 2007 by approximately 23.01% to TEUR 1,283 in 2008 associated with the increase in sales during the period.

Selling and distribution expenses and administrative expenses increased from TEUR 2,012 in fiscal year 2008 by TEUR 511, or 25.40%, to TEUR 2,523 in fiscal year 2009. This increase was primarily due to the increase of the personnel costs from TEUR 1,283 in 2008 by approximately 23.15% to TEUR 1,580 in 2009 associated with the increase in sales during the period. This increase was disproportionately lower than the 52.2% increase in sales during this period mainly due to the economies of scale. This increase was also contributed by the increase of advertising expense from TEUR 412 in 2008 by approximately 22.82% to TEUR 506 in 2009.

The percentage of selling and distribution expenses and administrative expenses to total sales was 11.91% in 2007, 6.26% in 2008, and 5.16% in 2009 respectively.

Finance Result

	Year 2007 TEUR	Year 2008 TEUR	Year 2009 TEUR
Interest income	8	16	12
Interest expense on bank borrowings	(10)	-	-
	(2)	16	12

The finance result comprises mainly finance income on bank deposits and finance costs on bank borrowings during the reporting period. Since 2008 Kinghero Xiamen has not had any interest bearing borrowings.

The finance result improved from a net cost of TEUR 2 in financial year 2007 by TEUR 18 to a net income of TEUR 16 in financial year 2008. This resulted mainly from a reduction in bank borrowings.

Income tax expenses

	Year 2007 TEUR	Year 2008 TEUR	Year 2009 TEUR
Profit before taxation	5,423	8,356	13,306
Tax calculated at the tax rate of 20% (2007: 15% and 2008: 18%)	814	1,504	2,661
Insignificant temporary differences	4	(43)	(9)
Income tax expense	818	1,461	2,652

Both the tax rate applicable to Kinghero Xiamen and the amount of profit before taxation increased from 2007 to 2009, such that income tax expense has increased over the period.

Other comprehensive income

Other comprehensive income relates to movements on the foreign currency translation reserve, which reflects translation differences arising from the fact that equity is translated from RMB to EURO at historical rates whereas all other items in the statement of financial position are translated at year end rates and items in the statement of comprehensive income are translated at average rates.

10.3.2 Statements of comprehensive income of Michelle

Since Michelle only started trading operations in 2009, the followings statement of comprehensive income is only provided for that year with comparatives for 2008.

	Year 2008 TEUR	Year 2009 TEUR
Revenue	-	21
Cost of sales	-	(8)
Gross profit	-	13
Other operating income	-	17
Other operating expenses	-	(17)
Selling and distribution expenses	-	(3)
Administrative expenses	-	(14)
Loss before taxation	-	(4)
Income tax	-	1
Net Loss	-	(3)
Other Comprehensive Income	89	(26)
Total Comprehensive Income	89	(29)
Net Loss attributable to: owners of the parent	-	(3)
Total Comprehensive income attributable to: owners to the parent:	89	(3)

Michelle was incorporated in November 2004 and commenced trading only in July 2009 with one sole distributor. The company relies currently on the production facilities of its subsidiary Kinghero Xiamen in order to produce womenswear for sale to its distributor and operates from rented business premises. As no trading took place before 2009, no financial statements for the periods before 2009 were produced. Michelle is in the initial phases of its operations and the figures presented above are consequentially of very limited use in indicating the future earnings of Michelle.

Other comprehensive income arises solely from the retranslation of the opening statement of financial position.

Due to the relatively low level of activity of Michelle in 2009, further analysis is not meaningful.

10.3.3 Statements of financial position of Kinghero Xiamen:

	31 Dec. 2007 TEUR	31 Dec. 2008 TEUR	31 Dec. 2009 TEUR
Assets			
Non-current			
Property, plant and equipment	5,438	6,543	5,565
Intangible assets	194	218	211
	5,632	6,761	5,776
Current			
Inventories	1,319	1,095	2,536
Trade and other receivables	3,428	4,547	10,531
Receivable from related party	-	-	795
Cash and bank balances	1,796	1,878	4,651
	6,543	7,520	18,513
Total assets	12,175	14,281	24,289
Equity and Liabilities			
Capital and Reserves			
Share capital	486	486	486
Statutory reserve	243	243	243
Foreign currency translation reserve	(331)	691	-
Retained earnings	7,682	8,673	19,327
	8,080	10,093	20,056
Non current liabilities			
Other provisions	-	-	36
Current liabilities			
Corporate income tax payable	211	392	719
Trade and other payables	3,884	3,796	3,478
Total current liabilities	4,095	4,188	4,197
Total equity and liabilities	12,175	14,281	24,289

The analysis of Kingehero Xiamen's statements of financial position is as follows:

Non-current assets

Property, plant and equipment:

	Advance payment for Buildings	Buildings	Plant and Machinery	Furniture, Fixtures and Office Equipment	Motor vehicles	Total
	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Cost						
At 1 January 2007	2,913	-	529	25	51	3,518
Additions	2,149	-	9	-	-	2,158
Translation adjustment	(91)	-	(18)	(1)	(1)	(111)
At 31 December 2007	4,971	-	520	24	50	5,565
Additions	-	-	530	-	-	530
Translation adjustment	587	-	62	3	6	658
At 31 December 2008	5,558	-	1,112	27	56	6,753
Transfer to Land and Buildings	(4,690)	4,690	-	-	-	-
Additions	-	36	-	-	-	36
Transfer to related party	(693)	-	-	-	-	(693)
Translation adjustment	(175)	-	(35)	(1)	(2)	(213)
At 31 December 2009	-	4,726	1,077	26	54	5,883
Accumulated Depreciation						
At 1 January 2007	-	-	41	5	24	70
Depreciation charge	-	-	52	5	5	62
Translation adjustment	-	-	(3)	(1)	(1)	(5)
At 31 December 2007	-	-	90	9	28	127
Depreciation charge	-	-	53	5	5	63
Translation adjustment	-	-	15	2	3	20
At 31 December 2008	-	-	158	16	36	210
Depreciation charge	-	-	108	5	5	118
Translation adjustment	-	-	(9)	(1)	-	(10)
At 31 December 2009	-	-	257	20	41	318
Net Book Value						
At 31 December 2007	4,971	-	430	15	22	5,438
At 31 December 2008	5,558	-	954	11	20	6,543
At 31 December 2009	-	4,726	820	6	13	5,565

Property, plant and equipment mainly comprise advance payment for buildings, buildings, plant and machinery, furniture, fixtures and office equipment and motor vehicles. Buildings recorded by Kinghero Xiamen are located in the PRC. They were not depreciated in 2009 as Kinghero Xiamen had not yet moved into the buildings. Title to the ownership of the buildings has not yet passed to Kinghero Xiamen, but is expected to pass once certain legal formalities have been concluded.

Property, plant and equipment amounted to TEUR 5,438 as of 31 December 2007, TEUR 6,543 as of 31 December 2008 and TEUR 5,565 as of 31 December 2009.

The increase in property, plant and equipment to TEUR 6,543 as of 31 December 2008 mainly resulted from advance payment for buildings and purchase of plant and machinery in 2008.

The decrease in property, plant and equipment to TEUR 5,565 as of 31 December 2009 mainly resulted from transfer of advance payment for buildings to Michelle in 2009, which was carried out in accordance with a decision taken by management to allocate some of the buildings to be acquired to Michelle. This allocation was in line with an agreement made in 2009 between Michelle and the property developer. Previously all buildings were to be purchased by Kinghero Xiamen.

Intangible assets

	Advance payments	Land use rights	Total
	TEUR	TEUR	TEUR
Cost and Net Book Value			
At 1 January 2007	-	-	-
Additions	199	-	199
Translation adjustment	(5)	-	(5)
At 31 December 2007	194	-	194
Translation adjustment	24	-	24
At 31 December 2008	218	-	218
Reclassification	(218)	218	-
Translation adjustment	-	(7)	(7)
At 31 December 2009	-	211	211

Intangible assets relate solely to land use rights acquired for the land located in Hou Xi Zhen, Jimei, Xiamen, Fujian Province, the PRC. These expire in December 2055.

Kinghero Xiamen made payments in advance for these land use rights, which it subsequently acquired by contract dated September 2009. Title to the land use rights has not yet passed to Kinghero Xiamen, but is expected to pass once certain formalities have been concluded.

Current assets

Current assets mainly comprise inventories, trade and other receivables and cash and bank balances.

Inventories

Inventories mainly comprise of raw materials, work-in-progress and finished goods:

	31 Dec. 2007 TEUR	31 Dec. 2008 TEUR	31 Dec. 2009 TEUR
Raw materials	428	371	219
Work-in-progress	187	133	34
Finished goods	704	591	2,283
	1,319	1,095	2,536

Inventories decreased from TEUR 1,319 as of 31 December 2007 by TEUR 224, or 16.98% to TEUR 1,095 as of 31 December 2008. This slight decrease resulted from a strategic reduction of inventories in order to reduce operational risks in the midst of the outbreak of the global financial crisis near the end of 2008

Inventories increased from TEUR 1,095 as of 31 December 2008 by TEUR 1,441, or 131.6% to TEUR 2,536 as of 31 December 2009. This increase mainly resulted from an increase in finished goods, in line with the rising level of sales during this period.

Trade receivables and other receivables

	31 Dec. 2007 TEUR	31 Dec. 2008 TEUR	31 Dec. 2009 TEUR
Trade receivables	3,428	4,409	10,441
Advances to a third party	-	138	-
Prepayment	-	-	81
Other receivables	-	-	9
	3,428	4,547	10,531

The trade receivables and other receivables increased from TEUR 3,428 as of 31 December 2007 by TEUR 1,119, or 32.64%, to TEUR 4,547 as of 31 December 2008. This increase was due to an increase in trade receivables from TEUR 3,428 as of 31 December 2007 by TEUR 981, or 28.62%, to TEUR 4,409 as of 31 December 2008, which closely matched the 32.42% increase in sales during this period.

The trade receivables and other receivables increased from TEUR 4,547 as of 31 December 2008 by TEUR 5,984, or 131.6%, to TEUR 10,531 as of 31 December 2009. This increase of 136.81% in trade receivables, is disproportionately higher than the 52.2% increase in sales primarily due to an increase in sales increase in the fourth quarter of 2009.

Cash and bank balances

	31 Dec. 2007 TEUR	31 Dec. 2008 TEUR	31 Dec. 2009 TEUR
Cash at bank	1,793	1,874	4,650
Cash on hand	3	4	1
	1,796	1,878	4,651

The cash and bank balances amounted to TEUR 1,796 as of 31 December 2007, TEUR 1,878 as of 31 December 2008 and TEUR 4,651 as of 31 December 2009. For a description of the changes in cash and bank balances of each period, see "statement of cash flows" in this section.

Current liabilities

Current liabilities mainly comprise corporate income tax payable and trade payables and other payables.

Corporate income tax payables

The corporate income tax payables increased from TEUR 211 as of 31 December 2007 by TEUR 181, or 85.78%, to TEUR 392 as of 31 December 2008. The corporate income tax payables increased from TEUR 392 as of 31 December 2008 by TEUR 327, or 83.42%, to TEUR 719 as of 31 December 2009.

Trade and other payables

	31 Dec. 2007 TEUR	31 Dec. 2008 TEUR	31 Dec. 2009 TEUR
Trade payables	3,457	3,226	2,831
Other payables	279	368	440
Salary payables	148	202	207
	3,884	3,796	3,478

Trade payables

Trade payables decrease from TEUR 3,457 as at 31 December 2007 by TEUR 231, or 6.68%, to TEUR 3,226 as at 31 December 2008, which was disproportionately lower than the 16.98% decrease in inventories. This decrease mainly resulted from a strategic reduction of inventories in order to reduce operational risks in the midst of the outbreak of the global financial crisis near the end of 2008.

The trade payables decreased from TEUR 3,226 as at 31 December 2008 by TEUR 395, or 12.24%, to TEUR 2,831 as at 31 December 2009. This decrease mainly resulted from increased outsourcing of production to third parties.

Other payables

Other payables mainly comprise Value Added Tax ("**VAT**") payables and other tax payables.

Other payables increased from TEUR 279 as at 31 December 2007 by TEUR 89, or 31.9%, to TEUR 368 as at 31 December 2008.

Other payables increased from TEUR 368 as at 31 December 2008 by TEUR 72, or 19.57%, to TEUR 440 as at 31 December 2009,

The increase over the reporting periods was mainly driven by higher sales and hence higher level of VAT and other tax payables.

Salary payables

Salary payables mainly comprise accrued payroll.

Accrued payroll increased from TEUR 148 as at 31 December 2007 by TEUR 54, or 36.49%, to TEUR 202 as at 31 December 2008. This increase was primarily due to the increase in sales and related labour costs during this period.

Accrued payroll increased marginally from TEUR 202 as at 31 December 2008 by TEUR 5, or 2.48%, to TEUR 207 as at 31 December 2009.

10.3.4 Statements of financial position of Michelle:

	31 Dec. 2008 TEUR	31 Dec. 2009 TEUR
Assets		
Non-current		
Property, plant and equipment	-	2,906
Intangible assets	-	124
Investment in subsidiary	-	509
Deferred tax assets	-	1
	-	3,540
Current		
Inventories	-	810
Trade receivables	-	2
Receivables from related parties	840	-
Cash and bank balances	-	4
	840	816
Total assets	840	4,356
Equity and Liabilities		
Capital and Reserves		
Share capital	759	759
Foreign currency translation reserve	81	55
Accumulated losses	-	(3)
	840	811
Non current Liabilities		
Other provisions	-	21
Current liabilities		
Other payables	-	2,316
Payables to related parties	-	1,208
Total current liabilities	-	3,524
Total equity and liabilities	840	4,356

Michelle was incorporated in November 2004 and commenced trading only in July 2009. Despite incorporation in 2004, the share capital was only paid up in June 2009. However, the share capital was called up in 2004. Comparatives are shown for the prior year due to the existence of the share capital and the related party receivables on incorporation for that capital.

The analysis of Michelle's statements of financial position is as follows:

Non-current assets

Property, plant and equipment:

Property, plant and equipment comprise only buildings.

Property, plant and equipment amounted to TEUR 2,906 as of 31 December 2009.

	Buildings TEUR
Cost and Net Book Value	
At 1 January 2009	-
Additions	2,859
Translation adjustment	47
At 31 December 2009	2,906

Buildings recorded by Michelle are located in the PRC. They are recorded at cost less accumulated impairment. Buildings were not depreciated in 2009 as Michelle had not yet moved into the buildings. Michelle expects to relocate to the new buildings at the beginning of 2011. Title to the ownership of the buildings has not yet passed to Michelle, but is expected to pass once certain legal formalities have been concluded. The additions also include the capitalization of the net present value of a provision for dismantling costs

Intangible assets

Intangible assets relate solely to land use rights acquired for the land located in Hou Xi Zhen, Jimei, Xiamen, Fujian Province, the PRC. These expire in December 2055.

	Land use rights TEUR
Cost and Net Book Value	
At 1 January 2009	-
Additions	122
Translation adjustment	2
At 31 December 2009	124

The land use rights are recorded at cost less accumulated impairment. Land use rights were not amortized in 2009 as Michelle had not yet relocated to the relevant site for which it has acquired the land use rights. Title to the ownership of the land use rights has not yet passed to Michelle, but is expected to pass once certain legal formalities have been concluded. Michelle expects to relocate to the site at the beginning of 2011.

Investment in subsidiary

Investments in subsidiaries relates to the 100% shareholding in Kinghero Xiamen.

Name of Company	Country of incorporation/ Principal place of business	Cost of investment	Percentage of equity held	Principal activities
		2009 TEUR	2009	
KINGHERO Xiamen	Xiamen, PRC	509	100%	Manufacture, wholesale and retail of garments

Current assets

Current assets mainly comprise inventories and receivables from related parties

Inventories

Inventories mainly comprise of raw materials, finished goods and payments on account for inventory

	2009 **TEUR**
Raw materials (cloth)	743
Finished goods	8
Payments on account for inventory	59
	810

Receivables from related parties

Receivables from related parties comprise only called up share capital.

	2008 TEUR	2009 TEUR
Called up share capital	840	-

On incorporation in 2004, the called up share capital of Michelle became due. It was paid in by the shareholders in June 2009.

Other provisions

	2009 TEUR
	21

Other provisions are considered non current and relate to costs for dismantling buildings and fixtures constructed on land for which the rights of usage have a fixed term. Michelle makes full provision for the future cost of dismantling plants on a discounted basis on the construction of those plants. The provision for the cost of dismantling these production facilities at the end of the useful live of the land-use-rights on which the plants have been erected has been estimated using existing technology in PRC, current prices and discounted using a discount rate of 6%. These costs are generally expected to be incurred over the next 45 years. While the provision is based on the best estimate of future costs and the contractually secured useful life of land-use-rights, there is uncertainty regarding both the amount and timing of incurring these costs.

Other payables

	2009 TEUR
	2,316

Included in other payables are outstanding balances for the purchases of property, plant and equipment amounting to EUR 2,315,000 at 31 December 2009.

The remaining balance of TEUR 1 relates to the amount of VAT due as at 31 December 2009.

Payables to related parties

	2009 TEUR
Amount due to directors	526
Amount due to subsidiary	682
	1,208

Amount due to directors represents advances from Ms. He Xiuming for payments on behalf of Michelle and amount due to Mr. Zhang Yu arising from his share transfer in Kinghero Xiamen to the Michelle. The amount due to directors is unsecured, interest-free and repayable on demand.

Amount due to subsidiary is in connection with a payment made on behalf of Michelle by Kinghero Xiamen for land use rights and property plant and equipment and is non-trade, unsecured, interest-free.

10.3.5 Statement of cash flows of Kinghero Xiamen

	31 Dec. 2007 TEUR	31 Dec. 2008 TEUR	31 Dec. 2009 TEUR
Cash flows from operating activities			
Profit before taxation	5,423	8,356	13,306
Adjustments for:			
Interest income	(8)	(16)	(12)
Interest expense	10	-	-
Depreciation of property, plant and equipment	62	63	118
Operating profit before working capital changes	5,487	8,403	13,412
(Increase)/decrease in inventories	(585)	503	(1,706)
Increase in trade and other receivables	(1,173)	(393)	(7,188)
Increase/(decrease) in trade and other payables	1,617	(911)	602
Cash generated from operations	5,346	7,602	5,120
Interest received	8	16	12
Interest paid	(10)	-	-
Income tax paid	(748)	(1,315)	(2,300)
Net cash generated from operating activities	4,596	6,303	2,832
Cash flows from investing activities			
Purchase of property, plant and equipment	(2,357)	(530)	-
Net cash used in investing activities	(2,357)	(530)	-
Cash flows from financing activities			
Repayment of bank borrowings	(242)	-	-
Dividends paid	(1,440)	(5,904)	-
Net cash used in financing activities	(1,682)	(5,904)	-
Net increase/(decrease) in cash and bank balances	557	(130)	2,832
Cash and bank balances at beginning of financial year	1,281	1,796	1,878
Effects of currency translation	(42)	212	(59)
Cash and bank balances at end of financial year	1,796	1,878	4,651

The analysis of KINGHERO Xiamen’s statement of cash flows is as follows.

Net cash flow generated from operating activities

Net cash flow generated from operating activities increased from TEUR 4,596 in 2007 by TEUR 1,707, or 37.14%, to TEUR 6,303 in 2008. This increase was mainly attributable to an increased profit before income tax despite an increase in cash flows used to finance working capital.

Net cash flow generated from operating activities decreased from TEUR 6,303 in 2008 by TEUR 3,471, or 55.07%, to TEUR 2,832 in 2009. This decrease despite the higher level of profits before tax was mainly attributable to a significant increase in cash resources used to finance working capital.

Net cash used in investing activities

Net cash used in investing activities amounted to TEUR 2,357 in fiscal year 2007 due the advance payments made in respect of the purchase of buildings.

Net cash used in investing activities amounted to TEUR 530 in fiscal year 2008 due to investments in plant and machinery.

Net cash used in financing activities

Net cash used in financing activities amounting to TEUR 242 and TEUR 1,440 in fiscal year 2007 was due to repayment of bank borrowings and dividends distribution.

Net cash used in financing activities amounting to TEUR 5,904 in fiscal year 2008 was due to dividends distribution.

There were no dividends distributed in 2009.

Cash and bank balance at end of financial year

Cash and bank balance at end of financial year amounted to TEUR 1,796 as at 31 December 2007, TEUR 1,878 as at 31 December 2008 and TEUR 4,651 as at 31 December 2009.

10.3.6 Statement of cash flows of MICHELLE Xiamen

	2009
	TEUR
Cash flows from operating activities	
Loss before taxation and working capital changes	(4)
Increase in inventories	(810)
Increase in trade receivables	(2)
Increase in other payables	1
Net cash used in operating activities	(815)
Cash flows from financing activities	
Increase in payables to related parties	5
Proceeds from shares issued	814
Net cash generated from financing activities	819
Net increase in cash and bank balances	4
Cash and bank balances at beginning of financial year	-
Cash and bank balances at end of financial year	**4**

Michelle was incorporated in November 2004 and commenced trading only in July 2009. Accordingly, comparatives are not disclosed, as no cash flows occurred in the prior period. Due to the relatively low level of activity in Michelle in 2009, further analysis is not meaningful.

10.4 Critical Accounting Policies

KINGHERO Group has identified the following critical accounting policies which require its management to make assumptions about matters that were uncertain at the time those policies were applied and with respect to which management could reasonably have made different assumptions in the relevant period or with respect to which changes in the assumptions reasonably likely to occur from period to period would have a material impact on the presentation of its financial condition, changes in financial condition or results of operations. Investors should read the following paragraphs in conjunction with the financial statements and interim financial statements, including the related notes, set out on page F-1 et seq.

10.4.1 Critical accounting estimates and judgment

Estimates and judgments are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

KINGHERO Group makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

10.4.2 Key sources of estimation uncertainty

Income taxes

KINGHERO Group has exposure to income tax arising from their operations in the PRC. Significant judgment is required in determining the provision for income taxes. There are also claims for which the ultimate tax determination is uncertain during the ordinary course of business. KINGHERO Group recognizes liabilities for expected tax issues based on estimates of whether additional taxes will be due. When the final tax outcome of these matters is different from the amounts that were initially recognized, such differences will impact the income tax expense and deferred tax provisions in the period in which such determination is made.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management determines the estimated useful lives of property, plant and equipment to be within 5 to 20 years. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets. Therefore, future depreciation charges could be revised. A 5% difference in the expected useful lives of the property, plant and equipment would not result in a significant change to KINGHERO Group’s net profit for the respective financial years.

Inventories

Inventories are measured at the lower of cost and net realizable value. In estimating net realizable values, management takes into account the most reliable evidence available at the times the estimates are made. KINGHERO Group’s core business is subject to raw material price changes and changes in customer behaviour which may cause selling prices to change rapidly.

Provisions

The respective legislation in the PRC requires KINGHERO Group to commit itself to remediate any environmental damages which may have been incurred. Management is of the opinion that no environmental damage has been caused by KINGHERO Group and hence has not provided for this. KINGHERO Group has made a provision for the legal obligation to dismantle buildings on land for which the company has land use rights in respect of future dismantling costs at the time the respective land-use-rights expire. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding additional amount of property, plant and equipment of equivalent value to the provision is also created. This is subsequently depreciated as part of the asset. Other than the unwinding discount on the provision, any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding amount of property, plant and equipment.

10.4.3 Critical judgment made in applying accounting policies

In the process of applying KINGHERO Group's accounting policies as described below, management is of the opinion that there are no instances of application of judgments which are expected to have a significant effect on the amounts recognized in the Financial Statements

Estimation of cost attributable to intangible assets (land use rights) and to property plant and equipment.

As part of a real estate transaction KINGHERO Group acquired land use rights and buildings. The consideration for these land use rights and buildings was not attributed separately to land use rights and to the building in the real estate purchase agreement. Management has obtained an estimated amount of the purchase price attributable to the land use rights and to the building from the stated-owned developer who determined the open market value of the land use rights based on similar real estate transactions, assuming existing market conditions remain unchanged.

Impairment of trade receivables

The Company's management assesses the collectability of trade receivables. This estimate is based on the credit history of the Company's distributors and the current market condition. Management assesses the collectability of trade receivables at the statement of financial position date and makes the provision, if any.

Further details of the accounting policies pertaining to the financial statements of Kinghero Xiamen, Michelle and KINGHERO Group are included in the financial section of this prospectus from F-1 onwards.

10.4.4 Contingent Liabilities

Social insurance back payments

According to PRC law, in particular, Chinese regulations for social insurance and housing funds, KINGHERO Group's operating companies are required to make contributions for the social insurance and for the housing funds to their employees. KINGHERO Group has in the past not paid the full amount which should have been paid in respect of these contributions, but considers the risk for additional payments for prior periods to be not probable. As at reporting date, KINGHERO Group estimates that such a claim for additional payments would not exceed TEUR 344. As at 2 April 2010, Mr. ZHANG Yu has undertaken an agreement with KINGHERO Group according to which he would reimburse KINGHERO Group for any losses incurred for such additional social insurance and housing funds payments.

Trademark claims

Kinghero Xiamen has registered the trademark Michelle " 米雪儿" (Pinyin: " Mi Xue Er"). There are currently two other unrelated companies which both own a trademark named " 米雪儿" (Pinyin: " Mi Xue Er") whose wording and pronunciation is similar to the trademark which has been registered by Kinghero Xiamen. Although the two similar trademarks are word trademarks only and not a combined word / logo mark as registered by Kinghero Xiamen, it cannot be excluded that any third party will initiate legal actions to challenge the trademark registration or such third party raises a claim for tort against use of the trademark "金米雪儿" or claims because of unfair competition against the name Michelle (Chinese Character: 米雪儿). These claims could result in future liabilities of KINGHERO Group or its operating companies. Management has not been able to estimate the potential amount of any claim.

10.4.5 Off-Balance Sheet and other Arrangements

KINGHERO Group does not have any off-balance sheet obligations or transactions. There are no other obligations or risks which were not reflected in the financial statements of KINGHERO Group entities or disclosed in the notes to the financial statements.

10.4.6 Additional Information from the Individual (Unconsolidated) Annual Financial Statements of KINGHERO AG (in accordance with the German Commercial Code *(Handelsgesetzbuch)*)

The single entity annual financial statements of the Company as of and for the year ended 31 December 2009 were prepared in accordance with the requirements of the German Commercial Code *(Handelsgesetzbuch)* and the supplementary provisions of the German Stock Corporation Act (AktG).

According to these financial statements, the Company's total equity amounted to TEUR 16.2 and the Company's total liabilities amounted to TEUR 101.7 as at 31 December 2009. The net loss for the financial year 2009 is caused by costs related to the Offering which have been financed by non-interest bearing loans from PRC group companies or Mr. ZHANG Yu. Due to the net loss for the financial year, KINGHERO AG cannot distribute a dividend for the financial year 2009.

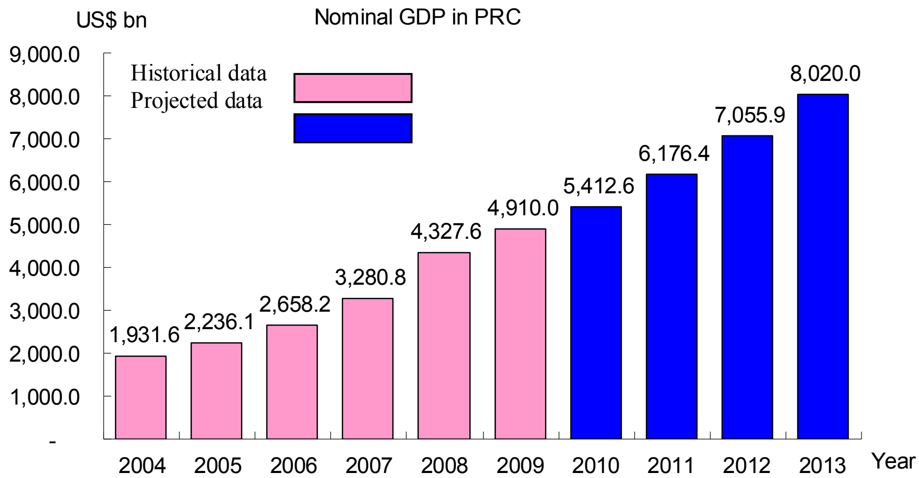
The statutory financial statements of KINGHERO AG as of 31 December 2009 are reproduced in the Financial Section of this Prospectus.

11. MARKET ENVIRONMENT AND COMPETITIVE SITUATION

The economic and industry information and statistics set out in this section and elsewhere in this Prospectus have been extracted from various official sources. No independent verification has been carried out on such information and statistics. Reasonable care has been exercised in extracting and reproducing such information. However, KINGHERO Group makes no representations as to the accuracy of such information and statistics, which may be inaccurate, incomplete, out-of-date or inconsistent with each other or with other information. You should not place undue reliance on statements in this section.

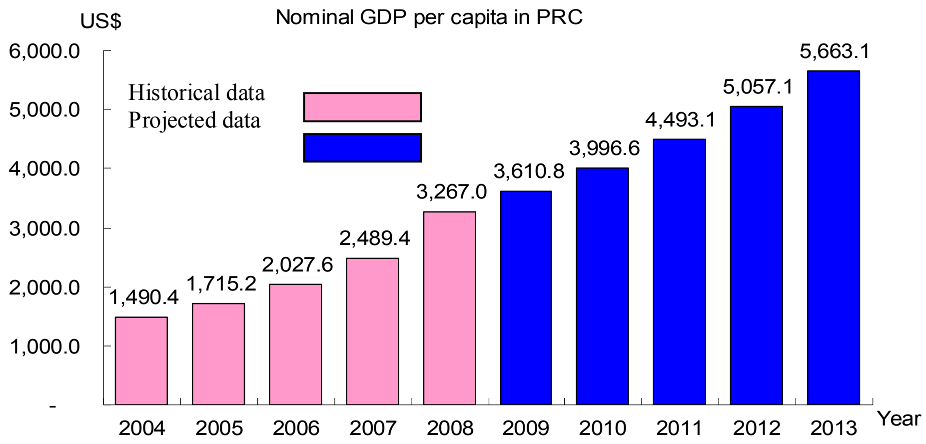
11.1 Economic Growth and Urbanization in the PRC

The PRC economy has grown significantly since transforming from a centrally planned economy into a market-oriented economy initiated by the PRC Government in the late 1970s. Economic growth was further spurred by the launch of special economic zones along the coastal region of the PRC in the early 1990s. These reforms have helped eliminate poverty for approximately 400 million, lowering the poverty rate from 49% of the population in 1981 to 6.9% in 2002. The economy of the PRC today is the third largest in the world measured by its nominal gross domestic product *(Source: National Bureau of Statistics of China, 2009, website: http://www.stats.gov.cn/)*. According to the National Bureau of Statistics of China, the PRC economy has been experiencing steady and rapid growth with its nominal gross domestic product growing from approximately USD 1,931.6 billion (RMB 15,987.8 billion) (*Source: National Bureau of Statistics of China*) in 2004 to approximately USD 4,910.0 billion (RMB 33,535.3 billion) (Source: National Bureau of Statistics of China) in 2009 *(Source: National Bureau of Statistics of China, 2005-2009, website: http://www.stats.gov.cn/)*. The charts below sets forth the historical and projected nominal gross domestic product in the PRC for the periods indicated.



Source: Historical data: *National Bureau of Statistics of China, 2005-2009, website: http://www.stats.gov.cn/*; Projected data: *International Monetary Fund, 2008, website: http://www.worldbank.org/*

Meanwhile, the nominal gross domestic product per capita increased from approximately USD 1,490.4 (RMB 12,336) to approximately USD 3,267 (RMB 22,698) (*Source: National Bureau of Statistics of China, 2005-2009, website: http://www.stats.gov.cn/*). According to the International Monetary Fund (the "**IMF**"), the nominal gross domestic product per capita is projected to further increase to approximately USD 5,663.1 (RMB 35,874.5) (*Source: International Monetary Fund, 2008, website: http://www.worldbank.org/*) by 2013. The chart below sets forth the historical and projected nominal gross domestic product per capita in the PRC for the periods indicated.

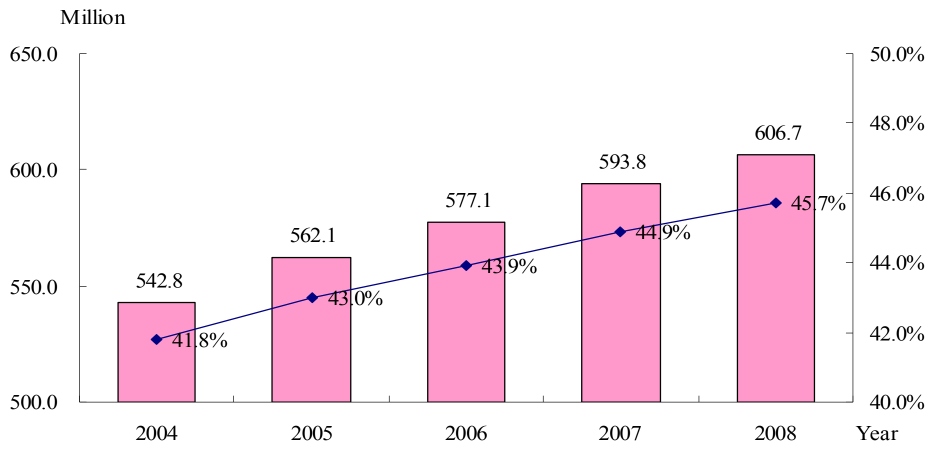


Source: Historical data: *National Bureau of Statistics of China, 2005-2009, website: http://www.stats.gov.cn/*; Projected data: *International Monetary Fund, 2008, website: http://www.worldbank.org/*

Accelerating Urbanization Trend

Urbanization has been accelerated as a result of the rapid economic growth in the PRC. Populations in large urban cities have increased with the influx of people from rural and less developed areas. During the period from 2004 to 2008, the total urban population in the PRC increased by approximately 63.9 million or approximately 11.8%. In 2008, the total urban population was approximately 606.7 million and accounted for around 45.7% of the total population. (*Source: National Bureau of Statistics of China, 2005-2009, website: http://www.stats.gov.cn/*) The following chart sets forth the historical urban population and urbanization rate in the PRC for the periods indicated.

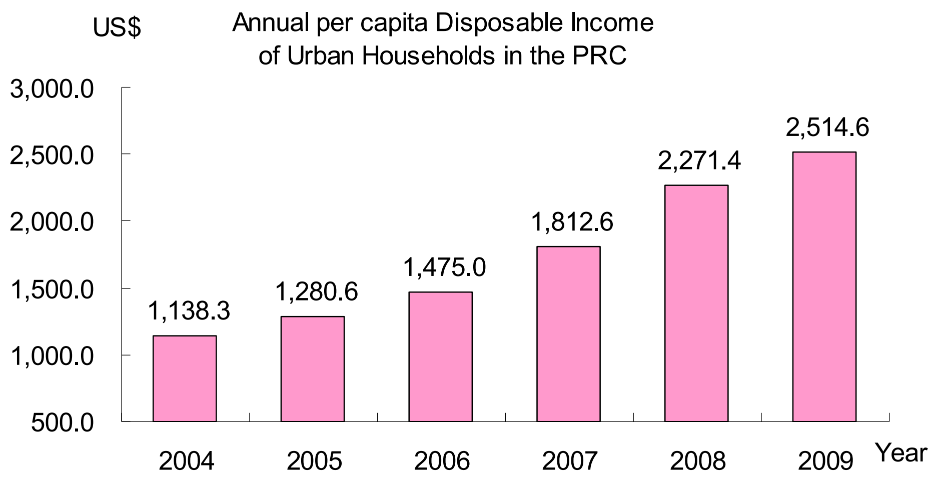
Urban Population and Urbanization Rate in the PRC



Source: National Bureau of Statistics of China, 2005-2009, website: http://www.stats.gov.cn/

Disposable Income Growth of Urban Households

With the rapid growth of the PRC economy, income levels of urban households have increased and living standards have improved. According to the National Bureau of Statistics of China, the annual disposable income per capita of urban households in the PRC increased at a compound annual growth rate of approximately 17.3% from approximately USD 1,138.3 (RMB 9,421.6) in 2004 to approximately USD 2,514.6 (RMB 17,175.0) (Source: *National Bureau of Statistics of China*) in 2009. (*Source: National Bureau of Statistics of China, 2005-2009, website: http://www.stats.gov.cn/*) The following chart sets forth the historical annual disposable income per capita of urban households in the PRC for the periods indicated.



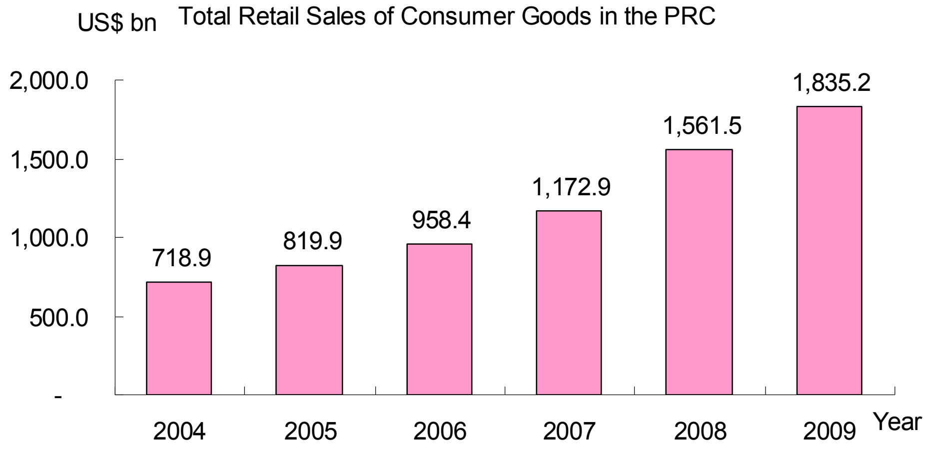
Source: National Bureau *of Statistics of China, 2005-2009*, website: http://www.stats.gov.cn/

11.2 Strong Growth in Personal Consumption and Retail Sales in the PRC

From 2004 to 2009, retail sales of consumer goods in the PRC experienced rapid growth amid the PRC's strong economy, growing middle class and increasing affluence. These changing demographics coincided with the increase in disposable income per capita, suggesting that the consumption power of consumers in the PRC has risen. Consumer spending, as measured by the total value of retail sales of consumer goods, has grown at a compound annual growth rate of approximately 18.4% from approximately USD 718.9 billion (RMB 5,950.1 billion) in 2004 to approximately USD 1,835.2 billion (RMB 12,534.3 billion) (*Source: National Bureau of Statistics of China*) in 2009. (*Source: National Bureau of Statistics of China, 2005-2009, website: http://www.stats.gov.cn/*) The following chart sets forth the historical total retail sales of consumer goods in the PRC for the periods indicated.

Although affected by the global financial crisis, according to the National Bureau of Statistics of China, the total value of retail sales of consumer goods has increased by 15.5% for 2009 compared to prior year.

Meanwhile, on 28 October 2009, MOFCOM estimated that the total value of retail sales of consumer goods will grow at 16% in 2010. (*Source: Ministry of Finance of China, 2009, website: http://www.mof.gov.cn/*)



Source: National Bureau of Statistics of China, 2005-2009, website: http://www.stats.gov.cn/

11.3 Key Drivers of Sustainable Growth in the Chinese Retail Market

As the nominal gross domestic product per capita and the disposable income growth of urban households have experienced significant growth in the PRC and as PRC consumers have become more affluent, they have been gradually switching to mid- to high-end branded products with better designs and higher quality. KINGHERO Group believes this change in the consumption patterns in the PRC will result in a gradually expanding target customer base for us with respect to those consumers interested in casual wear.

11.4 Market for Casual Wear in China

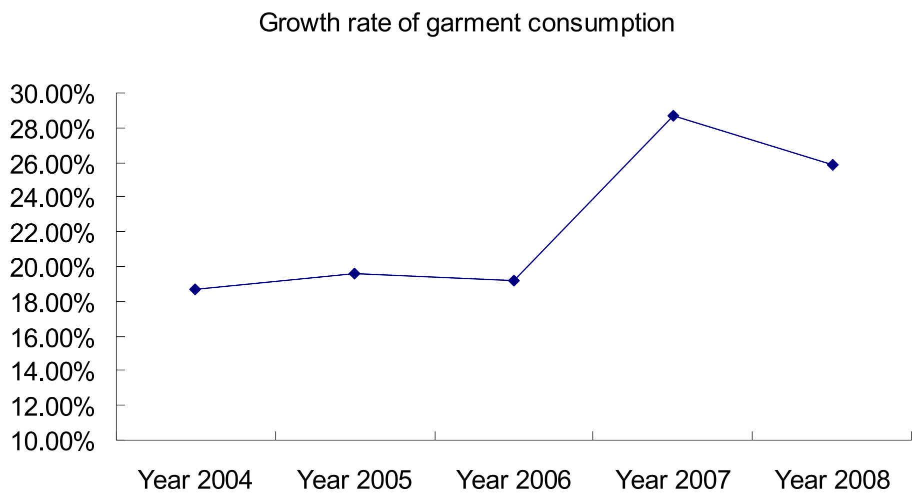
The garment industry is of significant importance to the PRC economy. It relates closely to production and daily lives, reflecting the development of economy and society. With the rapid development of the PRC economy and improvement of living standards, the PRC garment industry is expected to achieve significant development.

Characteristic of PRC Garment Industry

- Sustaining and Rapid Growth

  Garment consumption is closely related with income levels of urban households, and with the stable and rapid economic development and significant increase of income levels of urban households, the garment industry has witnessed a rapid development period. According to the statistics of China Textile Industry Association, the fibre consumption per capita increased from 7.5 kg in 2000 to 14 kg in 2006, it is estimated to increase to 18 kg in 2010 according to PRC's Eleventh Five-Year Plan. (*Source: Eleventh Five-Year Plan, 2005, website: http://www.china.com.cn*)

  The demand for garment consumption has increased steadily with an annual growth rate of approximately 20% from 2004 to 2008.



  Source: National Bureau of Statistics of China, 2005-2009, website: http://www.stats.gov.cn/

  This rapid growth is also reflected by the statistics of 21 public companies listed on China's A Share Stock Market; the revenue of these 21 public companies for 2007 and 2008 has increased by 30.2% and 27.5% respectively compared to the prior year. Therefore, KINGHERO Group believes that there is a significant growth potential in the Chinese garment market. (*Source: Chinese Stock Market, 2009, website: http://www.sse.com.cn/)*

- Personalized Demand for Clothing

  At present, the demand for clothing has become more personalized, which not only brings more opportunities and growth for the garment industry, but also poses challenges of information gathering capacities to keep close to the market and customers.

- Shorter Product Life Cycle

  The increase of living standards brings tremendous demands for fashion of garments; consequently, the product life cycle becomes shorter. The unmarketable and out-of-fashion products are subject to high discount. Therefore, garment companies must identify customers demand in time and adjust production plans to meet these demands.

- Sustainable Growth of International Trade

The PRC has been and continues to be a large exporter of garments. For many years, its garment industry has achieved sustainable growths in export business, serving as a big foreign currency earner. The exported garment products include many self-owned-brand clothes, as well as OEM clothes.

Status Quo of Casual Wear Market

With the development of the PRC economy and improvement of living standards, natural lifestyles have been emphasized and diversified urban life, business casual wear, sports casual wear, home casual wear and traveling casual wear have all become popular, even items of formal wear are showing some casual features. As an important part of the garment market, casual wear not only shares some common features with the garment market, but also has the following unique characteristics:

- Competition Focusing on Brand instead of Prices

Casual wear companies in Europe and America have always attached great importance to brand building and promotion. Six of the global top 100 brands published by the world famous research institute Interbrand are engaged in casual wear. Brand building and promotion have become an important way for world famous casual wear companies to implement differentiated competition strategies and retain the customers' loyalty.

Casual wear brand in global top 100 brands of 2009 (Million USD)

Rank	Brand name	Country	Brand value
21	H&M	Sweden	15,375
26	Nike	USA	13,179
50	ZARA	Spain	6,789
62	Adidas	Germany	5,397
78	GAP	USA	3,922
97	PUMA	Germany	3,154

Source: Interbrand, 2010, website: http://www.interbrand.com/

With the increase of disposable income of urban households, people are less sensitive to the prices of casual wear, and become more influenced by the branding. Consumers of casual wear, particular young consumers, tend to view clothes as a way to express their personality, therefore, PRC casual wear brands need to skillfully use various differentiated marketing means to emphasize their brand image and increase brand awareness.

11.5 Competitive Situation in the PRC Casual Wear Market

Under the fierce competition, casual wear companies need to focus on the depth and width of sales network building, shortening the gap between the customers and products. Currently stores are the main sales channel for customers to buy casual wear. As for casual wear companies which attach importance to brand image, stores are an indispensable approach for marketing and brand promotion. The world famous casual wear company ZARA seldom advertises its products; its stores serve as its most important promotion approach. Retailers of casual wear place emphasis on the store location, but high quality stores are not as affluent as vendors; therefore, retailers of casual wear aiming to promote their brand image in big cities make enormous efforts in searching such stores. It is worth noting that stores located in central business areas are not only the target of casual wear retailers, such stores are also the target of other garment companies, consumer electronic retailers, food retailers and restaurants. Thus, stores located in central business areas will not only improve the brand image and increase sales volume, but are also very important to strategic development.

11.6 Importance of Integration of Supply Chains

From a production aspect, sufficient production capacities of casual wear companies in the PRC make it possible to outsource the production. From a sales aspect, distributors help casual wear companies expanding their sales network and increasing their sales volume when facing the shortage of working capital. Under increasingly intense competition, business models featuring outsourcing of production and distributors have been gradually adopted by domestic casual wear companies. Strong ability to integrate supply chains is a must in adopting this business model. Casual wear companies need to establish information systems, which monitor, control, manage and coordinate various parties to synchronously cope with tasks arising from changes of market or supply chains. Therefore, companies must improve their integration abilities in controlling costing by outsourcing production and lowering business risks through distributors. It is foreseeable that competition among casual wear companies in the future will mainly focus on their supply chains.

11.7 Consumer Group of Casual Wear

The main consumers of casual wear are between 14 to 35 years old. Their income level and consumption habits are the main factors that determine the growth of the casual wear market. According to statistics, currently the PRC population between 14 to 35 year olds amounts to approximately 290 million. This population is expected to remain stable in the near future.

12. REGULATORY ENVIRONMENT

Set forth below are summaries of certain PRC laws and regulations applicable to KINGHERO Group's operations and business.

12.1 PRC Legal System

The PRC is a unitary state and all power theoretically flows from the central congress and government in Beijing which in turn grants certain powers, subject to a number of limitations, to the provincial and local authorities. Formal legislative power is centered in the NPC. The State Council under the Premier carries out the daily work of government including enacting administrative regulations. The Supreme People's Court issues judicial interpretations which are equivalent to laws and applied by all other local courts throughout the PRC. Below the Supreme People's Court are the Higher Level People's Courts at the provincial level, the Intermediate Level and then the Basic Level People's Courts at the local level. A majority of lawsuits relating to foreign affairs are heard in the Intermediate Level People's Courts where its judges are more familiar with disputes involving foreign investors.

The introduction of new commercial legislation can often be tied to the shift from public to private ownership that has taken place in the PRC over the last 15 years. PRC citizens have become shareholders and accumulated their own private wealth; they are enjoying previously unimagined levels of autonomy and strong laws such as the Property Law that was passed in early 2007 for the purpose of protecting property freedom.

12.2 The General Principles of the Civil Law

The General Principles of the Civil Law were adopted by the NPC on 12 April 1986 and came into force on 1 January 1987. The Civil Law is formulated for the purpose of protecting the lawful civil rights and interests of citizens and legal persons as well as correctly adjusting civil relations. The General Principles of the Civil Law consist of eight different chapters: General Principles, Law of Persons and Entities, Civil Juristic Acts, Law of Agency, Law of Obligations, Civil Liability, Limitation of Action and Conflict of Laws. Chinese civil law is subject to certain fundamental principles set out in the first chapter. Inter alia, all parties in a civil law relationship shall enjoy equal legal positions and all civil law activities shall abide by the principle of voluntariness. Pursuant to the principle of good faith, all persons shall act honestly without causing harm to others. In the following chapters, the Principles set out general rules on the obligations of contractual and non-contractual parties and the concept of damages. The Principles also contain rules regarding the law of agency: Individuals and legal entities may authorize agents to act on their behalf within the scope of their authority. The principal shall bear all liabilities as a result of the agents' acts so incurred.

12.3 The Opinions of the Supreme People's Court on Several Issues Concerning the Implementation of the General Principles of the Civil Law (For Trial Implementation)

The Opinions of the Supreme People's Court on Several Issues Concerning the Implementation of the General Principles of the Civil Law (For Trial Implementation) were adopted and became effective on 26 January 1988. They serve to implement the General Principles of the Civil Law.

12.4 Company Law

The establishment and operation of corporate entities in China is governed by the Company Law, which was promulgated by the Standing Committee of the NPC on 29 December 1993 and became effective on 1 July 1994. It was subsequently amended on 25 December 1999, 28 August 2004, and 27 October 2005. The amendments to the Company Law adopted in October 2005 seek to reform various aspects of the Company Law 1993 and simplify the establishment and operation of companies incorporated in the PRC by lowering capitalization requirements, increasing the protection for shareholders and creditors, improving corporate governance, and relaxing rules regarding the establishment of subsidiaries. Further, the restriction relating to the total investment of a company in other entities exceeding 50% of its net assets has been removed, the incorporation of one-shareholder limited liability companies in addition to wholly state-owned enterprises is now permitted, and the Company Law shall also apply to foreign-invested limited liability companies. Where laws on foreign investment have other stipulations, such stipulations shall prevail.

The Company Law applies to all companies registered in the PRC, including foreign-invested companies to the extent not provided in FIE Regulations and generally governs two types of companies, i.e., limited liability companies and German stock limited companies. Both types of companies have the status of legal persons, and the liability of a company to its debtors is limited to the value of assets owned by the company. Liabilities of shareholders of a limited liability company are limited to the amount of registered capital they have subscribed to. All directors and supervisors must act in a loyal and diligent way towards the company. A liability arises for damages in case a director, supervisor or senior manager violates the laws, the administrative regulations or the Articles of Association whilst performing his/her duties. Unlawful conduct of a director, supervisor, senior manager or third party which either harms the company's or the shareholders' interests enables a shareholder to take legal measures.

12.5 Land Law

All land in the PRC is either state-owned or collectively owned, depending on the location of the land. All land in urban areas of a city or town is state-owned, and all land in rural areas of a city or town and all rural land is, unless otherwise specified by law, collectively owned. The state has the right to reclaim land in accordance with law if required for the benefit of the public. Although all land in the PRC is owned by the state or by collectives, private individuals and businesses and other organizations are permitted to hold, lease and develop land for which they are granted land use rights.

12.5.1 Overview of National Level Laws on Land

In April 1988, the Constitution was amended by the NPC to allow for the transfer of land use rights for value. In December 1988, the Land Administration Law was amended to permit the transfer of land use rights for value.

Under the Interim Regulations Concerning the Assignment and Transfer of the Right to the Use of State-owned Land in the Urban Areas ("Interim Regulations Concerning the Assignment and Transfer") promulgated in May 1990, the land administrative department under the local governments at or above county level have the power to assign the land use rights for specific purposes and for a definite period to a land user pursuant to a contract for the assignment of land use rights against payment of a premium.

Under the Interim Regulations Concerning the Assignment and Transfer, all local and foreign enterprises are permitted to acquire land use rights unless the law provides otherwise. The state may not reclaim lawfully assigned land use rights prior to expiration of the term of assignment. If the public interest requires repossession by the state of the land under special circumstances during the term of assignment, compensation will be paid by the state. A land user may lawfully transfer, mortgage or lease its land use rights to a third party for the remainder of the term of assignment.

Under the Law on Urban Real Estate Administration promulgated in July 1994 and amended in August 2007, upon expiration of the term of assignment, renewal shall be approved subject to the execution of a new contract for the assignment of land use rights and payment of a premium. If the term of the assignment is not renewed, the land use rights and ownership of any buildings erected on the land will be returned to the state without compensation.

12.5.2 Transfer, Lease and Mortgage of State-owned Land Use Rights

After land use rights relating to a particular area of land have been assigned by the state, the user to whom such land use rights have been assigned may transfer, lease or mortgage such land use rights, unless a restriction is imposed, for a term not exceeding the remainder of the term which has been assigned by the state.

Under the Interim Regulations Concerning the Assignment and Transfer, a transfer contract shall be signed for the transfer of the right to the use of the land. With the transfer of the right to the use of the land, the rights and obligations specified in the contract for assigning the land use right and in the registration documents will be transferred accordingly, and the ownership of the above-ground buildings and other attached objects will be transferred accordingly. A lease contract shall be signed for leasing the right to the use of the land by and between the lessor and lessee. After leasing the right to the use of the land the lessee must continue to perform the contract for assigning the right to the use of the land. With respect to the lease of the right to the use of the land together with the above-ground buildings and other attached objects, the lessee shall undertake registration. The user of the land use rights also has the right to mortgage the land use rights. With the mortgage of the land use rights, the above-ground buildings and other attached objects thereon shall be mortgaged accordingly; with the mortgage of the above-ground buildings and other attached objects, the right to the use of the land within the limits of use of the said buildings and objects shall be mortgaged accordingly.

12.5.3 Transfer of Real Estate

The transfer of real estate is governed by the Law on Urban Real Estate Administration. Under Article 38 of this Law, real estate with following conditions shall not be transferred: (i) the acquirement of the right of land use through assignment does not comply with conditions as prescribed in Article 39 of this Law; (ii) the title to the real estate has been sealed up or restricted in any form upon ruling or deciding of judicial authorities or administrative departments in accordance with the law; (iii) the right of land use has been taken back in accordance with the law; (iv) without a written consent of other owners as under joint ownership; (v) there are disputes on the title; (vi) those which have not been registered and obtained title certificates in accordance with the law; and (vii) other condition that the transfer is forbidden according to the law or administrative rules. Under Article 39 of the Urban Real Estate Law, the transfer of real estate with the right of land use shall comply with the following conditions: (i) all the fees in concern with the contract for assignment have been paid in accordance with provisions prescribed by the contract and the certificate of the right to use the land has been obtained; and (ii) investment and development have been done in accordance with the provisions prescribed by the contract; for housing construction projects, 25 percent of the total investment has gone through; for development of large tracts of land, land has been available for the construction of industrial or other projects. A written contract shall be signed in real estate transfer, and the contract shall carry the clause on the form of obtaining the right of land use. When a real estate is transferred, the rights and obligations carries in the contract for the assignment of the right of land use are transferred accordingly.

12.5.4 Property Law

The Property Law was promulgated on 16 March 2007 by the NPC and came into force on 1 October 2007. The Property Law was enacted for clarifying property ownerships and protecting the real right of the right holders. Pursuant to the Property Law, property rights are the exclusive rights which directly dominate a specific property, including ownership, usufruct rights and security rights in the property. Individuals cannot acquire private real property in land but can obtain land use rights. The creation, change, transfer or elimination of any right in immovable properties shall become effective upon registration according to law. In contrast, any creation or transfer of any right in movable properties shall become effective upon delivery except as otherwise provided by law. Any creation, change, transfer or elimination of any right in respect of ship, aircraft and motor vehicle without registration will not prevail over the rights of any bona fide third party. Any creation, change, transfer or elimination of any property right resulting from legal documents of the People's Courts or arbitration commissions, or expropriation decisions made by the people's governments, shall become binding from the date of which they come into effective. All lawful properties of the State, collectives and individuals are protected by law, and no entities or individuals may embezzle, encroach upon or destroy such properties. The State has implemented a system of compensated use of natural resources. The term of valid construction land use rights in respect of residential houses may be extended automatically upon expiry of such term. The Property Law also makes specific regulations on land contractual operation rights, construction land use rights, residential land use rights, rights of easement and various security rights.

12.6 M&A Provisions

The Provisions on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors were promulgated by MOFCOM, CSRC, the State-owned Assets Supervision and Administration Commission of the State Council, the State Administration of Taxation, the State Administration for Industry and Commerce (SAIC) and SAFE on 8 August 2006. The M&A Provisions became effective on 8 September 2006, and have been amended by MOFCOM on 22 June 2009. The Provisions provide rules which foreign investors must comply with when purchasing a stake in a domestic non-foreign-funded enterprise or subscribing to the increased capital of a domestic company, thus changing the domestic company into a foreign-funded enterprise. The Provisions are also applicable if a foreign investor establishes a foreign-funded enterprise, through which it purchases by agreement the assets of a domestic enterprise and operates its assets, or, if a foreign investor purchases by agreement the assets of a domestic enterprise, and then invests such assets to establish a foreign-funded enterprise and operates the assets.

Acquisitions require approval by MOFCOM or its branches at provincial level, subject to the total investment sum, the legal form of the entity to be acquired and the industrial sector involved. In case a key industrial sector or a notorious and famous trademark or a traditional PRC trade name is concerned, approval can only be granted by MOFCOM, irrespective of the investment sum or the legal form of the entity.

The M&A Provisions also provide that an offshore SPV which is formed by PRC legal entities and/or individuals for indirect listings and directly or indirectly controls Chinese companies, must obtain the approval of the CSRC prior to the SPV's listing and trading of its securities on an overseas stock exchange. On 21 September 2006, the CSRC published a notice on its official website, specifying the documents and materials required to be submitted by the SPVs seeking CSRC approval of its overseas listings. A number of additional requirements have to be fulfilled in the course of an initial public offering, the violation of which may lead to regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies. Significant uncertainty remains with regard to the extent and applicability of the M&A Provisions to overseas listing of offshore SPVs.

12.7 Trust Law

The Trust Law was promulgated on 28 April 2001 and came into force on 1 October 2001. The Trust Law is formulated in order to regulate the trust relationship, normalize trust acts and to protect the lawful rights and interests of the parties to a trust. Trust in this Law refers to the act in which the trustor, on the basis of confidence on the trustee, entrusts certain property rights it owns to the trustee and the trustee manages or disposes of the property rights in its own name in accordance with the intentions of the trustor and for the benefit of the beneficiary or for specific purposes. According to the Trust Law, written form shall be adopted for the establishment of a trust. The written documents by which a trust is to be established shall provide the following information: (a) purposes of the trust; (b) names and addresses of the trustor, the trustee and the beneficiary; (c) the beneficiary or the scope of the beneficiary; (d) scope, type and status of the trust property; and (e) ways and methods by which the beneficiary obtains the trust proceeds. The trustor may be the beneficiary, and may also be the only beneficiary of the same trust. The trust shall terminate under any of the following circumstances: (a) any of the causes for termination as prescribed in the trust documents occurs; (b) the existence and continuance of the trust go against the purposes of the trusts; (c) the purposes of the trust have already been realized or cannot be realized at all; (d) the parties of the trust agree to terminate the trust after negotiation; (e) the trust is withdrawn; or (f) the trust is rescinded.

12.8 Foreign Investment Regulations

Foreign-invested enterprises are subject to approval of the Ministry of Commerce (MOFCOM) or its local counterpart depending on the total amount of investment for the establishment in the PRC. Following the establishment of such a foreign-invested enterprise, any material corporate changes, including capital increase or reduction, change in business scope, transfer of shares, also require approval by MOFCOM or its local counterpart. For specific industries, the approval of the ministry with responsibility for such industry is needed in order to apply for the approval by MOFCOM or its local counterpart. The establishments of foreign-invested enterprises and all corporate changes only enter into force when they are registered with the responsible registration authority, i.e. the State Administration for Industry and Commerce ("**AIC**") or its local counterpart.

12.8.1 The Law on Foreign-Owned Enterprises

The establishment, operation and management of a foreign-owned enterprise is governed by the Law on Wholly Foreign-Owned Enterprises, which was promulgated on 12 April 1986 and amended on 31 October 2000.

12.8.2 The Rules for the Implementation of the Law on Foreign-Owned Enterprises

The rules, issued on 12 December 1990 and amended on 12 April 2001, were enacted for the implementation of the Law on Foreign-Owned Enterprises.

12.8.3 The Revised Catalogue for Guiding Foreign Investment Industries (Revised 2007)

The Revised Catalogue was approved by the State Council and came into force on 1 December 2007. It contains specific provisions guiding market access of foreign capital, stipulating in detail the areas of entry pertaining to the categories of encouraged foreign invested industries, restricted foreign invested industries and prohibited foreign investment. Generally, investments from which the PRC can benefit in terms of further economic and technological development are encouraged while projects involving outdated technology or requiring mineral resources, fall in the restricted category. Any industry not listed in the Catalogue is a permitted industry. The category in which the investment falls influences the degree of government intervention and support through incentives and determines the approval process. The area of menswear production belongs to the Catalogue of Permitted Foreign Investment Industries of which foreign investors are allowed to invest in the PRC. Wholly Foreign-Owned Enterprises (WFOEs) and Sino-Foreign Equity Joint Ventures (JVs) shall be in compliance with this Catalogue, which includes obtaining approval from commerce authorities of different levels. Government approval is required for the initial implementation of an investment as well as any subsequent changes. Generally, the level of government approval required depends on the total amount of investment and the industry sector.

12.8.4 Guiding Manual on Administration of Foreign Investment Access (2008 Version)

The Guiding Manual on Administration of Foreign Investment Access (2008 Version) was issued by the Department of Foreign Investment Administration of MOFCOM in December 2008 to introduce the application procedures, required documents, time limits of examination and approval regarding the administration of foreign investment access. Article 5 ("Explanatory Notes on Examination and Approval of M&A") of Section 5 of the Manual provides that the M&A Provisions do not apply to the transfer of shares of a domestic party to a foreign party in an established foreign-funded enterprise, regardless of whether parties are connected to each other or whether the foreign party is the original shareholder or the new subscriber of the shares. The takeover target is the domestic enterprise only. However, the domestic party that transfers the shares shall have held the offering shares for no less than one year.

A domestic company, enterprise, or natural person that takes over a domestic affiliated company in the name of an overseas company it lawfully established or controls, shall be subject to the examination and approval of MOFCOM. The current scope of acceptance is only the applications regarding overseas companies which are overseas listing companies, or companies which established outside the PRC having obtained approval, having operated in practice, and having made return investment by means of its profits.

12.9 Foreign Exchange Regulation

KINGHERO Group's subsidiaries in the PRC are subject to PRC laws and regulations on currency conversion. One of the key authorities with respect to foreign exchange is SAFE which supervises and controls the foreign exchange market.

12.9.1 The Regulation on Foreign Exchange Administration

SAFE controls, inter alia, specific transactions involving the flow or conversion of foreign exchange in the PRC. Transaction items are treated differently, subject to whether they qualify as current account or capital account items. Current account items refer to ordinary transactions including receipts and payments. In contrast, capital account items refer to items of increase or decrease in debt and equity due to inflow or outflow of capital. The State Council adopted the Regulation on Foreign Exchange Administration which came into force on 1 August 2008. According to this Regulation, the RMB is convertible for current account items including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. Despite a gradual process of liberalization of the regulations governing foreign exchange, conversion of RMB for capital account items, such as direct investment, loans, investment for securities and repatriation of investment, is still subject to the approval of SAFE or its local counterparts.

12.9.2 The Regulations on the Sale and Purchase of and Payment in Foreign Exchange

Pursuant to the Regulations on the Sale and Purchase of and Payment in Foreign Exchange which became effective on 1 July 1996, foreign-invested enterprises in China may only buy, sell and/or remit foreign currencies at those banks authorized to conduct foreign exchange business after providing valid commercial documents and, in the case of capital account item transactions, obtaining approval from SAFE or its local counterparts. Capital investments outside the PRC by foreign-invested enterprises in the PRC are also subject to limitations, which include approvals by SAFE and other relevant government authorities.

12.9.3 SAFE Notice No.142

The Notice on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-funded Enterprises ("**SAFE Notice No.142**") was issued on 29 August 2008. SAFE Notice No. 142 is one of a number of measures recently implemented in order to restrict the use of the registered capital of foreign-invested enterprises settled in RMB and converted from foreign currencies. Due to its potential impact on acquisitions and investments in China carried out via foreign-invested enterprises it may have significant consequences for foreign investors.

A significant number of foreign-invested enterprises in the PRC denominate their registered capital in a foreign currency and then convert their registered capital into RMB. This converted capital is then used to develop their enterprise in the PRC. SAFE Notice No.142 provides that the RMB funds from the settlement of foreign currency capital of a foreign-funded enterprise shall only be used within the business scope as approved by the examination and approval department of the government, and shall not be used for domestic equity investment unless it is otherwise provided for. Furthermore, with the exception of foreign-funded real estate enterprises, no foreign-funded enterprise shall use RMB funds from the settlement of foreign currency capital to purchase domestic real estate for any purpose other than its own use. A foreign-funded enterprise shall follow the relevant provisions of the state, when using the RMB funds from the settlement of foreign currency capital for any securities investment. Where a foreign-funded investment enterprise formed with the approval of the commerce administrative department is engaged in domestic equity investment, its transfer of capital within the PRC may be handled only after being examined and approved by SAFE. In M&A transactions, the settlement of the purchase consideration denominated in foreign currency must be effected via an exclusive foreign currency account approved by the local branch of SAFE. In addition, the use of such registered capital settled in RMB may not be changed without SAFE's approval, and may not in any case be used to repay RMB loans if the revenues of such loans have not been used.

12.9.4 Measures for the Administration of Individual Foreign Exchange

On 25 December 2006, the People's Bank of China issued the Administration Measures for the Administration of Individual Foreign Exchange (No.3 [2006]), and the Detailed Rules for the Implementation of the Measures for the Administration of Individual Foreign Exchange were issued by SAFE on 5 January 2007, both became effective on 1 February 2007. Under these two regulations, any stock option plans in which nationals of the PRC participate are subject to the approval by SAFE or its authorized branch.

12.9.5 SAFE Notice No. 78

On 28 March 2007, SAFE issued the Operating Rules on the Foreign Exchange Administration of the Involvement of Domestic Individuals in the Employee Stock Ownership Plans and Share Option Schemes of Overseas Listed Companies ("**SAFE Notice No.78**"). Pursuant to this Operating Rules, PRC employees that are granted stock options by an overseas listed company shall, through a PRC agent or PRC subsidiary of such overseas listed company, complete certain approval procedures and transactional foreign exchange matters with SAFE.

12.9.6 SAFE Notice No. 75

On 21 October 2005, SAFE issued the Notice on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investment via Overseas Special Purpose Companies ("**SAFE Notice No.75**") which became effective as of 1 November 2005. On 29 May 2007, SAFE issued the Operating Rules for the Notice on the Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and in Return Investment via Overseas Special Purpose Companies (No.106 [2007]) which prescribe detailed operating rules on the registration of a special purpose vehicle. Pursuant to SAFE Notice No.75, before establishing or controlling an overseas special purpose company for the purpose of financing that overseas company with assets or equity interests in an domestic enterprise inside the PRC, each domestic resident or passport holder who has ultimate control, whether an individual or a legal entity, must complete certain overseas investment foreign exchange registration procedures with the competent authority. An amendment to the registration with the local SAFE branch is required to be filed by any domestic resident that directly or indirectly holds interests in that overseas company, or upon the completion of any overseas fundraising by such overseas company. This means where (i) a domestic resident contributes the assets or stock rights of a domestic enterprise it owns into a special purpose company, this domestic resident shall go through the procedures for modification of foreign exchange registration; (ii) after the domestic enterprise finishes any overseas financing, it shall go through the procedures of relevant foreign exchange administration.

An amendment to the registration is also required to be filed by such domestic resident when there is any material change involving a change in the capital of the offshore company, such as (a) an increase or decrease in its capital, (b) a transfer or swap of share, (c) a merger or division, (d) a long-term equity or debt investment or (e) the provision of a guarantee to third parties.

Under SAFE Notice No. 75, where a domestic resident violates the provisions in this Notice and constitutes evasion of foreign exchange or violation of any other rule on foreign exchange administration, the foreign exchange office shall give penalties in accordance with the Regulation of the PRC on Foreign Exchange Administration and other relevant provisions. In addition, non-compliance with the provisions of SAFE Notice No. 75 may result in restrictions concerning the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity.

12.10 PRC Tax Laws

12.10.1 The EIT Law

The new EIT Law was adopted by the NPC on 16 March 2007 and came into force on 1 January 2008. Under the previous tax regulations, the general enterprise income tax rate for foreign-invested enterprises ("**FIE**") was 33% which comprised of 30% national and 3% local income tax. In some special zones and regions, the applicable tax rate may be as low as 15% or 24%. Under the previous tax law, manufacturing FIEs with a term of operation exceeding ten years were usually entitled to a tax holiday of two years full exemption followed by a three years term of 50% tax exemption beginning the first profitable year after previous losses have been made up. The new EIT Law sets forth a unified tax rate for both foreign-invested and domestically owned companies. The new EIT Law provides that the 15% tax rates in the special zones and regions will gradually be increased to 25% in the next five years. According to the new EIT Law, tax holidays for FIEs will be phased out. However, the new EIT Law provides a grandfathering period for FIEs which was approved prior to the promulgation of the EIT Law. If the tax holidays have not started due to losses, they shall be deemed to commence from the beginning of 2008, i.e. tax holidays can only be utilized until 2012.

The distribution of dividends paid by wholly foreign owned enterprises is regulated mainly by the Wholly Foreign Owned Enterprise Law as of 1986 and as amended in 2000 and the Wholly Foreign Owned Enterprise Law Implementation Rules as of 1990 and as amended in 2001. Under these regulations dividends may only be paid by foreign-invested enterprises in PRC out of their possibly generated accumulated profits. The payment must comply with the PRC accounting standards and regulations. Wholly foreign-owned enterprises in China have to set aside 10% of the profit after tax as reported in its PRC statutory financial statements to the statutory common reserve fund in each year, except when the fund has reached 50% of the group's registered capital, and certain amounts out of their accumulated profits each year for bonus and welfare funds. These funds are not distributable as cash dividends.

Pursuant to the EIT Law dividend payments from foreign-invested enterprises to their foreign shareholders are subject to a 10% withholding tax unless the country in which the foreign shareholder is incorporated has concluded a tax treaty with the PRC. China that establishes a lower withholding tax rate.

The concept of tax resident enterprise ("**TRE**"), however, which was introduced by the EIT Law, states that any (offshore) enterprise whose de facto management body is located in the PRC will be subject to income tax at a rate of 25% on its worldwide income under the EIT Law. According to the Implementing Rules of the EIT Law, the term "effective management body" shall refer to the body that is in charge of the management and exercises essential control over the enterprise with respect to its operation, personnel, accounts and assets. In case either the HK-Holding or AG is considered a TRE, it would be subject to enterprise income tax in China on their worldwide income, including dividends received at a rate of 25%. However, pursuant to Art. 26 EIT Law, dividends distributed between TREs due to direct investment are not subject to enterprise income tax in China. Therefore, if Kinghero HK or the Company is regarded as a TRE, the dividend received by Kinghero HK or the Company from Michelle is exempted from enterprise income tax in China. Furthermore, if Kinghero HK and the Company are both regarded as TREs, dividends received by the Company from Kinghero HK are also exempted from enterprise income tax in China. The PRC withholding tax on dividends will then only be imposed if a TRE distributes dividends to non-TRE shareholders.

12.10.2 The Interim Regulation on Value Added Tax (VAT)

The Interim Regulation on VAT was amended and adopted by the State Council on 5 November 2008 and came into force on 1 January 2009. Pursuant to The Interim Regulation on VAT, enterprises and individuals engaged in the sale of goods, supply of processing, repair and replacement services, and import of goods within the territory of the PRC are taxpayers of VAT and shall pay VAT. VAT taxpayers are divided into general taxpayers and small-scale taxpayers. A small-scale VAT taxpayer is a manufacturer who has annual taxable sales of less than RMB 500,000.00 or a distributor or retailer who has annual taxable sales of less than RMB 800,000.00.

Different tax rates and calculation of tax amounts will be applied respectively. The VAT payable by a general taxpayer equals the balance between the output tax amount and the input tax amount incurred. The VAT rate is normally 17% and a lower rate of 13% is applied to certain categories of goods. Goods and services of a small-scale taxpayer are subject to lower VAT rate at 6% or 4%. The Interim Regulation on VAT reduced the VAT rate for small-scale taxpayers to 3%. However, a small-scale taxpayer cannot deduct the paid input VAT charged on imported or domestically purchased materials from the payable amount of output VAT.

Manufacturing companies might be exempted from VAT when exporting self-produced goods, i.e. the input VAT can be used as credit against output VAT and the negative balance, if any, will be refunded to the company.

Moreover, the exported products determine the VAT refund rates which are frequently changed by the PRC Government.

12.10.3 Circular on Several Issues Concerning the Enterprise Income Tax Treatment of Enterprise Re-organization ("**Circular No.59**")

Circular No. 59, which was issued by the Ministry of Finance and State Administration of Taxation on 30 April 2009 and came into force on 1 January 2008, clarifies the enterprise income tax policy on enterprise re-organisations. The Circular No. 59 provides a clear definition of "enterprise re-organisation" and particularly stipulates general tax treatment and special tax treatment regarding the transactional equity or asset acquisition.

Circular No. 59 classifies "enterprise re-organisation" into 6 main types which cover fast all the basic forms of capital activities: (1) Change in the legal form of an enterprise; (2) Debt restructuring; (3) Equity acquisition; (4) Asset acquisition; (5) Merger; and (6) Division. According to Article 3 of the Circular No. 95, depending on the conditions, general tax treatment provisions or special tax treatment provisions shall apply to the tax treatment of enterprises re-organisations.

With regard to general tax treatment, in a re-organisation transaction of equity acquisition or asset acquisition, the relevant transaction shall be treated in accordance with the following provisions: (a) the party being taken over shall recognize the gain or loss from the equity or asset transfer; (b) the tax basis of the equity or assets obtained by the acquiring party shall be determined based on fair value thereof; and (c) in principle, the takeover target's relevant income tax attributes shall remain unchanged.

With regard to special tax treatment, Article 6.2 provides that, in an equity acquisition, if the equity purchased by the acquirer is not less than 75% of the entire equity of the takeover target and the amount paid in the form of equity by the acquirer at the time the equity acquisition occurred is not less then 85% of the total amount paid for the transaction, treatment may be effected in accordance with the following provisions: (a) the tax basis of the acquirer's equity obtained by the shareholders of the takeover target may be determined based on the original tax basis of the acquired equity; (b) the tax basis of the takeover target's equity obtained by the acquirer may be determined based on the original tax basis of the acquired equity; and (c) the original tax basis of the assets and liabilities of the acquirer and the takeover target and other relevant income tax attributes shall remain unchanged. Article 6.3 provides that, in an asset acquisition, if the assets purchased by the transferee are not less than 75% of all of the transferor and the amount paid in the form of equity by the acquirer at the time the asset acquisition occurred is not less than 85% of the total amount paid for the transaction, treatment may be effected in accordance with the following provisions: (a) the tax basis of the transferee's equity obtained by the transferor may be determined based on the original tax basis of the transferred assets; and (b) the tax basis of the transferor's assets obtained by the transferee may be determined based on the original tax basis of the transferred assets.

If an enterprise is involved in an equity or asset acquisition transaction that takes place both in the PRC and overseas (including Hong Kong, Macao or Taiwan), in addition to satisfying the general conditions, such transaction shall be required to satisfy extra conditions.

12.11 Environmental Laws

12.11.1 The Environmental Protection Law

The Environmental Protection Law adopted on 26 December 1989 by the NPC' Standing Committee provides the legal framework on environmental protection. Units that cause environmental pollution and other public hazards shall incorporate steps and measures of environmental protection into their plans and establish a responsibility system for environmental protection. These units shall adopt effective measures to prevent and control the pollution and harms caused to the environment by waste gas, waste water, waste residues, dust, malodorous gases, radioactive substance, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities. Installations for the prevention and control of pollution at a construction project shall be designed, built and commissioned together with the principal part of the project. No permission shall be given for a construction project to be commissioned or used, until its installations for the prevention and control of pollution have been examined and considered compliant with the standard by the competent department of the environmental protection administration having examined and approved the environmental impact statement. The administration department of environmental protection of the State

Council implements unified supervision and management of the national environmental protection work, and establishes the national standards for pollutant discharge, while the environmental protection bureaus at or above the county level are responsible for the environmental protection work within their respective jurisdictions.

12.11.2 The Law on the Prevention and Control of Pollution from Environmental Noise

The Law on the Prevention and Control of Environmental Pollution by Noise, adopted on 29 October 1996, came into effective on 1 March 1997. Pursuant to this law, any new construction project, expansion, or reconstruction project that discharges pollutants into the air shall be subject to the regulations of State on environmental protection of construction projects. Industrial enterprises that produce environmental noise pollution due to the use of permanent equipment in the course of industrial production shall report to the competent administrative department for environmental protection of the local government at or above the county level the types and quantity of its equipment that produces environmental noise pollution, the noise level produced under normal operation and the facilities installed for prevention and control of such pollution, and provide technical information relating to the prevention and control of noise pollution. Any industrial enterprise that intends to make a substantial change in the types or quantity of the equipment that produces environmental noise pollution, in the noise level of facilities for prevention and control of such pollution shall submit a report without delay and take prevention and control measures as it should. Units that produce environmental noise pollution shall take measures to control it and pay fees for excessive emission of such pollution according to the regulations of the State.

12.11.3 The Law on the Prevention and Control of Atmospheric Pollution

The Law on the Prevention and Control of Atmospheric Pollution, adopted on 29 April 2000 by the NPC' Standing Committee, is effective as of 1 September 2000. Pursuant to this law, the environmental protection authorities above county level can regulate the prevention of air pollution. The environmental protection department of the State Council formulates the national air environmental quality standards and the local provincial governments formulate the local standards if there are no applicable national air environmental quality standards. The local provincial governments can also delineate more specific local standards. Enterprises which emit smoke into the air must comply with the national and relevant local air environmental quality standards. If the smoke emitted exceeds these quality standards, the relevant enterprises must rectify their actions within a limited timeframe, and the environmental protection authority at county level can impose a penalty.

12.11.4 The Law on the Prevention and Control of Environmental Pollution by Solid Waste

According to the Law on the Prevention and Control of Environmental Pollution by Solid Waste amended and effective as of 1 April 2005, producers, distributors, importers and users of a product shall be responsible for the prevention and control of the solid wastes it generates or discharges.

12.11.5 The Law on the Prevention and Control of Water Pollution

The Law on the Prevention and Control of Water Pollution was adopted on 15 May 1996 and amended on 26 January 2008 and became effective on 1 June 2008. According to this law, the environmental protection department of the State Council governs the national waste discharge standards and the local provincial governments promulgate more specific local waste discharge standards. The discharge of waste must comply with both the national and local waste discharge standards. Enterprises which discharge waste into water must pay a treatment fee.

If the waste discharged exceeds the national or local waste discharge standards, the relevant enterprises must pay a higher waste treatment fee. The environmental protection department has the right to order the enterprises which severely pollute water to correct their actions by reducing their waste discharge within a stipulated time period or order the enterprises to stop production or be closed.

12.12 Tort Liability Law

The Tort Liability Law of the PRC was adopted by the NPC' Standing Committee on 26 December 2009 and will come into force on 1 July 2010. The Tort Liability Law is formulated for the purpose of protecting the legal rights and interests of civil subjects, defining tort liability, preventing and sanctioning acts of tort. The "civil rights" are personal and property rights including the right to live, right to death, right of name, right of reputation, right of honour, statutory right, right to privacy, autonomy in marriage, guardianship, ownership, usufruct, real rights granted by way of security, copyright, patent, rights to exclusive use of trademarks, right of discovery, equity interest and right of inheritance. According to the Tort Liability Law, the infringee is entitled to seek tort liability on the part of the tortfeasor and in the event that the property of the tortfeasor is insufficient to pay for his or her tort liability and administrative or criminal liability for the same act, he or she shall first and foremost assume his or her tort liability.

According to the Tort Liability Law, the liability is mainly assumed through the cessation of the infringing act, the removal of obstacle, the elimination of danger, the restitution of property, the restitution of original state, the compensation for loss, formal apology and the elimination of adverse effect and restoration of reputation. Under the Tort Liability Law, employer shall be liable for the damages caused by its employees to others in the course of performing work duties. A manufacturer shall be liable for any damages caused due to its defective products. A manufacturer shall also be liable for any pollution of environment caused unless it can prove that there is no causation of liability or only diminished liability existed between its acts and the damages caused.

12.13 Product Liability Law

The principal law governing product liability is the Product Quality Law, which was promulgated on 22 February 1993 and amended on 8 July 2000. The Product Quality Law defines a product as commodity sold following processing or manufacturing. Thus, an item qualifies as product under the Product Quality Law if it meets two main criteria: first, it must have been produced for sale and secondly, it must have been processed or manufactured. The first criterion excludes such items which have not been circulated for public consumption. In such case, the producer is not liable under the Product Quality Law.

Pursuant to the Product Quality Law, a producer shall have the following obligations:

- be responsible for the quality of products it produces;
- not produce products banned from production according to State laws or decrees;
- not fake the place of origin or fake or use the names and addresses of other producers;
- not fake or without authorization use quality marks such as certification marks and fine quality product marks;
- not adulterate products or pose fake products as genuine or shoddy products as good or non-standard products as standard;
- ensure that the marks on the products or the packaging of the products are true; and

- ensure that, for products that are easily broken, inflammable, explosive, toxic, erosive or radioactive and products that cannot be handled upside down in the process of storage or transportation or for which there are other special requirements, the package thereof meets the corresponding requirements, carries warning marks or warnings written in Chinese or points of attention in handling in accordance with the relevant state provisions.

Pursuant to the Product Quality Law, a seller shall have the following obligations:

- a check-for-acceptance system for stock replenishment shall be adopted to examine quality certificates and other labels of such stock;
- measures shall be adopted to keep products for sale in good quality;
- lose-effect and defective or deteriorated products shall not be sold;
- products must be sold with labels that comply with the relevant provisions;
- the seller must not forge the origin of a product or falsely use the name and address of another producer;
- the seller must not forge or falsely use another producer's authentication marks, marks of famous/premium brand names or other product quality marks; and
- the seller must not mix impurities or imitations into products, substitute a fake product for a genuine one, a defective product for a high-quality one, or pass off a substandard product as a qualified one.

Violations of the Product Quality Law may result in the imposition of administrative fines. In addition, the business operator will be ordered to suspend its operations and its business license may be revoked. Criminal liability may be incurred in serious cases.

According to the Product Quality Law, if damages are done to a person or the properties of others due to the defective products, the victims may claim compensation either from the producers or sellers. If the responsibility rests with the producers and the compensation is paid by the sellers, the sellers have the right to recover their losses from the producers. If the responsibility rests with the sellers and the compensation is paid by the producers, the producers have the right to recover their losses.

12.14 Protection of Consumer Rights and Interests

The Law on Protection of Consumer Rights and Interests that was adopted on 31 October 1993 by the NPC' Standing Committee and came into effective on 1 January 1994, is formulated for the protection of the legitimate rights and interests of consumer and sets out standards of behavior which business operators must observe in their dealings with consumers, including the following:

- Business operators shall, in their supply of commodities and services to consumers, fulfill their obligations stipulated in the Law on Product Quality and other laws and regulations concerned;
- Business operators shall guarantee that the commodities and services they supply meet the requirements for personal or property safety. As to commodities and services capable of harming personal or property safety, business operators shall give the consumers truthful explanation and clear warnings, and shall explain or indicate the correct ways of using the commodities or receiving services as well as the methods of preventing damage;
- Business operators shall provide consumers with authentic information concerning their commodities or services, and may not make any false and misleading propaganda. Business operators shall give truthful and definite replies to inquiries

from consumers about the qualities of the commodities or services they supply and the operation methods thereof;

- Business operators shall indicate their real names and marks. Business operators who lease counters or grounds from others shall indicate their own real names and marks;
- Business operators shall guarantee the quality, functions, usage and term of validity which the commodities or services they supply should possess under normal operation or acceptance;
- Business operators who are under the obligation of repair or caveat venditor, or other responsibilities in accordance with regulations of the State or agreements with consumers shall carry out such obligations correspondingly according to such regulations or agreements, and may not deliberately delay or unreasonably refuse to do so;
- Business operators may not, through format contracts, notices, announcements, entrance hall bulletins and other methods and documents, impose unfair or unreasonable rules on consumers or reduce or evade their civil liability for infringement of legitimate rights and interests of consumers. Format contracts, notices, announcements, entrance hall bulletins and other methods and documents with such contents shall be invalid.

Violations of the Law on Protection of Consumer Rights and Interests may result in the imposition of administrative fines. In addition, the business operator will be ordered to suspend its operations and its business license will be revoked. Criminal liability may be incurred in serious cases.

According to the Law on Protection of Consumer Rights and Interests, a consumer whose legitimate rights and interests are infringed upon when purchasing or using commodities may demand compensation from the seller concerned. In case the liability is on the manufacturers or other sellers who supplied the commodities to the said sellers, the said sellers shall, after paying the compensations to the consumer, have the right to recover the compensations from the manufacturers or the other sellers. Consumers or other victims suffering personal injuries or property damage resulting from defects of commodities may demand compensations either from the sellers or from the manufacturers. If the liability is on the manufacturers, the sellers shall, after paying the compensations to the consumer, have the right to recover the compensations from the manufacturers; if the liability is on the sellers, the manufacturers shall, after paying the compensations, have the right to recover the compensations from the sellers.

12.15 Competition Law

Under the Anti-Unfair Competition Law that was promulgated on 2 September 1993 and became effective on 1 December 1993, business operators may not use the following unfair methods in their business transactions which can damage other competitors:

- to feign registered trademarks of others;
- to use the specific name, package, decoration of famous or noted commodities, or use a similar name, package, decoration of famous or noted commodities, which may confuse consumers in distinguishing the commodities from the famous or noted commodities;
- to use the name of another enterprise or the personal name of another person and thereby causing customer confusion relating to the commodity and the other enterprise’s or person’s commodity;

- to feign or pretend to hold a certificate of attestation, mark of fame and high qualification, to feign a certificate of place of origin of the commodities, which may cause misunderstanding or false perception of the qualification of the commodities.

Violations of the Anti-Unfair Competition Law may result in the responsibility for compensation, the imposition of administrative fines, and, in serious cases, revocation of business license and criminal liability.

12.16 Protection of Intellectual Property Rights

The PRC is a party of the Berne Convention for the Protection of Literary and Artistic Works and the Agreement on Trade Related Aspects of Intellectual Property Rights ("**TRIPS**"). According to these two international copyright treaties, products protected in the PRC enjoy protection in all countries that are a party to the Berne Convention and vice versa.

12.16.1 The Trademark Law

The PRC Trademark Law was promulgated on 23 August 1982, and was amended for the first time on 22 February 1993, and for the second time on 27 October 2001 by the NPC Standing Committee, followed by the Regulation for the Implementation of the PRC Trademark Law in 2002. The PRC is a signatory to the Madrid Agreement and the Madrid Protocol by which an international registration has the same effect as an application for registration of the mark made in each of the countries designated by the applicant.

The PRC Trademark Office is competent for the registration and administration of trademarks for the whole of the PRC. In registering trademarks, the "first-to-file" principle is applied. The PRC Trademark Office shall examine the trademark which has been applied for registration based on the relevant trademark laws and regulations. If the application is in line with the relevant laws and regulations, the PRC Trademark Office will make a preliminary examination and approval of that trademark and will publicly announce it. Any person may file an opposition to a trademark which has been given preliminary examination and approval within three months from the day it was publicly announced. If no opposition is filed after the period of public announcement expires, the registration shall be granted.

According to the PRC Trademark Law, the duration of trademark rights shall be ten years, counted from the date of registration, and it is renewable. The protection of the trademark rights starts from the registration date and is limited to the registered trademark and the designated goods/services thereof.

Under the PRC Trademark Law, any of the following acts shall be an infringement of the right to exclusive use of a registered trademark:

- using a trademark which is identical with or similar to the registered trademark on the same kind of commodities or similar commodities without a license from the registrant of that trademark;
- selling infringing commodities;
- forging, manufacturing without authorization the marks of a registered trademark of another person, or selling the marks of a registered trademark forged or manufactured without authorization;
- changing a registered trademark and putting commodities with changed trademark into the market without the consent of the registrant of that trademark; and
- causing other damage to the right to exclusive use of a registered trademark of another person.

In the event of any of the abovementioned acts which infringe the right to the exclusive use of a registered trademark, the registrant of that trademark or persons who have a legal right which may be harmed by another person's act have different options:

They may bring a suit before a people’s court. Civil redress for trademark infringement includes:

- injunctions;
- requiring the infringing party to take steps to mitigate the damage (i. e., print notices in newspapers);
- damages (i. e. compensation for the economic loss and injury to reputation as a result of trademark infringement suffered by the trademark holder); whereby the amount of compensation is calculated according to either the gains of the infringing party from the infringement, or the loss suffered by the trademark owner including expenses incurred by the trademark holder to deter such infringement. In case of problems arising with the determination of the gains of the infringing party from the infringement, or the loss suffered by the trademark owner, the court may elect to award compensation of not more than RMB 500,000.00; and
- if the case is so serious as to constitute a crime, the trademark owner may lodge a complaint with the relevant public security organ.

Otherwise, the trademark owner or persons who have a legal right which may be harmed by another person's act may request the administrative department of industry and commerce to launch an investigation. If the latter concludes that an infringement is constituted, it may order an immediate stop to the infringement, and may confiscate or destroy all infringing commodities, or may impose a fine in the sum of up to 3 times the illegal profits obtained or, an amount no more than RMB 100,000.00 (TEUR 10.91 as of 31 March 2010) in the event that the illegal profits cannot be determined If a party disagrees with this handling decision, it may bring a suit before a people’s court within 15 days from the day of receiving the notification of handlings according to the PRC Administrative Procedure Law. If at the expiration of such period, the infringer has neither brought a lawsuit nor performed the decision, the administrative department may apply to the people’s court for compulsory enforcement of its order.

The administrative department of industry and commerce handling the case may, upon the request of a party, conduct mediation over the amount of compensation for the infringement of the right to exclusive use of the trademark; If the mediation has failed, the party may bring a suit before a people’s court according to the Civil Procedure Law.

The amount of compensation for infringing upon the right to exclusive use of a trademark shall be the profits obtained from the infringement during the period of infringement, or the losses suffered by the infringed due to the infringement during the infringement period, including reasonable expenses paid by the infringed to stop the infringing acts.

If it is difficult to determine the proceeds obtained from the infringement referred to in the preceding paragraph, or the losses suffered by the infringed due to the infringement, the people’s court shall determine a compensation of up to RMB

500,000.00 (TEUR 54,55 as of 31 March 2010) subject to the specific circumstances of the infringing acts.

According to this law, a trademark registrant may, by concluding a trademark licensing contract, authorize another person to use its registered trademark. The licensor shall supervise the quality of the commodities on which the licensee uses the licensor's registered trademark, and the licensee shall guarantee the quality of the commodities on which the registered trademark is to be used. The licensee must indicate the name of the licensee and the origin of the commodities on the commodities on which that registered trademark is used. The trademark licensing contract shall be submitted to the Trademark Office for the purpose of archive.

12.16.2 The Provisions for the Recognition and Protection of Well-known Trademarks

The Provisions for the Recognition and Protection of Well-known Trademarks, adopted by SAIC on 17 April 2003 and implemented as of 1 June 2003, mainly stipulate the recognition procedure by competent authorities and ways for protection of well-known trademarks. The term "well-known trademark" refers to a trademark widely known by the relevant public which is highly reputable in the PRC.

Pursuant to the Interpretation of the Supreme People's Court on Several Issues Concerning the Application of Law to the Trial of Cases of Civil Disputes over the Protection of Famous Trademarks which was promulgated on 1 May 2009, if the registered trademark used by a party is a copy, imitation or translation of a registrant's famous trademark, the people's court shall, upon motion of the registrant, make a ruling on prohibiting the defendant from using the said trademark.

12.16.3 The Copyright Law

The main regulations governing copyright is the Copyright Law, which was promulgated by the NPC on 7 September 1990 and subsequently amended on 27 October 2001 and 26 February 2010. The new amended Copyright Law came into force on 1 April 2010. The Implementation Rules of the Copyright Law, which were promulgated by the State Council on 2 August 2002 and came into effect on 15 September 2002.

The Copyright Law was enacted for the purposes of protecting the copyright of authors in their literary, artistic and scientific works and rights relating to copyright. Copyright is automatically granted once the works are completed; registration of copyright works is not compulsory. The rights of authorship alteration and integrity of an author shall be unlimited in time. The protection period of right of publication and other rights corresponds to the lifetime of the author and extends to 50 years from the death of the author if the author is an individual. Where the copyright belongs to a legal entity or another organization, or in respect of a service work where the legal entity or organization enjoys the copyright (except the right of authorship), the protection period of publication and other rights is 50 years from the date of first publication. No protection will be granted if a copyrightable work of a legal entity or another organization has not been published within 50 years after it is has been completed.

12.16.4 The Regulations on the Protection of Computer Software

The Regulations on the Protection of Computer Software, which were promulgated by the State Council on 20 December 2001 and came into effect on 1 January 2002, were enacted in accordance with the Copyright Law in order to protect the rights and interests of copyright owners of computer software, to regulate the interest relationships arising in the development, dissemination and use of computer software and to encourage the development and application of computer software.

Pursuant to the Regulations on the Protection of Computer Software, PRC citizens, legal persons or other organizations shall enjoy the copyright under these regulations for the software they have developed, regardless of whether it has been published. Software of foreigners or stateless persons first published in the PRC shall also enjoy the copyright under these regulations. Software of foreigners or stateless persons not first published in the PRC shall enjoy copyright in the PRC and protection only according to a bilateral agreement signed between the PRC and the country to which the developer belongs or in which the developer habitually resides, or according to an international treaty to which the PRC is a party.

12.16.5 The Domain Names Provisions

The principal regulations governing domain names are the Measures for Administration of Internet Domain Names of the PRC, which were promulgated by the Ministry of Information and Industry on 5 November 2004 and came into effect on 20 December 2004; and the Measures of the China Internet Network Information Centre for Resolving Disputes Regarding Domain Names, which were promulgated by the Chinese Internet Network Infrastructure Centre on 14 February 2006 and came into effect on 17 March 2006. The Measures for Administration of Internet Domain Names of the PRC regulate the registration of top level domain names under ".cn" and Chinese domain names. In this respect, top level domain names under ".cn" are the domains in English letters with suffix ".cn", and Chinese domain names are the domains spelt in Chinese characters instead of English letters. Domain name disputes shall be submitted to the domain name dispute resolution institutions authorized by the Chinese Internet Network Information Centre.

12.17 Labour Law

Labour relations in the PRC are governed by various laws, regulations and local government policies. The most important ones are the 1994 Labour Law of the PRC and the new Labour Contract Law that came into effect on 1 January 2008. Both laws are supplemented by local and subsidiary rules. An employee is regarded as an individual who performs physical or mental work in enterprises, institutions and government authorities and earns his living primarily from wages or salaries.

12.17.1 The Labour Contract Law

The Labour Contract Law was adopted by the Standing Committee of the NPC on 29 June 2007 and came into force on 1 January 2008. The Labour Contract Law has a significant impact on all existing and future employment relationships under PRC law. Pursuant to the Labour Contract Law, labour contracts shall be entered into if employment relationships are to be established between employer and the employee. There is no national standard employment contract but some local labour authorities have prepared their own standard contract.

The Labour Contract Law has strengthened an employee's position by stipulating written contracts and a minimum contents including the term of the contract, the place of work and the working hours, the remuneration to be paid to the employee and the work conditions. The Labour Contract Law imposes severe consequences and sanctions on employers for non-compliance with the conclusion of employment contracts in written form. Consequences can include the doubling of the employee's salary for the relevant period of time, should an employer fail to conclude a written employment contract for a period of one month to one year after the actual commencement of work. If no written contract has been concluded after more than one year, an unfixed-term of contract is deemed to have been concluded.

The PRC Labour Contract law has expanded the reasons for the termination of employment contracts. The employee may terminate the employment on the following grounds: (i) if the employer fails to pay social insurance premiums for the employee; (ii) if the rules and regulations for the employee violate laws and regulations, damaging the employee's rights and interests; or (iii) if the contract was concluded due to a deception by the employer. The regulations on business–related dismissal have been concretized and social criteria regarding the question as to which employees shall be dismissed need to be taken into account.

In case of termination by mutual agreement, compensation must be paid only if the agreement was proposed by the employer. In case of expiration of a fixed-term employment contract, compensation must also be paid unless the employee does not agree to renew the contract in spite of the employer's offer of constant or improved conditions. The amount of the compensation amounts to one month's salary per every year of employment. The monthly salary relevant in calculating the compensation is limited to three times the average monthly salary as determined by the competent local government and a maximum of twelve years of employment.

The PRC Labour Contract Law also provides that an employer who terminates an employment contract in violation of laws shall continue to perform the employment contract if the employee demands it. If the employee does not want to continue the employment or if the performance of the employment contract has become impossible, the employer shall pay the employee damages in the amount of twice the severance payment.

An employer cannot require an employee to work in excess of statutory time limits and shall pay wages which are no lower than the applicable local standards on minimum wages. The employer shall establish a sound system for employment protection, strictly abide by the rules and standards on work safety and hygiene and educate employees in work safety and hygiene. The employer shall provide employees with work safety and hygiene conditions meeting State stipulations and all applicable provisions of employment protection.

The State Council issued the Implementing Rules on 18 September 2008 and made further explanations on several important issues of the PRC Labour Contract Law. The Implementing Rules state, for instance, that employer and employee shall not agree on any additional termination reasons in the employment contract apart from the circumstances as stipulated in the PRC Labour Contract Law, that is automatical termination due do the expiration to the employment term, reaching of the statutory retirement age or retirement using the pension to which an entitlement under the law accrued. Further, the Implementing Rules designate the calculation method of the monthly salary of an employee for the calculation of statutory severance payments, i.e. such monthly salary shall be calculated on the basis of the total amount of the remuneration of the employee for the last twelve months including monthly salaries, bonuses, allowances and subsidies.

12.17.2 The Interim Regulation on the Collection and Payment of Social Insurance Premiums

The Interim Regulation on the Collection and Payment of Social Insurance Premiums was adopted and came into force on 14 January 1999. Pursuant to this Interim Regulation, employers shall conduct the registration of social insurance with the competent authorities, and make contributions to the basic pension insurance, basic medical insurance and unemployment insurance for their employees.

12.17.3 Laws and Regulations for Safe Working Conditions

The 2002 PRC Production Safety Law regulates safety for companies engaged in production and business operations.

All entities must fulfil the requirements on safe working conditions, including:

- setting up an administrative body for the maintenance of production safety;
- incorporating safety facilities in newly built, rebuilt or expanded construction projects;
- stipulating regulations and rules for safe production;
- offering education and training programs to employees regarding production safety; and,
- providing employees with work-related injury insurance.

Further, those companies engaged in certain dangerous activities, for example, mining, construction or production of hazardous chemicals, must obtain a safety working permit.

The State Administration of Work Safety monitors and supervises workplace safety.

12.18 Other National and Provincial Level Laws and Regulations

KINGHERO Group is subject to changing regulations under many other laws and regulations administered by government authorities at national, provincial and municipal levels, some of which are or may become applicable to its business. KINGHERO Group is also subject to numerous additional state and local laws relating to matters such as manufacturing practices and fire hazard control.

13. BUSINESS ACTIVITIES OF KINGHERO GROUP

13.1 Overview

KINGHERO Group is a profitable and rapidly developing fashion company designing, manufacturing and selling primarily casual wear in the PRC market. With more than 25 years of experience in the Chinese textile industry and its widespread sales network across major Chinese provinces, KINGHERO Group is able to detect consumer demand and style trends early and capitalize on them through flexible and cost-effective combination of in-house production and outsourcing. KINGHERO Group has increased its annual sales from TEUR 24,272 in 2007 to TEUR 32,142 in 2008 and TEUR 48,942 in 2009. This represents a constant growth rate of about 32.42% in 2008, and even 52.3% in 2009. This is largely attributed to successful marketing and KINGHERO Group's operating strategy.

KINGHERO Group offers customers attire for all seasons under the KINGHERO brand. The products are mainly designed for casual and business casual purposes and primarily target customers between the ages of 28 and 45. KINGHERO Group manufactures clothes of top design for different seasons, emphasizing quality and China’s growing social demand of personal style and taste. 57% turnover is generated with menswear (2009). KINGHERO Group has launched womenswear in 2007 and has managed to establish this product portfolio bringing it up to a significant business contribution from 42% in 2008 to 43% in 2009.

The product portfolio includes suits, jackets, shirts, pants, sweaters etc., which can be broadly divided into a business casual range and a general casual range. Since KINGHERO Group has launched the KINGHERO business casual range in 2005, the sale of this range has grown rapidly.

KINGHERO Group attaches great importance to design and production. It benefits from over 25 years of experience of its founder Mr. ZHANG Yu and KINGHERO Group’s management team in the textiles industry. KINGHERO Group’s networks of contacts in this industry and experience add deep insight into market demand and design trends and allow KINGHERO Group access to a wide network of suppliers, strengthening the production base.

The product development and design department comprises 32 professional designers and specialists (as of 31 March 2010) being responsible, inter alia, for designing, coloration and plate-making. Ms. HE Xiuming is responsible for this department.

The designers attend various domestic and international trade exhibitions to keep themselves informed of the latest fashion trends. They also analyze past and ongoing sales performance, consumer surveys, feedback from distributors and retailers on end-customer preferences, fashion-related websites and magazines, market conditions and the competitive landscape to create the overall design concept.

The product development and design team of KINGHERO Group closely cooperates with suppliers and distributors on product design. The continuous feedback from distributors and the fashion trends information regarding popular colour and fabric from suppliers are collected and forwarded to the product development and design team, who work out the detailed plan, including new product development, launch and implementation, and adjustment of packaging, etc. It seeks to create a unique Chinese style and new trends. KINGHERO Group believes that, through a range of clothing carrying a distinguished attitude and lifestyle, it can bring added value to customers. KINGHERO Group aims to promote products through a brand philosophy that adapts to long term social developments such as personalization and individualisation which is based on China's growing prosperity and income share disposable to shape and enhance personal expression and style.

The clothes are manufactured at production facilities in Xiamen City, Fujian Province, PRC. In case the sales exceed production capacity, KINGHERO Group also outsources some production. In 2009, 67.93% of production value was outsourced. Through this combination of its own production and outsourcing, KINGHERO Group is very flexible and can meet demand in a timely and cost-effective way. In order to ensure that all garments are in line with quality standards, KINGHERO Group works closely with contract manufacturers. KINGHERO Group gives priority to quality, and quality teams monitor all stages of the production process by auditing not only its own production but also the production of contract manufacturers.

KINGHERO Group has established a widespread sales network in recent years covering most major cities of the PRC and reaching a high level of market penetration, including tier one, tier two and tier three cities like Sichuan, Shandong, Fujian, Jiangxi, Shenyang, Shanghai, Chongqing, etc. Within the eight most populated cities alone, KINGHERO Group distributors reach ca. 45,000,000 potential consumers. KINGHERO Group sells products to designated distributors, and they in turn sell to retail shops and to end customers. KINGHERO Group expects to be able to add to this network in the coming years and intends to establish KINGHERO flagship stores at some strategic locations in tier one cities. Thus, KINGHERO Group intents to reach one of its core objectives, e.g. to continually strengthen the sales network and enhancing the speed of response to rapidly-changing demands of end customers.

KINGHERO Group attaches importance to brand building as key to its further development. Via local advertising campaigns within the various PRC provinces in which distributors and retailers are based, KINGHERO Group's brand has become a recognized brand name in the PRC. KINGHERO brand has been awarded "Xiamen Top Ten Fashion Apparel Brand" by Xiamen Municipal Economic Development Bureau in July 2006, "Chinese Famous Brand" by Society of Chinese Garment & Culture Research in September 2006 and "China Top Ten Men's Casual Brand" by Product Credit Investigation Dept. of the Chinese Institute of Social and Economic Survey in December 2006.

The specific measures include advertisements for attracting the distributors and for increasing sales to end costumers. The former is mainly composed of the means of fashion magazines, newspapers, outdoor posters, and bus advertisement, and the latter mainly comprises of store POP but also sponsoring. It is planned to engage celebrities as role models and brand communication catalysts.

The Company's registered office is located in Munich, Germany. The production facility of KINGHERO Group is located in Xiamen, Fujian Province, PRC.

13.2 Competitive Strengths of KINGHERO Group

13.2.1 Clear Product Focus

Since its establishment, KINGHERO Group has focused on casual wear with excellent product quality. KINGHERO Group has been one of the pioneers engaged in casual wear market in PRC. The product development and design team works closely with suppliers and distributors to capture new fashion trends quickly and ensure that designs follow changing consumer preferences.

13.2.2 Excellent Product Design Capabilities

KINGHERO Group designs its clothes inhouse with a product development and design team mainly consisting of designers trained by KINGHERO Group. The designers are very familiar with the history and development of KINGHERO Group and the KINGHERO brand. Since its establishment, the design team has maintained its stability and a beneficial age structure, with a combination of youthful energy and a senior designer’s industry experience.

To meet the changing demands of the consumers, KINGHERO Group organizes a nationwide marketing research mainly consisting of questionnaire surveys and customer seminars. This is led by designers and supported by selected distributors and sales personnel at least two times every year. Based on the research, the design and segmentation of the product range is adjusted and different design teams work on new projects. Thus, customer needs are better met, and differentiation features and the pricing capacity is enhanced.

13.2.3 Strong Sales Network

KINGHERO Group's sales network stretches throughout the PRC via designated distributors, as at 31 March 2010, KINGHREO Group has 34 designated distributors.

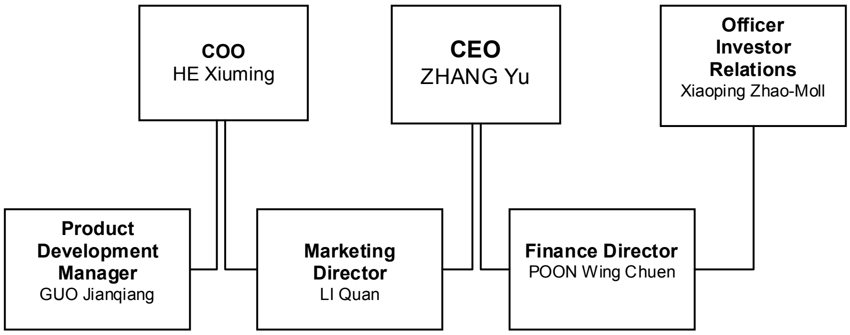
The clothes are generally sold to distributors on a wholesale basis who sell them to retailers or to end customers through their own retail shops. The distributors are of significant importance in KINGHERO Group's strategic sales network and are carefully selected, taking into account their financial standing and commitment, prior retail experience and geographical considerations. The designated distributors have a designated area in China and must observe pricing and quality guidelines set by KINGHERO Group.

The distributorship agreements generally have a term of two years and impose certain obligations on the distributors to maintain a consistent brand image, in particular on the marketing and sale of KINGHERO products in retail shops. The uniform store images are currently being designed. The distributors will then be required to follow the uniform store images. KINGHERO Group has the right to terminate the distributorship agreements if a distributor does not comply with the agreed terms. By establishing this network of distributors the influence and the reputation of the KINGHERO brand has been enhanced across PRC cities including 4 of the 5 cities with the biggest population, laying a solid foundation for further expanding the market share by strategically adding suitable designated distributors.

KINGHERO Group gives significant support to distributors in terms of store design, daily operation and sales training. Promising distributors are supported to stimulating their enthusiasm to expand the sales network. As a whole, KINGHERO Group attaches great importance to the establishment of a long-term strategic partnership with distributors specifically, generally the exclusive right to sell KINGHERO products is granted to the distributors in one geographical area for establishing long-term strategic partnership. In addition, the design and management of stores is assisted and training courses are provided.

13.2.4 Experienced Operational Management Team

KINGHERO Group's management consists of experienced professionals with relevant industry background and diverse skills.



Mr. ZHANG Yu, aged 52, is the controlling shareholder and the Chief Executive Officer of the Company. Mr. ZHANG Yu has been engaged in the garment industry since 1982, when he was responsible for the sales of the Xiamen Haishan Industry Co., Ltd. and obtained the perception that the garment industry would undergo significant development. In 1985, he founded a workshop mainly involved in the manufacturing of leather wear. Since then, the workshop has developed rapidly into the present KINGHERO Group. During the period from 1995 to 2001, he served as one of the directors of the Xiamen Municipal Commercial Association. He attended an MBA program organized by Peking Textile University as well as Senior Management postgraduate courses organized by Xiamen University from 2002 to 2005. He has served as a member of Xiamen Municipal Commercial Association of Garment and Textile since 2006. Mr. ZHANG Yu is currently attending a CEO program organized by Qinghua University.

Ms. HE Xiuming, aged 29, is a member of the management board of the Company. From 1998 to 2002, Ms. HE Xiuming studied at the Arts College of Fuzhou University. From 2002 to 2004 she studied at Xiamen University. Since 2008, Ms. HE Xiuming has attended Senior Management postgraduate courses organized by Xiamen University. In 2001, she worked as a designer at Xiamen Hanjie Industry & Trade Co., Ltd., and from 2002 to 2004 she served as a designer in Xiamen Youli Fashion Co., Ltd. In 2005, Ms. HE Xiuming worked in Guangzhou Kafoer as a design director, responsible for product development and design. In 2005, she joined KINGHERO Group as the design director. In 2007 she was appointed as deputy general manager of KINGHERO Group.

Ms. ZHAO-MOLL Xiaoping, aged 33, is a member of the management board of the Company, responsible for capital market and investor relations of KINGHERO Group. In the year 2000, Ms. Zhao-Moll achieved a Bachelor of German language and literature studies at Xi'an Foreign Language University in China. In 2006, she obtained a master's degree for German language and literature studies, economics and Anglistics at the Technical University of Darmstadt, Germany. Furthermore, she holds a certificate for Advanced Studies, Corporate Finance of the Zürich University, Switzerland. From 2004 on Ms. Zhao-Moll supported the Events department of the Deutsche Börse Group mainly dealing with Chinese Business Partners regarding Xetra – Trade Plattform and Listing Segments. In 2006 she joined the Issuer Relations Team assisting initial public offerings of Chinese Companies as a Key Account Manager. From 2007 to May 2010 Ms. Zhao-Moll was engaged in China Issuer support of Corporate Finance in the Baader Bank AG (Germany).

Mr. POON Wing Chuen, aged 45, holds a professional diploma in accountancy from the City Polytechic of Hong Kong and started his carrer as accountant with Price Waterhouse. He worked for Master Wide Industrial Limited, an OEM manufacturer for audio products, GP Electronics (Holdings) Limited, a wholly owned subsidiary of Gold Peak Industries (Holdings) Limited, a Hong Kong listed company and L.K. Machinery Co. Ltd. before he took the position of the Chief Financial Officer of Neo-Concept (Holdings) Co. Ltd. engaged in the garment trading and sample making business. He then worked as financial controller for several companies in Hong Kong, among them Super International Enterprises Limited and Technic Star Limited and served as general manager of Prefectech International Mfg. Ltd. which is in the toy and tooling manufacturing business. Until he joined KINGHERO Group in 2010 as finance director he was vice president and company secretary of Mingfa Group (International) Company Limited, a listed property developing company. Mr. Poon Wing Chuen is an Associate Member of ACCA.

Mr. GUO Jianqiang, aged 32, is currently the market product-development manager of KINGHERO Group. Mr. GUO Jianqiang studied at Xiamen Television University in 1996. From 2007 to 2009 he studied at the Dalian University of Technology, majoring in Engineering. He worked as a marketing supervisor for China Life Insurance from 1997 to 1999. From 1999 to 2003, he worked as a marketing supervisor for Ping An Insurance. From 2004 to 2007, he worked as a senior manager for Taikang Life Insurance. In late 2008, he joined KINGHERO Group, as the market product-developing manager who is mainly figuring out the products from marketing / customers demand.

Mr. LI Quan, aged 39, is currently the marketing director of KINGHERO Group. In 1989, Mr. Li Quan studied at Xiamen University. In 1991, he studied at the Shanghai University of Finance and Economics. From 1990 to 1995 he worked as a marketing supervisor at Xiamen Nuclear Industry Corporation. In 2002, Mr. LI Quan started his own business which in 2005 became a regional agency of KINGHERO Group. In 2009, he was appointed marketing director of KINGHERO Group.

13.3 Strategy

KINGHERO Group's strategy is to achieve continuous growth by implementing the following objectives:

13.3.1 **Strengthen brand building.** KINGHERO Group believes that the visibility of its brand and consumer loyalty to KINGHERO wear is the core value to future growth and to increasing the value of KINGHERO Group. KINGHERO Group has fully implemented a Corporate Identity Strategy ("**CIS**") and KINGHERO has been awarded "Xiamen Top Ten Fashion Apparel Brand" by Xiamen Municipal Economic Development Bureau in July 2006, "Chinese Famous Brand" by Society of Chinese Garment & Culture Research in September 2006, and "China Top Ten Men's Casual Brand" by Product Credit Investigation Dept. of the Chinese Institute of Social and Economic Survey in December 2006. KINGHERO Group intends to continue improving the features of its brand and deliver a consistent brand image from product design to all sales and marketing activities. To achieve this objective, KINGHERO Group is intending to establish 30 flagship stores in China in the next years. In addition, KINGHERO Group intends to increase its budget in advertising its brands and products;

13.3.2 **Further strengthen the sales network.** KINGHERO Group intends to increase its number of distributors to increase sales volume and enhance brand image. The number of designated distributors is planned to be increased from 34 (in approximately 30 cities) to approximately 60 in 60 first tier to third tier cities in the next years. If this plan of action proves to be successful, KINGHERO Group could double its sales and profit of 2009 in three years. In addition, it is intended to increase the frequency and quality of interaction with important sales partners. This is expected to not only strengthen the connection with end customers but also accelerate and improve feedback and information flow;

13.3.3 **Further increase production capacity.** In order to meet the continuous demand for products, KINGHERO Group has purchased six factory buildings of approximately 70,000 sqm in September 2009. Before end of 2010 KINGHERO Group prepares to begin with refurbishment and purchase equipment. At the beginning of 2011 these new factories are expected to be fully operational. Achieving this, KINGHERO Group is expected to be a first class enterprise with a complete chain of manufacturing, research and development across a wide range of men's and women's apparel;

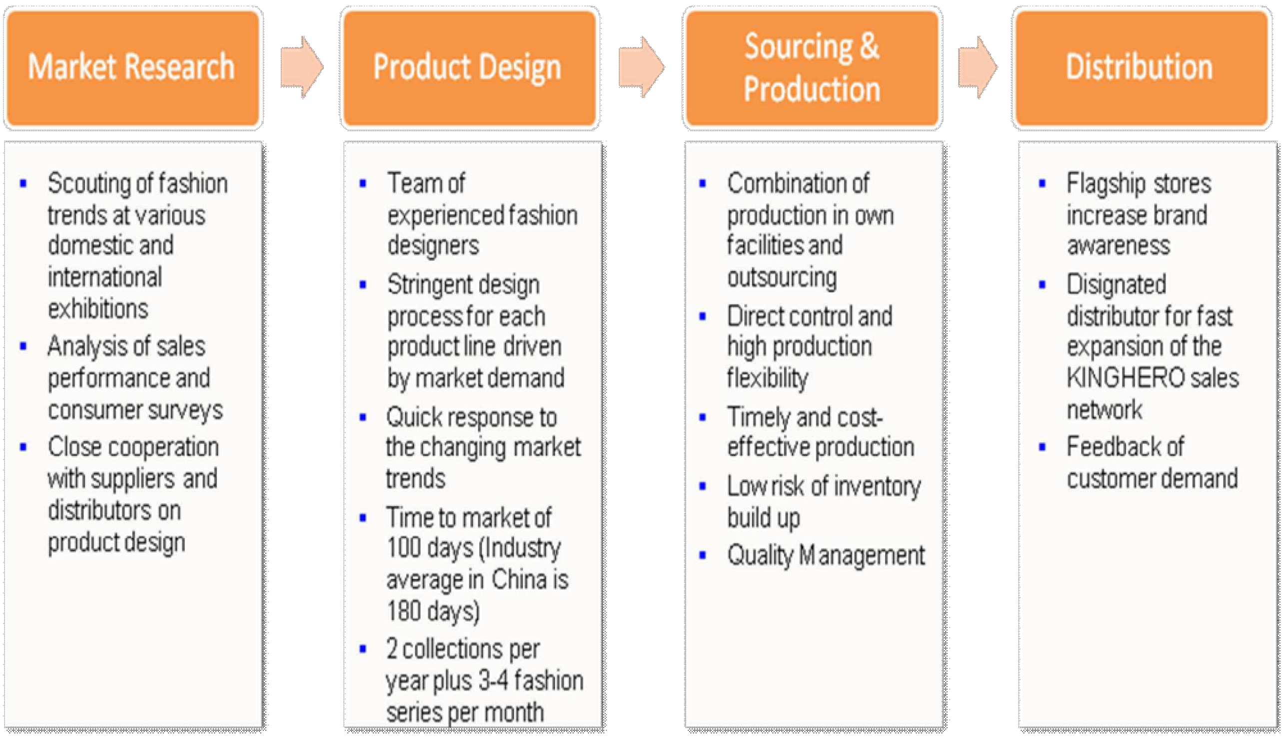
13.3.4 **Acquire new technologies.** In order to improve the USPs and the profit, the brand image, as well as the quality of products, KINGHERO Group prepares to acquire and purchase a knitting factory so that it can manufacture male and female knitted clothes under the brand of KINGHERO. Originally, the share of knitted clothes under the brand of KINGHERO in KINGHERO's clothes is 30%. According to the change of market and the sales demand, this share might be increased to 50% in the future. Furthermore, a zip factory is intended to be acquired so that the chain of cloth production of KINGHERO Group can be improved;

13.3.5 **Strengthen product development and design, and introduce new product lines in due time.** KINGHERO Group has increased R&D investment, as one important factor influencing competitiveness is the speed in which the products can be researched and developed to satisfy the changing demands of the customers. KINGHERO Group intends to further increase its investments in R&D from current app. 1% of annual turnover to over 1.5%. In addition, there is scope for new product lines whereby a wide range of styles can be designed, produced and introduced to the market;

13.3.6 **Respond quickly to the changing market, and shorten the time from design to entering the market.** KINGHERO Group believes, that a rapid response to changes in consumer demands is a significant core factor behind sustaining competitiveness in the apparel business. In the PRC, the time frame between design and market entrance of a product is 180 days on average. KINGHERO Group has shortened this time frame to 100 days on average, including about one summer collection and one winter collection plus three to four fashion series per month, and believes that it can be further reduced. In order to achieve this objective, KINGHERO Group has recently set up a special centre to coordinate any problems arising in the process from designing to placing products into the market.

13.4 Business Process

KINGHERO Group adopts a well-proven business process system which helps the company's production and sourcing departments to respond timely to orders as well as minimize business risks associated with inventory build up or customer contractual issues as well as payment . A broad schematic depiction is provided below.



13.5 Brands and Products

13.5.1 Brands

Currently KINGHERO Group has two brands: “KINGHERO menswear” and “KINGHERO womenswear”. At present, both brands are positioned within a middle price market segment. KINGHERO Group plans to strengthen its brands and raise their level as it is perceived within the market. Thus, KINGHERO menswear can be shifted in the direction of higher priced market segments and generate higher revenues accordingly. KINGHERO Group believes that the best way to gain market share of the higher priced segment of womenswear is to establish an additional womenswear premium brand. First steps are already taken and a target-oriented collection has been developed.

The Chinese brand name ”金豪” and the English brand name “KINGHERO” have been built up for many years. KINGHERO Group sells its products exclusively under these brand names. The brand name is composed of two words , KING and HERO, which symbolize the brand image which KINGHERO Group desires for itself and its customers.

KINGHERO Group has carefully cultivated the image of its brands through a combination of measures and campaigns. As a result, the KINGHERO brand was awarded, amongst other prices, the prestigious “Chinese Famous Brand“ award in 2006. KINGHERO Group believes that its brands are well-positioned to capture the growing consumer group with relatively high disposable income.

13.5.2 Products

KINGHERO Group aims to offer trend-setting designs with matching styles and colours to enable consumers to mix-and-match creatively for most occasions.

KINGHERO Group has control over the creation of its products from design to manufacturing and, in certain respects, selling. The products are mainly designed for casual and business purposes and primarily target customers between the ages of 28 and 45.

KINGHERO Group offers products for the summer and winter season in three broad collections: business formal, business casual, and fashion casual. Through these collections, KINGHERO Group seeks to reflect the sense of style of a modern urban society. The details of these collections are set out as below:

Business casual

Business casual collection includes apparel that is less formal yet still suitable for professional engagements. Successful businessmen and businesswomen, including mid and senior executives, are the target customers. Main offerings for this collection include suits, shirts, sweaters, dresses, skirts, pants, jackets and windbreakers.

Fashion casual

Fashion casual collection primarily caters to leisure and entertainment activities. Generally younger businessmen and businesswomen, who seek fashionable styles for their leisure wear, are the target customers. Main offerings include polo-shirts, T-shirts, sweaters, pants, jeans, dresses, skirts and jackets.

Business formal

Business formal collection includes conventional business attire, such as business suits, which is traditionally designed for business-oriented occasions and formal events. Successful businessmen and businesswomen, especially senior executives, are the target customers. The main offerings in this collection include suits, shirts, sweaters, dresses, skirts, pants, jackets and overcoats.

13.6 Marketing

13.6.1 KINGHERO Group's Marketing Model

KINGHERO Group places an emphasis on being stylish and unique. KINGHERO Group has a marketing strategy that carries product design, product display and price policy all through its distribution network. KINGHERO Group’s marketing team, drawing on the depth of experience of the founder Mr. ZHANG Yu, is responsible for organizing market research and promoting KINGHERO Group’s brands.

13.6.2 KINGHERO Group's Brand Positioning

Based on the analysis of market demand and constant research and exploration of personalities, characteristics, and individual styles of consumer groups, KINGHERO Group considers men and women 28 - 45 years of age as its target consumer group. KINGHERO Group has carried out focused research and analysis of these groups, the results of which have enabled clear brand positioning.

The brand positioning of KINGHERO can be summarised as follows:

Item	Content
Target consumer groups	Business people aged 28 – 45
Occupation	White-collar
Income	Over RMB 3,000 per month (EUR 327.3 as of 31 March 2010).
Characteristics	Young and increasingly individualistic urban professionals with growing purchasing power

13.6.3 KINGHERO Group’s Marketing Strategies

KINGHERO Group's marketing strategies are characterized mainly by the following aspects:

Product Design

To meet the different needs of various consumers, KINGHERO Group evaluates their demands and then adjusts the direction of product designing by analyzing the positioning of KINGHERO Group and its competitors. In addition to clothing products, KINGHERO Group intends to develop accessories to complement its existing product range. Product compositions and brand specifications are communicated to the distributors by trainings, guidelines and contractual agreements.

Product Display

KINGHERO Group places great importance to understand the product display of competitors and makes regular adjustments to its own product display. For the purpose of display programme, KINGHERO Group also fully takes into consideration such factors as the characteristics of segmented markets and the range of the products. KINGHERO Group confers a pivotal role in transferring the product display into the market to its distribution network.

13.6.4 Marketing/Market Research

The market research is an in-depth analysis of the garment industry and company management. With the understanding of Chinese garment market, operations, markets, business models, competition and development trends of companies engaged in the garment industry are analysed on a quantitative and qualitative basis.

KINGHERO Group conducts market research as follows: first, KINGHERO Group organizes and guides its designated distributors to complete market research and conduct advertising in local areas, including research on the general situation, customer habits, competitors and media. The results of this research help KINGHERO Group to decide on the advertisement and promotion plan in each area. Secondly, KINGHERO Group collects information from professional journals and magazines, newspapers and from the internet and analyzes such information to follow changes and developments of the casual wear market. Furthermore, as sales personnel are sensitive to market changes and development, they are also responsible for executing market research.

Marketing is essential for casual wear companies to gain market influence, enhance brand and product image. KINGHERO Group has put into effect a rapid expansion of its sales network and formed a mature store operation model under the assistance of excellent distributors. Thus, it has increased sales volume and expanded sales channels. Through the strategic position of distributors, KINGHERO Group's sales network covers major cities around the PRC, and achieved leading position in some cities. This has laid a solid foundation for further expansion of market share. After research on the demand of target customers KINGHERO Group adopts marketing methods to build its brand and to implement market promotion based on the brand positioning of KINGHERO. In order to meet changing market demands and satisfy customers, KINGHERO Group analyzes potential customer wishes collected through its sales network and rapid information channels, designs and produces personalized casual wear to turn these into actual products and services in time.

As of 31 March 2010, KINGHERO Group has formed a widespread sales network with 34 designated distributors in approximately 30 cities in 17 provinces throughout the PRC. Local advertising campaigns in these provinces help strengthen the network and enhance the visibility of KINGHERO brands.

13.7 Competition and Competitors

KINGHERO Group competes in the PRC with an increasing number of local and international players. International brands traditionally dominate the high-end market, but local brands have advantages in price and sales network and are increasingly competitive in mid- to high-end markets. KINGHERO Group believes that it can compete on the basis of brand image, design, product mix, quality, price, customer service and the breadth of its retail network. KINGHERO Group's major competitors include the following companies:

13.7.1 Domestic Competitors

In terms of product similarity and price positioning, KINGHERO Group's main competitors are the following:

Fujian Septwolves Industry Co., Ltd., founded in 1989, located in Jinjiang City, Fujian Province, is a well-known brand for men's casual wear, including jackets, shirts, T-shirts, sweaters and suits.

Fujian Seven Brand Group Co., Ltd., founded in 1979, located in Jinjiang City, Fujian Province, is a comprehensive enterprise covering clothing research, design, manufacturing and marketing. Its products mainly include jackets, suits, trousers, casual trousers, sweaters, shirts and T-shirts.

LILANZ (China) Co., Ltd., founded in 1987, located in Jinjiang City, Fujian Province, is one of PRC's leading menswear brands in the market, which put forward the concept of "business casual". Its products include suits, jackets, shirts, trousers and T-shirts.

Joeone (Fujian) Fashion & Development Co., Ltd., founded in October 1989, located in Quanzhou City, Fujian Province Economic and Technological Development Zone, is an enterprise specializing in the manufacturing and selling of business casual wear, including men's trousers, casual trousers, jackets and suits.

K-boxing Men's Wear Co., Ltd., founded in 1980, located in Jinjiang City, Fujian Province, has manufactured and sold the products of "K-boxing" brand, including jackets, T-shirts, suits, casual pants, shirts and other men's range of business casual wear.

13.7.2 International Competitors

Currently, there are various international brands in the PRC. However, due to their policies of high product-pricing these international brands are not deemed as KINGHERO Group's competitors.

13.8 Research & Development

Product planning is KINGHERO Group's own starting point of the business model. KINGHERO Group's product planning department's main tasks include the formulation of product development and design programs, their implementation and tracking.

Product development and design is carried out by KINGHERO Group independently. KINGHERO Group's product development and design team, grasping the domestic business casual wear market trends and combining the customers' demands with brand positioning, designs a wide range of casual clothing well-directed to the targeted customers. The products fully integrate business elements in their design.

As one of the leading firms in the clothing industry, KINGHERO Group has placed great emphasis on the belief that simple elements can be utilized to draw on the colourful variety of business life, by which business people can be enabled to be more mature and confident in business circumstances. From the whole to every detail, every element of a design is to achieve perfection.

13.8.1 Brand strengthening

KINGHERO Group intends to adopt the following measures to ensure its brands remain innovative and appealing:

Training

KINGHERO Group attaches importance to its employees' training and career growth. It engages internal and external trainers to carry out overall training for all employees, and periodically assesses the training result. Over several years KINGHERO Group has formed an experienced designer team. Due to the enthusiastic corporate culture, the prosperous KINGHERO Group future and the continuing training program, the designer team has managed to maintain its stability in members and efficiency in product designing. KINGHERO Group will continue to focus on employees' training and will seek and recruit young designers with great potential, and offer them adequate training and opportunities. It is believed that these young designers will grow along with KINGHERO Group and contribute to the further growth of KINGHERO Group.

Strengthen product development and design

KINGHERO Group believes that excellent product design is a crucial criterion for KINGHERO Group's casual wear to business growth. It plans to gradually increase resources allocated to product development and design.

Enhance Market Insight

KINGHERO Group intends to consistently improve its sales network to enhance market insights and better understand target customers' habits and preference, as well as the fashion trends. At the same time, KINGHERO Group will engage more designers in conducting research and investigation into domestic and overseas casual wear market, and further improve product designing methods and procedures to make sure the product design meets customers' demands.

13.9 Quality Assurance

KINGHERO Group sets strict quality control standards and procedures in selection of suppliers and the production process, and the quality control department is responsible for product quality tests.

13.9.1 Product Quality Control

KINGHERO Group recognizes the importance of quality control over the products and believes that KINGHERO Group's continuous attention to high quality is crucial to its success.

KINGHERO Group's product quality control includes intrinsic quality and exterior appearance.

Quality Control Standards and Procedures

The table below sets forth the main control procedures KINGHERO Group adopts with respect to quality control:

Phase	Control measure
Development of samples	- Quality test on fabric and auxiliary materials as well as on finished samples
Production	- Send 100% fabric and auxiliary materials to quality control department for test, test results are passed to workshop in time; unqualified data is passed to workshop and suppliers immediately, and material is marked and blocked out from production
Production process	- Monitoring / auditing by specialist sent by quality control department
Before delivery to Designated Distributors	- Delivered to Designated Distributors after passing quality tests.

13.9.2 Service Quality Control

KINGHERO Group establishes strict policies regarding service quality control systems over designated Distributors, and trains their staff periodically. In order to enhance after-sales service quality, KINGHERO Group also develops systems regarding after-sales service and customer complaints, and operates a hotline to properly handle complaints from customers.

13.10 Production Facilities

13.10.1 Leased production facilities

Kinghero Xiamen and Michelle are currently leasing two production sites next to each other in no. 88, South Sunban Road, Jimei District, Xiamen City.

Kinghero Xiamen is renting a factory from Xiamen Hengwei Industry Co., Ltd., located at No. 88, South Sunban Road, Jimei District, Xiamen City with a floor area of 6,517.6 sqm (equivalent to 70,154.86 square feet). According to the lease agreement, the term of lease is one year from 1 January 2010 to 31 December 2010, and the purpose is for both production and office use.

Michelle is renting a factory from Xiamen Hengwei Industry Co., Ltd., located at No. 88, South Sunban Road, Jimei District, Xiamen City with a floor area of 2,517.6 sq sqm (equivalent to 27,099.22 square feet). According to the lease agreement, the term of lease is from 16 July 2009 to 10 May 2012, and the purpose is for both production and office use.

Upon completion of the term of lease, Kinghero and Michelle shall repair the subject completely before returning it to Lessor; Kinghero and Michelle are entitled to move any ornaments upon returning the subject but are not permitted to damage the original property structure and shall restore the original structure of the subject.

13.10.2 New production facilities

In September 2009 Kinghero Xiamen and Michelle have entered into real estate purchase contracts for land use rights and factory buildings within Houxi Industrial Park, also located in Jimei District, Xiamen. The real estate purchase contracts have been registered with the competent authorities on 12 March 2010.

The aggregate site area amounts to approximately 70,704.48 square meters (equivalent to 761,056.69 square feet), and 6 buildings have been constructed on the above-mentioned land, including one office building, one staff dormitory building, and four manufacturing buildings.

The new production facilities are currently being refurbished and have not yet been brought into use. The management anticipates that the new factory buildings at Houxi Industrial Park will be put into operation at the beginning of 2011. There are currently no environmental issues that may affect the Company's utilisation of these tangible fixed assets.

However, title to the land use rights and ownership of buildings have not yet passed to Kinghero Xiamen and Michelle. Management expects these to pass when certain legal formalities have been complied with.

13.11 Plant & Equipment

Kinghero Xiamen owns plant & equipment comprising technical assets and machinery used in the manufacturing process. As of 31 March 2010, these assets amounted to RMB 11,377,000 (TEUR 1,241.23). These assets are not encumbered by mortgages or pledges and there are currently no environmental issues that may affect the Company's utilisation of these tangible fixed assets.

Kinghero Xiamen is leasing part of its textile equipment to independent third parties at the rate of RMB 30 (EUR 3,27 as of 31 March 2010) to RMB 50 (EUR 5,46 as of 31 March 2010) per month for each piece of equipment. The total quantity of the leased equipment is 1,864 and the total amount of rental income is RMB 65,000 (EUR 7,091.5 as of March 2010) per month.

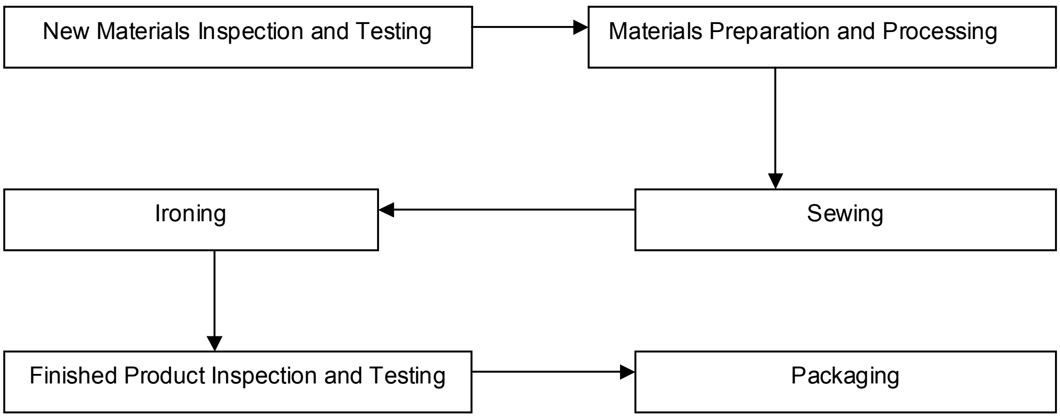
13.12 Production

As set out in section 13.5.1 “*Brand and Products*” above, the products of KINGHERO Group fall into the following categories:

Categories	Products
Business formal	suits, shirts, sweaters, pants, jackets and overcoats.
Business casual	suits , shirts, sweaters, pants, jackets and windbreakers.
Fashion casual	polo-shirts, T-shirts, sweaters, pants, and jackets.

The manufacturing process is as follows:

The manufacturing process is divided into six main stages: (1) new materials inspection and testing; (2) materials preparation and processing; (3) sewing; (4) ironing; (5) finished product inspection and testing (6) packaging.



In the manufacturing process, KINGHERO Group strictly adheres to product quality control.

13.13 Outsourcing to External Contractors

In order to optimize cost effective production and to meet periods of strong market demand or tight schedules, especially during peak production seasons, while maintaining a manageable fixed cost base, KINGHERO Group outsources to external contractors the production of certain products, especially those that require less special skills and involve less proprietary designs. KINGHERO Group believes that the outsourcing arrangements optimize the production flow and allow to leverage the expertise and resources of contractors.

As a result the percentage of merchandise produced by external contractors is continuously growing; from 40.47% in 2007 to 67.93% in 2009.

KINGHERO Group engages currently over 25 contractors and has established business relationships with most of the top ten contractors for more than five years. KINGHERO Group rigorously assesses each contractor on product quality, production cost and timely product delivery.

KINGHERO Group's short-term agreements with contractors set out terms such as product details, agreed price, purchase quantity and delivery terms. The contractors usually give KINGHERO Group three months credit after receiving the goods. KINGHERO Group then pays the remaining balance of the agreed price (less deposits paid where applicable) to contractors in accordance with the terms under the respective agreements entered into with contractors. KINGHERO Group may use multiple contractors for any given product and is not bound to place any minimum order with any contractor. KINGHERO Group has not encountered any material disruption to their business as a result of failure to obtain supplied products. KINGHERO Group has not experienced and does not envisage that it will experience any material difficulties in obtaining the required supplied products.

For the years ended 31 December 2007, 2008 and 2009, purchases from the top five contractors accounted for 67.8%, 82.2%, and 46.7%, respectively, of the total purchase of products. Purchase from the largest contractor accounted for 17.89%, 32.47% and 20.04%, respectively, of the total purchase of products for the same periods.

13.14 Supply Chain Management

Supply chain management mainly comprises products research, design and development, procurement of raw materials, manufacturing and distribution of products within the sales network. KINGHERO Group believes that the effective management of the supply chain enables it to efficiently utilize product offering capabilities, reduce product supply cycle time and respond quickly to changing market trends.

For further details of product research, design and development, please refer to the section headed "*13.8 Research & Development*".

For further details of procurement of raw materials, please refer to section13.15 *"Suppliers*".

For further details of manufacturing of products, please refer to section 13.12 *"Production*".

For further details of sales network, please refer to section 13.17 *"Sales Concept*".

13.15 Suppliers

13.15.1 Raw Material Purchase Requisition

Presently, KINGHERO Group's main model is to produce to match sales orders. The quantity of raw materials purchased is mainly dependent upon the orders of contracts signed with designated distributors and other business dealers.

13.15.2 Raw Material Purchase

With regard to raw material purchases, KINGHERO Group cultivates and selects its suppliers pursuant to a set of strict procedures.

According to strategic planning for each year, KINGHERO Group plans to expand its supplier network, seeking for qualified potential suppliers. The general procedures of expanding its supplier network are as follows:

KINGHERO Group evaluates and assesses suppliers according to their product quality, production speed, production costs, timing of delivery and management level. KINGHERO Group, considering the cooperation of suppliers in the past, conducts performance appraisal on the suppliers after each season. The suppliers fall into different categories according to the results of the performance appraisal. KINGHERO Group, also considering other aspects, selects preferable qualified suppliers to sign the contracts.

The pricing of purchasing raw materials is based on the following principles: (1) In case of raw materials of the same quality and same kind, an open, fair and reasonable principle of bidding is adopted; (2) In the case of same quality, the supplier with the best price is selected, and in case of identical prices, the supplier with the best quality is selected.

The tables below illustrate the top 5 suppliers of KINGHERO Group for the period from 1 January 2007 to 31 December 2009.

Year 2009

Suppliers	Purchase amount RMB/(TEUR)	% of total amount
Shao Xing Guan Bo Textile Co., Ltd.	34,733,500.39 (3,660.91)	11.28%
Fujian Shishi Hengxinzhuang Textile and Trading Co., Ltd.	19,617,061.39 (2,067.64)	6.37%
Shishi Jinli Textile Trading Co., Ltd.	14,926,721.71 (1,573.28)	4.85%
Shishi Shengda Textile Trading Co., Ltd.	14,487,630.29 (1,526.99)	4.71%
Shenzhen Laoyeche Fashion (Hong Kong) Co., Ltd.	13,011,116.46 (1,371.37)	4.23%
Total	**96,776,030.24 (10,200.19)**	**3.144%**

Year 2008

Suppliers	Purchase amount RMB/(TEUR)	% of total amount
Shao Xing Guan Bo Textile Co., Ltd.	28,761,483.00 (2,830.13)	14.65%
Fujian Shishi Hengxinzhuang Textile Trading Co., Ltd.	15,771,794.00 (1,551.94)	8.03%
Xiamen Shenghao Clothing Accessory Co., Ltd.	11,866,697.62 (1,167.68)	6.04%
Shishi Shengda Textile Trading Co., Ltd.	10,327,882.00 (1,016.26)	5.26%
Shishi Jinli Textile Trading Co., Ltd.	9,778,740.00 (962.23)	4.98%
Total	**76,506,596.62 (7,528.24)**	**38,96%**

Year 2007

Suppliers	Purchase amount RMB/(TEUR)	% of total amount
Shishi Huadong Textile Trading Co., Ltd.	12,878,388.00 (1,236.33)	8.52%
Shao Xing Guan Bo Textile Co., Ltd.	11,083,668.00 (1,064.03)	7.33%
Shishi Langmanwangzi Fashion Co., Ltd.	9,587,821.00 (920.43)	6.34%
Shishi Kaishundiya Fashion Co., Ltd.	8,815,046.00 (846.24)	5.83%
Guangzhou Dayu Clothing Co., Ltd.	8,619,429.64 (827.46)	5.7%
Total	**50,984,352.64 (4,894.49)**	**33,09%**

13.16 Employment

KINGHERO Group places great emphasis on recruiting quality personnel and recruits talent from universities and technical colleges. On-going training and development opportunities to staff is provided. KINGHERO Group's training programs cover topics such as sales and production, customer service, quality control and pre-employment training. KINGHERO group also provides training on fire protection, workplace ethics and other areas relevant to the industry. KINGHERO Group believes that staff training plays an important role in recruiting and retaining talent and enhancing employee loyalty. KINGHERO Group employment benefits also include housing at the production sites to key employees. KINGHERO Group makes contributions to social security insurance funds (including pension insurance, unemployment insurance, medical insurance, work-related injuries insurance and maternity insurance) and housing provident funds.

As of 31 March 2010, KINGHERO Group had a total of 896 permanent employees. The table below provides a breakdown of employees by category:

Department	**Number of employees**
Administration	59
Product development and design	32
Production	259
Sales and procurement	546
Total	**896**

As of the date of this Prospectus, no material change in the number of employees has occurred compared to the respective numbers as at 31 March 2010. In the previous years, KINGHERO Group employed on average 960 employees in 2007, 1,124 employees in 2008 and 975 employees in 2009.

13.16.1 Senior Staff

KINGHERO Group has about 10 senior staff members including two vice general managers, administrative manager, development manager, financial manager, design manager, marketing manager, factory director and quality control manager.

13.16.2 General Overview on Labour Terms

KINGHERO Group's labour contracts were typically concluded by using a standard contract formulated by Xiamen Bureau of Labour and Social Security and have been verified by the relevant labour authority of Xiamen. The standard contract contains the necessary clauses stipulated by the *Labour Contract Law*. The standard clauses of the contract are in compliance with provisions of relevant laws and regulations.

In addition, KINGHERO Group provides employees with supplementary agreements to the labour contracts which govern issues such as working time, rest and vacation policies.

The contract terms are typically fixed for one year for regular employees and 3 – 5 years for senior staff members.

All these contracts provide for a one-month or three-month probation period as well as the corresponding wage during the probation period. In the supplementary agreement, KINGHERO Group has clarified that the clause of probation period is not binding if it has been used in the past labour contracts for the old employees.

13.16.3 Working Time

KINGHERO Group has standard employment contracts that foresee a standard working time system as described below.

A regular eight-hour work time system (i.e. 8:00 – 11:30, 13:00 – 17:30 per working day) applies to office staff and to workshop managerial personnel and service personnel. A three-shift work system (i.e. Dayshift: 8:00 – 16:00, Afternoon Shift: 16:00 – 12:00, Nightshift: 0:00 – 8:00) applies to workers engaged at the product line in workshops as well as members of mechanic teams, etc.

13.16.4 Labour Remuneration

Basic Monthly Salary

KINGHERO Group applies a time-rate wage system to all staff members. The minimum basic monthly wage of formal employees is RMB 750 (EUR 81.83 as of 31 March 2010), which is in compliance with the minimum wage standard provided by local regulations of Xiamen. The actual monthly salary paid to the employees amounts to RMB 1,000 (EUR 109.10 as of 31 March 2010) or more.

Bonus

Payment of bonuses to employees is made in accordance with KINGHERO Group's regulation on the scheme of labour remuneration and distribution formulated in accordance with legal provisions. Bonuses in various amounts have been paid to certain individual employees on a monthly basis.

Overtime Allowance

Overtime allowance is provided by KINGHERO group. Three times the actual hourly wage is additional paid overtime on statutory holidays, or two times the actual hourly wage for overtime work on Saturday/Sunday as an alternative to granting leave on usual work days, or 1.5 times the actual hourly wage if the employee has worked for more than 20.83 days in a month. Meantime, according to the Supplementary Agreement between KINGHERO Group and its employees, the overtime salary basis should be RMB 5 (EUR 0.55 as of 31 March 2010) per hour (however this overtime salary basis should not be lower than the salary standard agreed in the respective labour contract).

13.16.5 Social Insurance

KINGHERO Group and its employees pay relevant social insurance contributions.

Generally contributions for old age fund, health insurance and birth insurances are based on the average monthly wage of the preceding year of the individual employee. If an employee's average monthly wage is less than 60% of the current average monthly wage of all employees in Xiamen, a standard equivalent to this aforementioned 60% should apply. If an employee's average monthly wage is more than 300% of the current average monthly wage of all employees in Xiamen, a standard equivalent to this aforementioned 300% should apply. If the amount of the average monthly wage of the preceding year of the individual employee is not available, the current average monthly wage of all employees in Xiamen should apply as the basis for calculation.

13.16.6 Vacation

Employees are entitled to leave and vacation as provided by law.

KINGHERO Group employees are entitled to the statutory holiday of 11 days, and also enjoy other leaves (such as marriage leave, maternity leave, funeral leave and paid annual leave etc) according to law. Additional paid annual leave is granted depending on length of service.

13.17 Sales Concept

KINGHERO Group has developed an efficient system in controlling sales, including sales plan control, sales logistics control and sales exploration control.

Sales plan control refers to preparation of sales plans by sales department, including sales target plans, sales promotion plans and sales service plans.

Sale logistics control refers to collection of data and information sent from various designated distributors, preparation of requisition plans and production plans and decision on products distribution.

Sales exploration control refers to qualification control over designated distributors, store image management, training, promotion, credit management, advertisement management and ordering management.

The sales activities of KINGHERO Group are conducted through a network of designated distributors ("**Designated Distributors**").

KINGHERO Group sells its products to domestic customers through its Designated Distributors (29 up to 31 December 2009). This model is suitable for garment companies in the stage of rapid growth. Under such model, KINGHERO Group can take advantage of the Designated Distributors' sales networks to efficiently explore the markets and increase sales volume with less working capital and less stock level.

13.17.1 Top 5 Designated Distributors

The table below illustrates the top 5 Designated Distributors of KINGHERO Group for the period from 1 January 2007 to 31 December 2009.

Year 2009

Designated Distributors	Sales amount RMB/(TEUR)	% of turnover
Li Yan	20,597,676.97 (2,170.99)	4.4%
Li Songshou	20,467,833.50 (2,157.31)	4.4%
Xiao Ling	20,444,614.27 (2,154.86)	4.4%
Wang Yingying	20,079,515.57 (2,116.38)	4.3%
Chen Cuizhen	18,908,322.25 (1,992.94)	4.1%
Total	**100,497,962.56 (10,592.48)**	**21.6%**

Year 2008

Designated Distributors	Sales amount RMB/(TEUR)	% of turnover
Li Yan	19,005,068.00 (1,870.09)	5.82%
Xiao Ling	18,340,060.00 (1,804.66)	5.61%
Chen Cuizhen	18,279,051.00 (1,798.65)	5.6%
Zhang Zhaoren	17,904,508.00 (1,761.80)	5.48%
Li Quan	17,648,092.00 (1,736.57)	5.4%
Total	**91,176,779.00 (8,971.79)**	**27.91%**

Year 2007

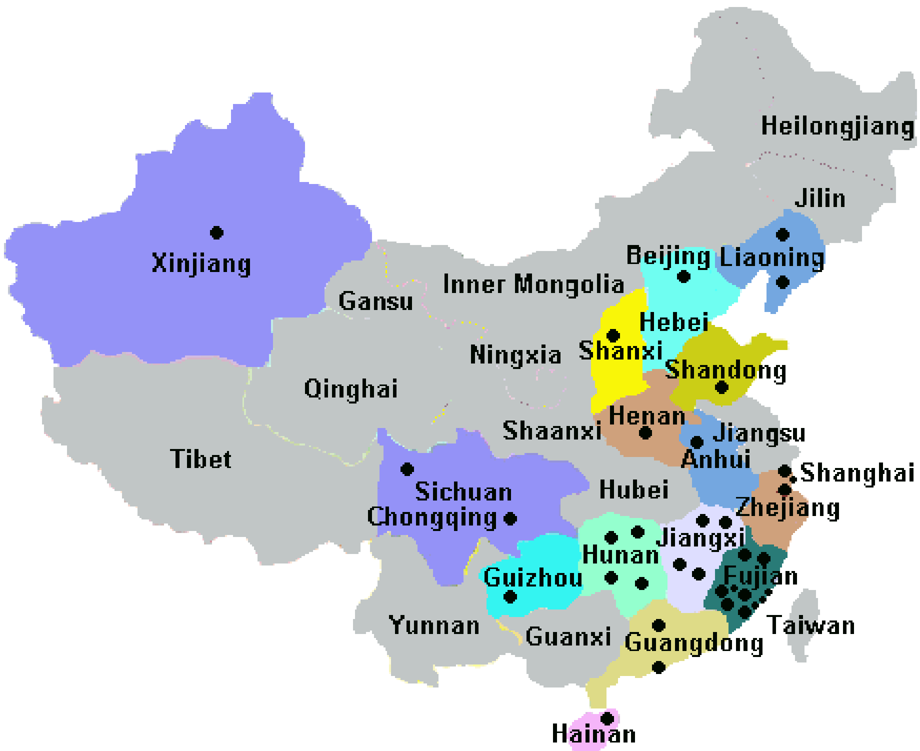
Designated Distributors	Sales amount RMB/(TEUR)	% of turnover
Qiu Weichao	17,604,413.00 (1,690.02)	6.96%
Li Yan	14,438,947.00 (1,386.14)	5.71%
Xiao Ling	14,010,878.00 (1,345.04)	5.54%
Chen Cuizhen	13,931,443.00 (1337.42)	5.51%
Zhang Zhaoren	13,581,580.00 (1,303.83)	5.37%
Total	**73,567,261.00 (7,062.45)**	**29.1%**

13.17.2 Status quo of KINGHERO Group's Sales Network and Sales Management System

After years of rapid growth, KINGHERO Group's Designated Distributors cover several major cities of the PRC. KINGHERO Group has divided the mainland into three major sales areas, North, South, East & West. The following table shows the turnover and the corresponding percentage of turnover by area during the period from 1 January 2007 to 31 December 2009:

	Year 2007		Year 2008		2009	
Area	RMB/ (EUR) million	% of turnover	RMB/ EUR million	% of turnover	RMB/ EUR million	% of turnover
North PRC	54.9 (5.3)	21.7	66.2 (6,5)	20.3	93.2 (9,8)	20.1
South PRC	97.5 (9.3)	38.6	128.9 (12,7)	39.5	194.8 (20,5)	42.0
East & West PRC	100.4 (9,6)	39.7	131.5 (12,9)	40.3	162.0 (17,1)	34.9
Indirect Export	0.00 (0.00)	0.00	0.00 (0,00)	0.00	14.2 (1,5)	3.1
Total	252.8 (24,2)	100.0	326.6 (32,1)	100.0	464.1 (48,9)	100.0

The following map shows the location of the 34 Designated Distributors:



Note:

(1) North PRC includes Qinghai, Gansu, Xinjiang, Heilongjiang, Jilin, Inner Mongolia, Liaoning, Hebei, Shaanxi, Shandong, Shanxi, Ningxia, Beijing, Tianjin

(2) South PRC includes Jiangsu, Hubei, Hunan, Henan, Anhui, Jiangxi, Guangdong, Guangxi, Hainan

(3) East & West PRC includes Yunnan, Guizhou, Zhejiang, Fujian, Sichuan, Shanghai, Chongqing

Each year, KINGHERO Group makes an analysis of the previous year's overall situation of the sales areas, the results of which will be the basis for strategic decision-making of the next year. According to the annual strategic plan, KINGHERO Group establishes annual target sales, which will be broken down into KINGHERO Group's overall sales plans and the sales areas plans. During the process of the product sales, KINGHERO Group will adjust product prices, based on product sales of respective sales areas and the product life cycle, ensuring a dynamic development of KINGHERO Group's sales.

KINGHERO Group conducts a comprehensive assessment on annual sales, gross margin and inventory indicators. KINGHERO Group exerts incentives to the sales system through the formulation of performance-oriented remuneration policies.

13.17.3 Trade Fair Model of KINGHERO Group

The casual wear retail market is sensitive to changes in fashion trends, so companies need to make rapid responses to changing market conditions, and timely reflect such changes in the new wear product design, production and sales. According to the above characteristics of the casual wear retail industry, KINGHERO Group developed a corresponding product ordering system. Another model of KINGHERO Group is the trade fair model, i.e. by means of attendance at trade fairs two times every year for summer and winter collection, long term changes of the market can be observed. KINGHERO Group also presents its own developments at theses fairs and adjusts the collections according to the immediate reaction of market representatives at the point of sale.

13.17.4 The Management of Designated Distributors

In order to strengthen the management of its Designated Distributors and protect its brand, KINGHERO Group concluded distribution contracts with all its Designated Distributors in October 2009 with a general validity of two years, while part of these have a validity exceeding three years. The general conditions of the contracts are set out in further detail in the section entitled “*Material Contracts*”.

13.18 Inventory Control and Logistics (Storage & Transport)

Recognizing that inventory level control is very important to overall profitability, KINGHERO Group generally plans purchases of raw materials after confirming sales with Designated Distributors, which enable KINGHERO Group to manage the inventory of raw materials and finished products more efficiently. For the above reasons, KINGHERO Group minimizes obsolete raw materials or finished products at the end of the year.

KINGHERO Group also carries out physical stock counts from time to time to identify obsolete or damaged goods. For obsolete, unused or damaged goods or raw materials, specific provision will be made on an item of inventory if the carrying amount is lower than the net realizable value, and such policy has been consistently applied. For the years ended 31 December 2007, 2008 and 2009, no provisions for obsolete or slow-moving raw materials or finished goods were required. KINGHERO Group’s warehouse is located in Jimei District of

Xiamen City. Utilizing own delivery or external transportation services, finished products can reach the warehouses of any of the Designated Distributors within 5 days.

Average inventory turnover for the year 2007, 2008 and 2009 were 27 days, 21 days and 25 days respectively.

13.19 Intellectual Property

13.19.1 Trademarks Registered in China

Kinghero Xiamen has registered the following trademarks related to its "KINGHERO" brands with the Trademark Office of the State Administration for Industry and Commerce in PRC:

Trademark	Class	Registration No.	Issuing Authority	Duration of Right
金豪 KINGHERO	18 briefcases, handbags, vanity cases (not fitted), pocket wallets, backpacks, cases of leather, valises, key cases (leather ware) and canes	3286867	Trademark Office of the State Administration for Industry and Commerce	28 May 2004 to 27 May 2014
KINGHERO	25 clothing, shoes, hosiery, neckties, strap, gloves (clothing), baby suits and raincoat (rain cap, shawl, rain cape)	3286868	Trademark Office of the State Administration for Industry and Commerce	28 March 2004 to 27 March 2014
	25 clothing, leather (clothing of), leather shoes, leather gloves)	564878	Trademark Office of the State Administration for Industry and Commerce	10 September 1991 to 9 September 2011
金豪	25 clothing, leather (clothing of), leather shoes, leather gloves)	564879	Trademark Office of the State Administration for Industry and Commerce	10 September 1991 to 9 September 2011

金米雪儿	25 layette, bathing suit	5000509	Trademark Office of the State Administration for Industry and Commerce	14 April 2010 to 13 April 2020

There are currently two other unrelated companies which both own a trademark named Michelle “米雪儿” (Pinyin: “Mi Xue Er”) whose wording and pronunciation is similar to the trademark which has been registered by Kinghero Xiamen. Although the above two similar trademarks are word trademarks only and not a combined word / logo mark as registered by Kinghero Xiamen, it cannot be excluded that any third party will initiate legal actions to challenge the trademark registration or such third party raises a claim for tort against use of the trademark “金米雪儿” or claims because of unfair competition against the name Michelle (Chinese Character: 米雪儿).

It is intended that KINGHERO Group registers a new trademark for its women’s collection and ceases to use the “Michelle” trademark in the future.

13.19.2 Trademark Registration in Germany

The following trademarks have been applied for registration by the Company on 5 February 2010 with the German Patent and Trademarks Authority (*Deutsches Patent- und Markenamt - DPMA*) and have been registered on 16 June 2010:

Trademark	Class	Registration No.	Authority
KINGHERO 金豪 ®	16, 18, 24, 25, 26, 35	30 2010 007 052.8	DPMA
KINGHERO	16, 18, 24, 25, 26, 35	30 2010 007 056.0	DPMA
金豪 KINGHERO FRESH	16, 18, 24, 25, 26, 35	30 2010 007 054.4	DPMA
金豪	16, 18, 24, 25, 26, 35	30 2010 007 055.2	DPMA

KINGHERO	16, 18, 24, 25, 26, 35	30 2010 007 053.6	DPMA
Michelle 米雪儿	16, 18, 24, 25, 26, 35	30 2010 007 057.9	DPMA

13.19.3 Software Copyrights

KINGHERO Group holds copyrights to the following software:

- Microsoft Office SB 2007 COEM
- ArisaCAD
- Kingdee KIS Professional V9.1

13.19.4 Domain Names

The following internet domains have been registered:

Domain Name	Owner	Term
www.kinghero.com.cn	Mr. ZHANG Yu	1 December 2003 to 1 December 2011
www.kinghero.cn	Kinghero Xiamen	8 October 2005 to 8 October 2012

13.20 Investments

13.20.1 Material investments during the last three financial years

During the last three financial years KINGHERO Group has made the following material investments:

In September 2009 Kinghero Xiamen and Michelle have entered into two separate real estate purchase contracts for land use rights and factory buildings within Houxi Industrial Park, also located in Jimei District, Xiamen. The real estate purchase contracts have been registered with the competent authorities on 12 March 2010. The aggregate site area amounts to 70,704.48 square meters (equivalent to 761,056.69 square feet), and 6 buildings have been constructed on the above-mentioned land, including one office building, one staff dormitory building, and four manufacturing buildings. However, title to the land use rights and ownership of buildings have not yet passed to Kinghero Xiamen and Michelle. Management expects these to pass when certain legal formalities have been complied with.

The total purchase price amounted to RMB 77,774,925.30 (TEUR 8,485.25 as of 31 March 2010) and is divided between the two buyers as follows:

Buyer	Purchase Price (RMB)	Payments made (RMB)	Outstanding Purchase Price (RMB) payable in 2010
Kinghero Xiamen	48,192,037.30	48,192,037.30	Nil.
Michelle	29,582,888.00	6,817,162.70	22,765,725.30
Total	**77,774,925.30**	**55,009,200**	**22,765,725.30**

The total amount of the outstanding purchase price owed by Michelle was RMB 22,765,725.30 (TEUR 2,483.74 as of 31 March 2010) but has been fully paid in July 2010.

KINGHERO Group purchased machinery amounting to TEUR 9 in 2007 and TEUR 530 in 2008 respectively.

13.20.2 Material future investments

KINGHERO Group has not made any firm commitments to make material future investments.

However, it is currently proposed to make the following further investments, in order of priority:

- *Brand building:* In order to enhance KINGHERO's brand image, KINGHERO Group intends to establish 30 flagship stores in China in the upcoming six years. KINGHERO Group's management expects total investment for the flagship stores, including refurbishment, rental, personnel expenses and utilities, to reach approximately TEUR 17,500.
- *Expansion of sales network*: KINGHERO Group intends to extend its number of designated distributors in various provinces to increase sales volume. KINGHERO Group's management thus plans to increase the number of designated distributors from 34 (in approximately 30 cities) to 60 designated distributors in approximately 60 first-tier to third-tier cities within the next years to generate additional growth. KINGHERO Group's management expects an initial investment from this expansion to amount to approximately TEUR 5,000.

- *Installation of new production facilities*: In order to meet the continuous demand for its products, KINGHERO Group purchased six factory buildings of approximately 70,000 sqm in September 2009 and has commenced refurbishment of these facilities. KINGHERO Group's management is preparing to purchase equipment for production before the end of 2010. The management anticipates that these new factory buildings and equipments will be put into operation at the beginning of 2011 with total investments in refurbishment and purchase of equipment to reach approximately TEUR 5,000. In addition, as at 31 March 2010, an initially outstanding purchase price of RMB 22,765,725.30 (TEUR 2,483.74) for the purchase of factory buildings has been fully paid by Michelle in July 2010.
- *Acquisition of new manufacturing technologies:* In order to strengthen the product lines, KINGHERO Group plans to acquire a knitting factory for the production of men and ladies knitwear under the brand of KINGHERO. Furthermore, in order to expand by means of vertical integration, the management intends to acquire a zipper factory. The Company believes that this acquisition will further speed up the development process of new fashion products and help to guarantee the stable supply and quality of manufactured zippers to be used in the Company's fashion products. The total investments in the acquisition of further production facilities are expected to reach approximately TEUR 2,500.

Depending on the amount of funds raised in connection with the Placement of the New Shares, the above described investments will be partially or fully executed out of the proceeds from the placement of the New Shares. The remainder of the investments will be executed using the Company's operational cash flow and/or possible further capital raises. If the full amount of those investments is financed from the operational cash flow, the development of the KINGHERO Group will be slower than expected.

13.21 Insurance

Kinghero Xiamen has taken out the following insurances relating to its business:

Insurance	Insurer	Term	Insured Amount	Premium
Property insurance for comprehensive risks for its workshop and equipment	China Pacific Property Insurance Co., Ltd. Xiamen Branch	4 February 2010 to 3 February 2011	RMB/(TEUR) 11,849,140 (1,293 as of 31 March 2010) in total	RMB/(EUR) 8,531.38 (930.77 as of 31 March 2010) per annum
Public Liability Insurance	China Pacific Property Insurance Co., Ltd. Xiamen Branch	4 February 2010 to 3 February 2011	RMB/(TEUR) 2,000,000 (218.2 as of 31 March 2010) in total	RMB/(EUR) 2,000 (218.2 as of 31 March 2010) per annum

Michelle has not taken out any property insurance for its machines and equipments, nor has Michelle taken out any other commercial insurance.

13.22 Legal Proceedings

No entity of KINGHERO Group is currently party to any state interventions, judicial or arbitration proceedings or administrative disputes which have or have recently had a considerable impact on the financial position or earnings of KINGHERO Group, and no such proceedings are expected. Moreover, no such proceedings took place in the past twelve months.

13.23 Material contracts

13.23.1 Real Estate Purchase Contracts

On 25 September 2009 Kinghero Xiamen and Michelle entered into two separate real estate purchase contracts with Xiamen Jimei State-Owned Asset Investment Co., Ltd. (“**Seller**”) for the purchase of land use rights and production facilities in Houxi Industrial Park for a total purchase price of RMB 77,774,925.30 (TEUR 8,485.25 as of 31 March 2010). The terms and conditions of the two contracts are almost identical and include the following provisions:

- All relevant property taxes are to be borne by Seller;
- Seller guarantees the ownership of the real estate and confirms that it is free from any liens, encumbrances or charges. Seller undertakes to assume all responsibilities in the event of any disputes regarding the ownership of the real estate;

- Buyer agrees to change its registered address to the address of the real estate within three months from the date of the execution of the contract;
- Certain liabilities for breach of contract;
- Any disputes arising from the contract shall be resolved by the *Xiamen Arbitration Committee* or to seek legal recourse from the People's Court;

Furthermore, both contracts contain certain conditions relating to the annual production level, capital investment and annual enterprise income tax payments. If these conditions are not fulfilled, an additional payment in the amount of 15% of the total purchase price becomes payable. Furthermore, in certain default events the seller has the right to unilaterally void the contracts and keep 10% of the purchase price or buy back the property at the net book value.

However, on 4 June 2010 Kinghero Xiamen and Michelle entered into two separate supplemental agreements with the Seller to amend the two real estate purchase contracts. According to the supplemental agreements, the conditions have been modified and the penalties that Kinghero and Michelle are subject to under the two real estate purchase contracts have been waived. Pursuant to the modified conditions Mr. ZHANG Yu shall ensure that Kinghero Xiamen and Michelle start production in the new factory buildings within six months after the Company has been listed and the annual gross revenue of Kinghero Xiamen and Michelle shall exceed the requirements under the provisions of the Jimei district.

Initially, an amount of RMB 22,765,725.30 (TEUR 2,483.74 as at 31 March 2010) as purchase price under the real estate purchase contract remained outstanding but has later been fully paid by Michelle in July 2010 pursuant to the supplemental agreement dated 4 June 2010,.

Both real estate purchase contracts have been duly filed and registered with the relevant competent authority. However, title to the land use rights and ownership of buildings have not yet passed. Management expects these to pass when certain legal formalities have been complied with.

The land use rights for the two properties will expire on 2 December 2055. Under Chinese Law, Kinghero Xiamen and Michelle are entitled to apply for an extension of the term no later than one year ahead of the expiration. Such an application generally will be approved unless the land is reclaimed as required by public interests.

If Kinghero Xiamen or Michelle do not apply for an extension or if an extension is not granted, Kinghero Xiamen and Michelle must vacate the premises on 2 December 2055. Upon vacation of the premises, Kinghero Xiamen and Michelle are obliged to dismantle the buildings and fixtures that have been installed on the premises. Dismantling provisions have been included in the financial statements of Kinghero Xiamen and Michelle.

13.23.2 Lease Agreements

Kinghero Xiamen has concluded the following lease agreement for premises and offices:

Lessor:	Xiamen Hengwei Industry Co., Ltd.;
Location:	3/F, 88 Sun Ban Nan Lu (Gong Mao Central Factory Building), Jimei District, Xiamen
Construction area:	6,517.60 sqm
Term of lease:	commencing on 1 January 2010 and ending on 31 December 2010
Rental:	RMB 149,600 (EUR 16,321 as of 31 March 2010)/per month
Property management service fee:	Lessee shall bear with all the costs and expenses in relation to water, electricity and cleaning and make the payment to the relevant department.

Michelle has concluded the following lease agreement for premises and offices:

Lessor:	Xiamen Hengwei Industry Co., Ltd.;
Location:	Rm. 302, 3/F, 88 Sun Ban Nan Lu (Gong Mao Central Factory Building), Jimei District, Xiamen.
Construction area:	2,517.60 sqm.
Term of lease:	commencing on 16 July 2009 and ending on 10 May 2012.
Rental:	RMB 23,414.68 (EUR 2,555 as of 31 March 2010)/per month.
Property management service fee:	Lessee shall pay property management service fee to Lessor.

Pursuant to the lease agreement Michelle must pay a penalty of three months' rent if it requests a termination of the lease agreement for good cause. However, on 15 April 2010 Michelle entered into a supplemental agreement with the Lessor to amend the lease agreement. According to this supplemental agreement, such penalty has been waived.

13.23.3 Supply Agreements

Kinghero Xiamen has entered into contracts with its numerous suppliers based on its standard purchase contract. The standard purchase contracts are framework agreements which become binding on the contracting parties order by order.

The general terms and conditions provided in the current version of the standard purchase contracts include:

- The quality shall meet Kinghero Xiamen's requests, and supplier shall provide Kinghero Xiamen with samples. Samples confirmed by both parties shall be regarded as standard for the examination of goods.
- Place of delivery shall be the warehouse designated by Kinghero Xiamen. Transportation costs shall be born by the supplier.
- In case of delay of delivery, the supplier shall pay a contractual penalty equivalent to 2% of the purchase price of the delayed delivery for each day of delay.
- Purchase price is payable within three months after delivery, or as otherwise agreed hereon. The standard purchase contract does not provide any right of retention of title by supplier.

13.23.4 Contracts for Processing Work (Contract Manufacturing)

Kinghero Xiamen has entered into numerous contracts for processing work as defined in the Contract Law of China with domestic enterprises. These contracts are based on Kinghero Xiamen's standard terms and conditions the current version of which is summarised below:

- The pre-production sample and the first article of mass-production must be approved by Kinghero Xiamen;
- Place of delivery shall be the warehouse designated by Kinghero Xiamen. Transportation costs shall be born by the contractor.
- In case of delay of delivery, contractor shall pay a contractual penalty equivalent to 5% of the remuneration of the delayed delivery for each day of delay.
- In case a delay of delivery is foreseen, Kinghero Xiamen is entitled to set an extended term for delivery. If no delivery is made until expiry of such extended term, Kinghero Xiamen shall be entitled to terminate the contract, and the contractor shall compensate all losses caused hereby to Kinghero Xiamen, including but not limited to damages for lost profit.
- In case the product quality does not meet the requirements, Kinghero Xiamen is entitled to terminate the contract and request compensation for all losses caused hereby, including but not limited to damages for lost profit.

- After delivery and within the period of quality guarantee, the contractor shall bear all responsibilities arising out of disputes between Kinghero Xiamen and its distributors or consumers on any quality defects.
- Purchase price is payable within three months after delivery, or as otherwise agreed hereon.

13.23.5 Distribution Contracts with Designated Distributors

In October 2009, Kinghero Xiamen has restructured its contractual relationship with its Designated Distributors. All previously existing contracts have been terminated and replaced by a new standard Distribution Contract. These new Distribution Contracts came into force in October 2009, with a general validity of two years. Some of the Distribution Contracts have a validity exceeding three years.

The standard terms and conditions of the Distribution Contracts are summarised below:

- Kinghero Xiamen authorizes the Designated Distributors to distribute Kinghero products within a designated area of China.
- Kinghero Xiamen is the sole supplier of the Designated Distributors and shall provide goods to the latter in accordance with separate sales contracts to be undersigned by both parties at a price equivalent to 40% of the united market retail price.
- Transportation costs shall be born by the Designated Distributors. Ownership to the goods transfers upon delivery by forwarder to the Designated Distributors.
- The Designated Distributors shall pay an advanced payment of 30% of the contract price, and the rest of the purchase price shall be settled upon delivery.
- The Designated Distributors may only sell goods within the area designated in its contract, and the goods for its sales are restricted to Kinghero products.
- The Designated Distributors must sell the products at the respective united market retail price as notified by Kinghero Xiamen.
- Marketing, promotion and advertisement activities may only be conducted under the general organization, instruction and supervision by Kinghero Xiamen.
- The trademarks and other intellectual property rights of Kinghero Xiamen are protected.
- Kinghero Xiamen is entitled to terminate the contract in case of breach by the Designated Distributors.

13.23.6 Advertisement Contracts

Kinghero Xiamen has entered into the following contracts with Xiamen Shengshi Advertising Co., Ltd.:

- **Contracts for the design and printing of products brochures**: These contracts do not provide a clear definition of the ownership of the copyright, but are otherwise standard. According to *the PRC Copyright Law*, if the ownership is not defined in a contract, the copy right shall vest with the agent (i.e. Xiamen Shengshi Advertising Co., Ltd.). As a result, in the event of any disputes arising from the ownership of the copyright, Kinghero Xiamen may not be considered as the owner of the copyright of the works as construed in accordance with the aforesaid contracts.
- **Cooperation agreements on outdoor advertising**: These agreements are generally in compliance with relevant legal provisions. However, the agreements contain certain immaterial defects in form and wording and lack a clear provision on some subjects necessary for the contractual purpose, e.g. the exact location where the outdoor advertisement is to be placed.

13.24 Loan Agreements

KINGHERO Group has repaid all of its bank loans under loan agreements. Currently, KINGHERO Group has no outstanding bank loans. In addition, KINGHERO Group has currently neither granted any loans to third parties nor guaranteed any third parties' loan obligations.

14. GENERAL INFORMATION ON THE COMPANY

14.1 Incorporation, Company Name and Registered Office

The Company was incorporated by means of a notarial deed of incorporation *(Gründungsurkunde)* dated 16 April 2009 (Roll of Deeds No. 6136/2009 KO of the notary public Dr. Peter Kolb, Bonn, Germany) as a so called shelf-company (*Vorratsgesellschaft*) with a registered share capital of EUR 50,000. The founder of the company is Foratis AG. The formation of the Company became legally effective by registration in the commercial register *(Handelsregister)* with the local court *(Amtsgericht)* of Munich on 21 April 2009. The Company is registered under the registration number HRB 178935 and is organized in the legal form of a German stock corporation *(Aktiengesellschaft)*.

With purchase agreement dated 13 August 2009, Mr. ZHANG Yu acquired all shares in the Company. On 13 August 2009 a meeting of the supervisory board of the Company took place to change the members of the management board. Immediately thereafter, a general shareholders' meeting of the Company was held to change the members of the supervisory board. On 14 August 2009 a further general meeting of the Company was held during which the change of the Company's name and the adoption of new articles of association were resolved.

The application for registration of the change of the members in the management board and the amendment of the Company's articles of association was filed on the 24 August 2009 with the commercial register (*Handelsregister*) with the local court (*Amtsgericht*) of Munich together with the disclosure of the economic refoundation (*wirtschaftliche Neugründung*) of the Company. The disclosure of the economic refoundation to the commercial register is required, where a shelf company is acquired for operational use and thereby looses its status as a shelf company. The changes applied for registration were registered with the commercial register *(Handelsregister)* with the local court *(Amtsgericht)* of Munich on 14 September 2009.The legal name *(Firma)* of the Company is

"**KINGHERO AG**".

The Company does not use a commercial name that is different from its legal name.

The legal domicile *(Sitz)* of the Company is Munich, Germany, and the Company has its business address at Montenstrasse 11, 80639 Munich, Germany (telephone number: +49 89 1271 1329, fax number: +49 89 12711313, email: contact@kinghero.de).

The last amendment to the Company's articles of association (*Satzung*) was resolved by the General Shareholders' Meeting on 31 May 2010.

14.2 Financial Year, Auditor and Duration

The Company's financial year *(Geschäftsjahr)* is the calendar year (i. e. 1 January through 31 December); the first financial year of the Company is a short financial year *(Rumpfgeschäftsjahr)*.

The Company's auditors are Grant Thornton GmbH Wirtschaftsprüfungsgesellschaft, Domstrasse 15, 20095 Hamburg, Germany ("Grant Thornton"). Grant Thornton audited the Company's financial statements for the year ended 31 December 2009.

The duration of the Company *(Dauer der Gesellschaft)* is unlimited.

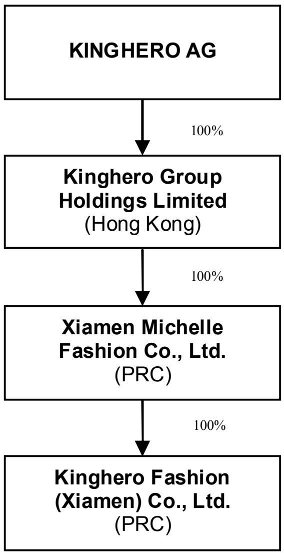
14.3 Business Object of the Company

The Company's business object *(Unternehmensgegenstand)* as set forth in Section 2, subsection 1 of the Company's Articles of Association *(Satzung)* is the holding, administration and the sale of direct and indirect investments in companies and investments in the fashion and textile industry and the manufacture and distribution of fashion articles and accessory and all business relating thereto as well as the provision of services for affiliated companies.

14.4 Current Structure of KINGHERO Group

The Company is the sole shareholder of Kinghero HK, a limited liability company formed under the laws of Hong Kong. The operational business of KINGHERO Group is exclusively carried out by the Company's indirect subsidiaries Kinghero Xiamen and Michelle, both limited liability companies formed under PRC laws with their business addresses at Room 301 and Room 302, 3/F No. 88, Sun Ban Nan Lu (Gong Mao Central Factory Building), Jimei District, Xiamen respectively. Michelle is registered as a wholly foreign owned enterprise. The sole shareholder of Michelle is Kinghero HK and the sole shareholder of Kinghero Xiamen is Michelle.

The current structure of KINGHERO Group is shown in the chart below:



14.5 Recent Restructuring of KINGHERO Group

KINGHERO Group has recently been formed leading to the group structure as presented under 14.4 above. The corporate history of KINGHERO Group companies (other than the Company) and the steps of the restructuring are set out below.

14.5.1 **Kinghero HK**

Kinghero HK is a limited liability company incorporated on 11 December 2007 under the laws of Hong Kong and registered with the Companies Registry in Hong Kong under the company registration number 1193857. The registered office of Kinghero HK is Suite 3201, Jardine House, 1 Connaught Place, Central, Hong Kong. Kinghero HK is a holding company and has not developed any operational activities since its incorporation.

Kinghero HK was established by Mr. ZHANG Yu with an issued share capital of HKD 1.00 (EUR 0.09 as of 31 March 2010). In December 2009 Kinghero HK resolved a capital increase of HKD 19,000 and an additional share capital of HKD 9,999 (EUR 899,91 as of 31 March 2010) divided into 9,999 shares of HKD 1.00 (EUR 0.09 as of 31 March 2010) each was issued to Mr. ZHANG Yu and five investors ("**HK Investors**"). Therefore, the current issued share capital of Kinghero HK amounts to HKD 10,000 (EUR 900 as of 31 March 2010) and is divided into 10,000 shares with a nominal value of HKD 1.00 (EUR 0.09 as of 31 March 2010) each. The issued share capital of HKD 10,000 (EUR 900 as of 31 March 2010) is fully paid-up.

Immediately after the capital increase the shareholding structure of Kinghero HK was as follows:

Shareholder	**Number of Shares**	**Share Capital (%)**
ZHANG Yu	7,120	71.2
TU Ho Hsuan	350	3.5
CHIN Kai	1,355	13.55
WONG Chit Fu	295	2.95
CHONG Yue Fung	800	8
LEE Chih Wen	80	0.8
Total	**10,000**	**100**

14.5.2 Michelle

Michelle is a limited liability company incorporated under PRC laws and is registered with *Xiamen Administration of Industry and Commerce* under registration number 350200400033469. Its business address is Room 302, 3/F., 88 Sun Ban Nan Lu (Gong Mao Central Factory Building), Jimei District, Xiamen, PRC. The business scope of Michelle includes research, development and manufacture of garments and its operation term extends to 3 November 2014.

Michelle was established as a Sino-Foreign joint venture by Kinghero Xiamen (holding 12.5%) and Hong Kong resident Mr. CHEUNG Kin Lan (holding 87.5%) on 4 November 2004 with a total registered capital of RMB 8,000,000.00 (TEUR

872.80 as of 31 March 2010). Mr. CHEUNG Kin Lan held his shares in Michelle on trust for Mr. ZHANG Yu.

On 14 July 2009 Kinghero HK entered into a share transfer agreement with Kinghero Xiamen and Mr. CHEUNG Kin Lan respectively pursuant to which Kinghero Xiamen transferred its 12.5% shareholding and Mr. CHEUNG Kin Lan transferred his 87.5% shareholding in Michelle to Kinghero HK. These transfers became legally effective on 29 October 2009. Since then, Kinghero HK holds 100% of the share capital of Michelle and Michelle is a wholly owned foreign enterprise.

On 9 September 2009 a shareholders' resolution for a capital increase of Michelle was passed whereby the share capital was increased from RMB 8,000,000 (TEUR 872.80 as of 31 March 2010) by RMB 80,000,000 (TEUR 8,728 as of 31 March 2010) to RMB 88,000,000 (TEUR 9,600.80 as of 31 March 2010). The capital increase became effective on 30 April 2010 and was fully paid in on 9 March 2010.

14.5.3 Kinghero Xiamen

Kinghero Xiamen is a limited liability company incorporated under PRC laws and is registered with *Xiamen Administration of Industry and Commerce* under registration number 350206200101642. Its business address is at Room 301, 3/F, No. 88, Sun Ban Nan Lu (Gong Mao Central Factory Building), Jimei District, Xiamen, PRC. The business scope of Kinghero Xiamen includes manufacturing of garments, knit goods and leatherwear as well as wholesale and retail of garments, knit goods, shoes and hats and its operation term extends to 8 July 2032.

The predecessors of Kinghero Xiamen can be traced back to Xiamen Kaiyuan Leather Products Factory which was established in 1982 as an urban collectively owned enterprise. On 9 July 2002, Xiamen Kaiyuan Kinghero Garment Factory was transformed into a limited liability company, Kinghero Xiamen. At the time of such transformation the original shareholders of Xiamen Kaiyuan Leather Products Factory transferred all their equity interest to Mr. ZHANG Yu. At the same time the total registered capital of the transformed entity was increased from RMB 330,000 (TEUR 36.00 as of 31 March 2010) to RMB 1,500,000 (TEUR 163.65 as of 31 March 2010) and Mr. ZHANG Zhaosong acquired 21.37% in Kinghero Xiamen.

On 2 July 2004, Kinghero Xiamen adopted a shareholders' resolution on an increase of the registered capital from RMB 1,500,000 (TEUR 163.65 as of 31 March 2010) to RMB 5,000,000 (TEUR 545.50 as of 31 March 2010). The capital increase was contributed by Mr. ZHANG Yu in cash. In 2008 and 2009 several share transfers and capital increases of Kinghero Xiamen took place. After completion of these share transfers, Mr. ZHANG Yu became the sole shareholder of Kinghero Xiamen on 29 October 2009.

On 8 November 2009 Mr. ZHANG Yu entered into a share transfer agreement with Michelle pursuant to which Mr. ZHANG Yu transferred all of the shares in Kinghero Xiamen to Michelle. This transfer became legally effective on 13 November 2009. Since then, Michelle holds 100% of the share capital of Kinghero Xiamen. The purchase price in the amount of RMB 5,000,000 (TEUR 545.50 as of 31 March 2010) has been paid in full. The current registered share capital of Kinghero Xiamen amounts to RMB 5,000,000 (TEUR 545.50 as of 31 March 2010).

14.6 Capital Increase by Contribution in Kind (*Sachkapitalerhöhung*)

On 25 February 2010 Mr. ZHANG Yu and the HK Investors named in the table in item 14.5.1 entered into a contribution agreement with the Company whereby they transferred all shares in Kinghero HK to the Company against the issue of 5,000,000 new no par value ordinary bearer shares in the Company (*Einbringungsvertrag*). The contribution agreement and the capital increase by way of contribution in kind (*Sachkapitalerhöhung*) was approved by an extraordinary shareholders' meeting of the Company on 9 March 2010 and has been registered in the commercial register *(Handelsregister)* with the local court *(Amtsgericht)* of Munich on 12 March 2010. Upon registration of the capital increase by way of contribution in kind (*Sachkapitalerhöhung*) with the commercial register the shareholder structure of the Company was as follows:

Shareholder	Number of Shares	Share Capital (%)
ZHANG Yu	3,610,000	71.49
TU Ho Hsuan	175,000	3.47
CHIN Kai	677,500	13.42
WONG Chit Fu	147,500	2.92
CHONG Yue Fung	400,000	7.92
LEE Chih Wen	40,000	0.79
Total	**5,050,000**	**100**

On 30 April 2010 Mr. ZHANG Yu and the HK Investors entered into a trust agreement pursuant to which the HK Investors transferred their shares in the Company to Mr. ZHANG Yu and Mr. ZHANG Yu agreed to hold these shares on trust for and on behalf of the HK Investors. Accordingly, on 30 April 2010 Mr. ZHANG Yu became the legal owner of all 5,050,000 shares in the capital of the Company.

14.7 Capital Increase by Cash Contribution (*Barkapitalerhöhung*)

In order to fulfill the requirement of a minimum paid in equity of EUR 250,000 stipulated by the Deutsche Boerse AG for the inclusion to trading on the Open Market/Entry Standard, it was necessary for the Company to execute a Capital Increase in the amount of EUR 200,000 by Cash Contribution. On 31 May 2010 the General Shareholders' Meeting of the Company resolved to increase the share capital from EUR 5,050,000 by EUR 200,000 to EUR 5,250,000 by cash contribution (*Barkapitalerhöhung*) against the issue of 200,000 new no par value ordinary bearer shares (*Inhaber-Stückaktien*) in the capital of the Company with a notional value of EUR 1.00 each and full dividend rights as of 1 January 2010. All 200,000 new shares were subscribed by Mr. ZHANG Yu, partially in his own name and partially on behalf of the other existing shareholders, resulting in an unchanged beneficial ownership-percentage of each shareholder after the Capital Increase as compared to immediately prior to the capital increase. Due to the technical nature of the transaction and the unchanged beneficial ownership percentage of each shareholder, a company valuation or a discussion of the fair price of the shares was not facilitated prior to the capital increase. The capital increase by cash contribution (*Barkapitalerhöhung*) became effective upon its registration with the commercial register on 25 June 2010. On the same date, Mr. ZHANG Yu and the other existing shareholders entered into a supplement to the trust agreement dated 30 April 2010 pursuant to which the new shares are held on trust by Mr. ZHANG Yu for the other existing shareholders in the same percentage as the previously existing 5,050,000 shares. Accordingly, the shares are held as follows:

Shareholder	Number of Shares beneficially owned	Beneficial ownership percentage (%)
ZHANG Yu	3,752,969	71.49
TU Ho Hsuan	181,931	3.47
CHIN Kai	704,332	13.42
WONG Chit Fu	153,342	2.92
CHONG Yue Fung	415,842	7.92
LEE Chih Wen	41,584	0.79
Total	**5,250,000**	**100**

14.8 Current Shareholder Structure of the Company

At the date of this Prospectus, the Company's share capital amounts to EUR 5,250,000 divided into 5,250,000 no par value ordinary bearer shares (*Inhaber-Stückaktien*). Each bearer share representing EUR 1.00 of the share capital and each vested with full dividend rights for the entire financial year 2010. Each share confers one vote in the Company's General Shareholders' Meeting.

Mr. ZHANG Yu holds these shares as follows:

Shareholder	Number of Shares	Percentage of Share Capital (%)
ZHANG Yu (for his own account)	3,752,969	71,49
ZHANG Yu (as trustee on behalf of the HK Investors)	1,497,031	28,51
Total	**5,250,000**	**100%**

14.9 Shareholder Structure of the Company before and after the Placement

The table below sets out the shareholder structure of the Company as at the date of this Prospectus and after the Offer, based on different scenarios (full placement of Placement Shares, including and excluding Greenshoe Shares)

	Shareholdings					
	before Placement at the date of the prospectus		**after Placement** full placement of Placement Shares and Greenshoe Shares		**after Placement** without placement of Greenshoe Shares	
Shareholder	**Shares**	**in %**	**Shares**	**in %**	**Shares**	**in %**
Zhang YU	3,752,969	71.5%	3,482,969	49.4%	3,752,969	53.2%
CHIN Kai	704,332	13.4%	704,332	10.0%	704,332	10.0%
CHONG Yue Fung	415,842	7.9%	415,842	5.9%	415,842	5.9%
Freefloat (shareholdings < 5%)	376,857	7.2%	2,446,857	34.7%	2,176,857	30.9%
New Shares			*1,800,000*		*1,800,0000*	
Greenshoe Shares			*270,000*		*0*	
Total	**5,250,000**	**100.0%**	**7,050,000**	**100.0%**	**7,050,000**	**100.0%**

14.10 Notices

Pursuant to Section 3, subsection 1 of the Company's Articles of Association *(Satzung)*, notices of the Company will be made in the electronic version of the German Federal Gazette *(elektronischer Bundesanzeiger)*. Notices in connection with the approval of the Prospectus or regarding amendments to the Prospectus will be made in accordance with the provisions of the German Securities Prospectus Act *(WpPG)* and will be published in the form intended for prospectuses, i.e., on the Internet website of the Company with a printed version available at the offices of the Company and the Lead Managers.

15. INFORMATION ON THE SHARE CAPITAL OF THE COMPANY AND GENERAL RULES

15.1 Issued and Authorized Share Capital

As at the date of this Prospectus, the Company's registered issued share capital *(gezeichnetes Grundkapital)* amounts to EUR 5,250,000. It is divided into 5,250,000 no par value ordinary bearer shares *(Inhaber-Stückaktien)* each with a notional amount of EUR 1.00. All shares have been fully paid in. Each share grants the holder one vote at the General Shareholders' Meeting.

15.2 Development of Share Capital

The Company was established with a registered share capital of EUR 50,000 divided into 50,000 no par value ordinary bearer shares (*Inhaber-Stückaktien*).

On 12 March 2010, the share capital was increased through contribution in kind *(Sacheinlage)* where the Existing Shareholders contributed all their shares in Kinghero HK against the issuance of 5,000,000 non par value ordinary bearer shares *(Inhaber-Stückaktien)* each with a notional amount of EUR 1.00.

On 25 June 2010 the share capital was further increased by cash contribution (*Bareinlage*) in the amount of EUR 200,000 against the issuance of 200,000 non par value ordinary bearer shares *(Inhaber-Stückaktien)* each with a notional amount of EUR 1.00.

The Company's current share capital consisting of 5,250,000 no par value ordinary bearer shares *(Inhaber-Stückaktien)* with a notional amount of EUR 1.00 each is fully paid in.

15.3 Authorized Share Capital

According to Section 5 of the Company's articles of association *(Satzung)*, the management board is authorized to increase the share capital of the Company with the approval of the supervisory board until 8 March 2015 once or several times by up to EUR 2,525,000 through the issuance of up to 2,525,000 new no par value bearer shares in cash or in contributions in kind *(Authorized Capital 2010)*. In each case ordinary shares and/or preference shares may be issued. The management board is further authorized, with the consent of the supervisory board, to exclude the statutory subscription rights (*gesetzliches Bezugsrecht*) of the shareholders of the Company in the following cases:

- for fractional amounts;
- if the new shares are issued against contribution in kind to acquire enterprises, shares in enterprises or parts of an enterprise;
- if the new shares are issued against cash provided that the shares are issued at a price which is not substantially below the stock exchange price and the exclusion of the subscription rights is only applied to new shares that represent not more than 10% of the share capital, for the calculation of the 10% threshold any other exclusion of the subscription rights according to section 186, subsection 3 sentence 4 of the Stock Cooperation Act (AktG) has to be taken into account;

- for granting shares to employees and members of the management of the Company or of an affiliated entity in relation to employee participation programs, however the capital increase may not exceed 10% of the share capital existing at the time of the capital increase out of the authorized capital;
- if a third party, which is not a financial institution pursuant to section 186 subsection 5 of the Stock Cooperation Act (AktG), subscribes for the new shares and ensures that the shareholders are granted an indirect subscription right (*mittelbares Bezugsrecht*).

15.4 General Rules on the Increase of Share Capital

In accordance with the German Stock Corporation Act (*Aktiengesetz - AktG*), the share capital of a German stock corporation (*Aktiengesellschaft*) may be increased by shareholder resolution adopted by a majority of at least three-quarters of the share capital represented in the vote. Moreover, the Management Board (*Vorstand*) may be authorized by a shareholder resolution to increase the share capital of the Company in a determined total amount within five years with the approval of the Supervisory Board (*Aufsichtsrat*) by issuing shares (*Genehmigtes Kapital*). Eventually, shareholders may resolve to create conditional capital, however, only to grant creditors of convertible bonds conversion and subscription rights in order to prepare a merger with another company or to grant employees and members of the management of the Company or of an affiliated company subscription rights by way of an approving or authorizing resolution (*Bedingtes Kapital*). The aforementioned shareholder resolutions concerning the creation of authorized or conditional capital require a majority of three quarters of the share capital represented during the vote. The nominal amount of the authorized capital created by the shareholders may not exceed half of the share capital existing in the commercial register on the date the authorized capital is entered. The total nominal amount of the conditional capital created by the shareholders may not exceed half of the share capital existing on the date the resolution concerning the conditional capital increase is adopted. The total nominal amount of the conditional capital issued to grant subscription rights to employees and management members of the Company or of affiliated companies may not exceed 10% of the share capital existing on the date of the resolution concerning the conditional capital increase. If the share capital of the Company is increased by the Company's own assets, the conditional capital increases by operation of law in the same proportion as the share capital.

15.5 General Rules on Subscription Rights

The German Stock Corporation Act (*Aktiengesetz - AktG*) provides that, in the case of a capital increase - with the exception of a conditional capital increase - shareholders are, in principle, entitled by law to subscription rights regarding new shares to be issued in the course of a capital increase in accordance with their current equity quota (*gesetzliches Bezugsrecht*). The same applies to the issue of convertible bonds, income bonds, profit participation rights or bonds with warrants as well as in respect of the sale of treasury shares. Subscription rights are freely transferable and the Company may determine that the subscription rights may be traded on a German stock exchange during a fixed period prior to the expiry of the subscription period.

The General Shareholders' Meeting may partially or completely exclude the subscription rights by means of a resolution passed with a majority of at least three-quarters of the share capital represented at the time the resolution is adopted. The Management Board must present a written report to the shareholders' meeting justifying the exclusion of the subscription rights. An exclusion of subscription rights is permissible if the Company's interest in excluding the subscription rights outweighs the shareholders' interest in the conferral of the subscription rights. In the absence of such justification, subscription rights may only be excluded in the case of a capital increase if such capital increase has been effected in return for cash contributions, if the amount of the capital increase does not exceed 10% of the existing share capital, and if the issue price of the new shares is not substantially below the stock exchange price of the shares already trading on the stock exchange.

15.6 General Rules Relating to Use of Profits and Dividend Payments

Under German law, the participation of the Company's shareholders in profits is determined on the basis of their respective interests in the share capital, unless the Company's Articles of Association *(Satzung)* provide for another profit allocation. The adoption of resolutions regarding the distribution of dividends on the Company's shares for a given financial year is the responsibility of the General Shareholders' Meeting *(Hauptversammlung)* held during the following financial year, which resolves on the utilization of the Company's distributable profits on the basis of the non-binding proposal of the Management Board *(Vorstand)* and the Supervisory Board *(Aufsichtsrat)*.

Under German law a resolution concerning dividends and the utilization of distributable profits may be adopted only on the basis of a balance sheet profit *(Bilanzgewinn)* shown in the Company's adopted annual individual financial statement *(festgestellter Jahresabschluss)* to be prepared in accordance with generally accepted German accounting principles, i. e. the accounting provisions of the German Commercial Code *(Handelsgesetzbuch)*. In determining the balance sheet profit available for distribution, the annual net income *(Jahresüberschuss)* or annual net loss *(Jahresfehlbetrag)* of the respective year must be adjusted for profits and losses carried forward from the previous year and for deposits into or withdrawals from reserves. Certain reserves are to be created by law and must be deducted, where applicable, when calculating the balance sheet profits available for distribution. In a resolution regarding the utilization of balance sheet profits, the General Shareholders' Meeting (*Hauptversammlung*) can include further amounts in retained earnings or carry them forward as profit.

The Company does not intend to pay dividends for the financial year 2010. Future dividend distributions will depend on the results of operations of the Company, its financial situation, its need for cash and the legal, tax and regulatory environment as well as other factors. The Company intends to distribute profits only if and to the extent it is covered by the annual net income (*Jahresüberschuss*) which is shown in the respective Company's (individual) annual financial statement (*Jahresabschluss*). The remaining profits, if any, shall be booked into retained earnings and be used to finance the further development of the Company's business and its internal growth.

Dividends resolved by the General Shareholders' Meeting (*Hauptversammlung*) are paid annually, shortly after the General Shareholders' Meeting (*Hauptversammlung*), in compliance with the rules of the respective clearing system. Dividend claims are subject to a three-year statute of limitations.

15.7 General Rules Relating to a Liquidation of the Company

Apart from liquidation as a result of insolvency proceedings and other reasons as set forth in the German Stock Corporation Act *(Aktiengesetz - AktG)*, the Company may be liquidated only upon resolution of the General Shareholders' Meeting *(Hauptversammlung)* to be adopted with a majority of at least 75% of the share capital represented at the General Shareholders' Meeting (*Hauptversammlung*) at which such resolution is adopted. In such a case, the assets remaining following fulfillment of all of the Company's liabilities will be distributed among the shareholders according to their respective shares in the share capital and in accordance with the German Stock Corporation Act (*Aktiengesetz - AktG*).

15.8 General Rules regarding the Preclusion and Withdrawal of Minority Shareholders

In accordance with the provisions of sections 327a *et. seq.* of the German Stock Corporation Act (*Aktiengesetz - AktG*) concerning so-called "*squeeze-outs*" in corporate law, the shareholders of a German stock corporation may resolve in General Shareholders' Meeting at the request of a shareholder who holds at least 95% of the share capital (majority shareholder) to transfer the shares of the other minority shareholders to the majority shareholder in return for a reasonable cash indemnity. The amount of the cash indemnity to be granted to the minority shareholders must take into account the company's relations on the date the shareholder resolution is adopted. Decisive for the indemnity amount is the full value of the enterprise, which is normally determined by way of the discounted cash-flow method.

Moreover, sections 319 *et. seq.* of the German Stock Corporation Act (*Aktiengesetz - AktG*) provide for the so-called "integration" of German stock corporations. The shareholders of a German stock corporation may resolve in a general shareholders' meeting to integrate another company if at least 95% of the shares of the company to be integrated are held by the future principal company. The withdrawn shareholders of the integrated company are entitled to a reasonable indemnity, which shall generally be granted in the form of shares in the principal company. The amount of the indemnity is thereby to be determined through the so-called "merger value ratio" between the two companies, i.e., the conversion ratio which in the event of a merger of two companies would be regarded as fair ratio. In contrast to the provisions on the preclusion of minority shareholders, integration is only possible if the future principal company is a stock corporation domiciled in Germany.

16. CORPORATE BODIES AND MANAGEMENT

16.1 Overview

The governing bodies of the Company are the Management Board *(Vorstand)*, the Supervisory Board *(Aufsichtsrat)* and the General Shareholders' Meeting *(Hauptversammlung)*. The powers of these governing bodies are set forth in the German Stock Corporation Act (*Aktiengesetz - AktG)*, the Company's Articles of Association *(Satzung)*, and the respective rules of procedure of the Management Board and the Supervisory Board *(Geschäftsordnungen für den Vorstand und den Aufsichtsrat)*.

The Management Board (*Vorstand*) is responsible for managing and representing the Company, whilst the Supervisory Board (*Aufsichtsrat*) appoints and dismisses the members of the Management Board (*Vorstand*) and supervises them. The Management Board (*Vorstand*) and Supervisory Board (*Aufsichtsrat*) work independently from each other. Membership in both bodies at the same time is not permitted, *i.e.* members of the Management Board (*Vorstand*) may not at the same time be members of the Supervisory Board (*Aufsichtsrat*) and vice versa. In addition, a member of the Supervisory Board (*Aufsichtsrat*) must not be in an executive position of any of the Company's subsidiaries (also outside Germany).

The Company's shareholders are represented in the General Shareholders' Meeting *(Hauptversammlung)*. The shareholders are, with certain exceptions, not involved in the day-to-day management of the Company.

The Management Board (*Vorstand*) and the Supervisory Board (*Aufsichtsrat*) shall cooperate trustfully for the interests of the Company. To enable the Supervisory Board (*Aufsichtsrat*) to carry out its monitoring functions, the Management Board (*Vorstand*) has to report on a regular basis to the Supervisory Board (*Aufsichtsrat*). These management reports form the basis of the monitoring activities of the Supervisory Board (*Aufsichtsrat*). The Management Board (*Vorstand*) is obliged to report to the Supervisory Board (*Aufsichtsrat*) about intended business policy and other fundamental matters of company planning (particularly finance, investment and personnel planning), whereby deviations from the actual development of targets reported at an earlier date and the reasons for these deviations are to be reported. If the Company is also a parent company, then the report also has to cover the Company's subsidiaries and joint ventures. Furthermore, the profitability of the Company, particularly the return on equity, must be reported to the Supervisory Board (*Aufsichtsrat*). The Management Board (*Vorstand*) also regularly reports on the course of business, particularly revenues and the condition of the company as well as transactions of considerable importance. The Supervisory Board (*Aufsichtsrat*) or individual Supervisory Board (*Aufsichtsrat*) members can also request separate reports on matters which are of particular significance for the Company.

Both the members of the Management Board (*Vorstand*) and of the Supervisory Board (*Aufsichtsrat*) must apply the due care of a prudent and conscientious manager in performing their duties. Both the Management Board (*Vorstand*) and Supervisory Board (*Aufsichtsrat*) have to take into account a number of interests, particularly those of the Company, its shareholders, employees and creditors. The Management Board (*Vorstand*) and Supervisory Board (*Aufsichtsrat*) members are moreover obligated to exercise good faith vis-à-vis the Company and its shareholders and to maintain secrecy concerning confidential information and secrets of the Company. The Management Board (*Vorstand*) must also consider the concept of equal treatment of shareholders.

They must observe the Company's interests at all times. If the members of the Management Board (*Vorstand*) or of the Supervisory Board (*Aufsichtsrat*) breach their duties, they are jointly and severally liable for any damages sustained by the Company. In specific cases, the Management Board (*Vorstand*) can also be held personally liable by third parties, *e.g.* non-payment of social security charges, damages resulting from tort, incorrect statements in connection with corporate transactions.

The German Stock Corporation Act (*Aktiengesetz - AktG*) stipulates that the Company cannot in advance limit or fully release the personal liability of the members of the Management Board (*Vorstand*) for breaches of duty in the performance of their official tasks. The Company can waive its claim for damages for a breach of duty, or it can propose an agreement on such claims only if more than three years have passed since the date on which the claim arose. This is subject to the approval of the General Shareholders' Meeting *(Hauptversammlung)* and a minority of at least 10% of the shareholders can block such a resolution.

The German Stock Corporation Act (AktG) further contains an exemplary list of acts which directly trigger the Management Board's (*Vorstand*) liability, *e.g.* in case of the repayment of contributions to the shareholders or the unlawful distribution of the Company's assets.

Individual shareholders may in principle not sue members of the Management Board (*Vorstand*) or Supervisory Board (*Aufsichtsrat*) for damage compensation (to themselves or to the Company) in the event of a breach of duties vis-à-vis the Company. Rather, damage compensation claims of the Company against Management Board (*Vorstand*) or Supervisory Board (*Aufsichtsrat*) members may usually only be enforced by the Company itself. In this event, the Company is represented by the Supervisory Board (*Aufsichtsrat*) in the case of claims against Management Board (*Vorstand*) members and by the Management Board (*Vorstand*) in the case of claims against Supervisory Board (*Aufsichtsrat*) members. If the board entitled to represent the Company decides against pursuing the claim, compensation claims of the Company against Management Board (*Vorstand*) or Supervisory Board (*Aufsichtsrat*) members must nonetheless be asserted if the shareholders so resolve in general meeting by simple majority. Shareholders with a total share of at least 1% of the share capital or a notional value of the share capital of at least EUR 100,000 may request in their own name that a law suit be admitted before the regional court (*Landgericht*) at the Company's registered address for enforcement of claims for compensation brought by the Company. Among other things, a prerequisite for admission of the action is that the shareholders of the Company have unsuccessfully requested the competent board to bring an action, after setting an appropriate deadline, and facts exist that justify the urgent suspicion that the Company has suffered damages due to impropriety, dishonesty or gross violation of the law or the Company's Articles of Association *(Satzung)* and no overriding reasons of the Company will rule out asserting the compensation claim. The Company is entitled at any time to enforce its claim for compensatory damages itself. The bringing of an action by the Company makes a pending approval procedure or action by the shareholders inadmissible.

The Company has entered into directors' and officers' insurance in its name, covering the members of the Management Board (*Vorstand*) and Supervisory Board (*Aufsichtsrat*), based on prevailing market conditions.

16.2 Management Board (*Vorstand*)

The Management Board (*Vorstand*) legally represents the Company in court and in dealings with third parties and bears the sole responsibility for managing the day-to-day business of the Company.

Members of the Management Board (*Vorstand*) are appointed by the Supervisory Board (*Aufsichtsrat*). The Supervisory Board (*Aufsichtsrat*) may appoint one Management Board (*Vorstand*) member as chairman of the Management Board (*Vorstandsvorsitzender*) and another member as deputy chairman of the Management Board (*Stellvertretender*

Vorstandsvorsitzender). Furthermore, the Supervisory Board (*Aufsichtsrat*) may appoint deputy members of the Management Board (*Stellvertretendes Vorstandsmitglied*). The members of the Management Board (*Vorstand*) are appointed for a maximum term of five years and this term can be renewed for consecutive further periods of up to five years each. The appointment can only be revoked for good cause by a resolution of the Supervisory Board (*Aufsichtsrat*) such as gross breach of fiduciary duties.

The rights and obligations of the Management Board (*Vorstand*) of the Company are specified in the German Stock Corporation Act (*Aktiengesetz - AktG*), in the Company's Articles of Association (*Satzung*), the Rules of Procedure of the Management Board and the service contracts of the members of the Management Board (*Vorstand*). Further, the Management Board (*Vorstand*) shall consider the German Corporate Governance Code, which is not mandatory for companies listed in the Entry Standard, but is a recommendation for all other listed companies for the purpose of a good corporate governance (see section *16.6 "Corporate Governance Codex"* below).

Neither the shareholders nor the Supervisory Board (*Aufsichtsrat*) members may issue binding directions to the Management Board (*Vorstand*) regarding the management of the Company. Thus, the Management Board (*Vorstand*) has a strong independent position within the Company.

However, the powers of the members of the Management Board (*Vorstand*) may be limited by *e.g.* the Company's Articles of Association (*Satzung*) or by Rules of Procedure of the Management Board by stipulating that certain matters require the consent of the Supervisory Board (*Aufsichtsrat*) or the shareholders in General Shareholders' Meeting *(Hauptversammlung)*. Such limitations do not, however, affect the validity of the actions of the Management Board (*Vorstand*) vis-à-vis third parties but the Management Board (*Vorstand*) might be liable internally in relation to the Company.

The internal organization of the Management Board (*Vorstand*) of the Company is specified in Rules of Procedure. These rules determine the areas of responsibility of the whole Management Board (*Vorstand*), of the Chairman of the Management Board (*Vorstandsvorsitzender*) and the individual Management Board (*Vorstand*) members. It also contains regulations on the meetings of the Management Board (*Vorstand*) as well as the relationships between the Management Board (*Vorstand*) and the Supervisory Board (*Aufsichtsrat*) and includes a list of activities which require the consent of the Supervisory Board (*Aufsichtsrat*).

The Supervisory Board (*Aufsichtsrat*) determines the size of the Management Board (*Vorstand*). Under the Company's Articles of Association *(Satzung), the* Supervisory Board (*Aufsichtsrat*) may decide that the Management Board (*Vorstand*) only consists of one member, even if the share capital of the Company exceeds EUR 3,000,000.

The Management Board (*Vorstand*) of the Company currently consists of three members:

- Mr. ZHANG Yu;
- Ms. HE Xiuming;
- Ms. Xiaoping Zhao-Moll.

The current members of the Company's Management Board were appointed by resolutions of the Company's Supervisory Board dated 13 August 2009 and 31 May 2010 respectively. The members of the Management Board (*Vorstand*) can be reached at the Company's address.

Under the Company's Articles of Association (*Satzung*), the Supervisory Board (*Aufsichtsrat*) may appoint a member of the Management Board (*Vorstand*) as chairman (*Vorstandsvorsitzender*) and another as deputy chairman of the Management Board

(*Stellvertretender Vorstandsvorsitzender*). In the resolution of the Company's Supervisory Board Meeting dated 17 February 2010, Mr. ZHANG Yu was appointed as chairman of the Management Board.

The terms of appointment of the members of the Company's Management Board (*Vorstand*) and their current areas of responsibility are as follows:

Name	Age	Initially appointed on	Term expires on	Responsibility
Mr. ZHANG Yu	52	13 August 2009	12 August 2014	Chief Executive Officer (CEO)
Ms. HE Xiuming	29	13 August 2009	12 August 2014	Chief Operational Officer (COO)
Ms. Xiaoping Zhao-Moll	33	31 May 2010	30 May 2015	Officer Investor Relations

Mr. ZHANG Yu

Mr. ZHANG Yu is the Company's Chief Executive Officer (CEO) and is responsible for finances, strategy as well as sales and marketing.

Mr. ZHANG Yu has not held over the last five years and does not hold any additional mandates on administrative, management and supervisory bodies outside KINGHERO Group.

Ms. HE Xiuming

Ms. HE Xiuming is the Company's Chief Operational Officer (COO) and is responsible for design, production and product management and human resources.

Ms. HE Xiuming has not held over the last five years and does not hold any additional mandates on administrative, management and supervisory bodies outside KINGHERO Group.

Ms. Xiaoping Zhao-Moll

Ms. Xiaoping Zhao-Moll is the Company's Officer Investor Relations and is responsible for capital market and investor relations.

Ms. Xiaoping Zhao-Moll has not held over the last five years and does not hold any additional mandates on administrative, management and supervisory bodies outside KINGHERO Group.

According to the Company's Articles of Association (*Satzung*), the Company is legally represented by the members of the Management Board (*Vorstand*). In case only one member exists, the Company is legally represented by the sole member. In case the Management Board (*Vorstand*) is composed of two or more members, the Company is legally represented by two members jointly or by one member together with an authorized officer (*Prokurist*). The Supervisory Board (*Aufsichtsrat*) can grant sole power of representation to any of the members of the Management Board (*Vorstand*) and exempt any of the members from the restrictions under section 181, second alternative of the German Civil Code (*Bürgerliches Gesetzbuch – BGB*). Section 112 of the German Stock Corporation Act (*Aktiengesetz – AktG*) remains unaffected. The Supervisory Board (*Aufsichtsrat*) has granted sole power of representation to Mr. ZHANG Yu by resolution dated 13 August 2009 and to Ms. Xiaoping Zhao-Moll by resolution dated 31 May 2010. Further, by resolution dated 13 August 2009, the Supervisory Board (*Aufsichtsrat*) has exempted Mr. ZHANG Yu and Ms. HE Xiuming from the restrictions under section 181 second alternative of the German Civil Code (*Bürgerliches Gesetzbuch – BGB*).

Under the Company's Articles of Association (*Satzung*), the Supervisory Board (*Aufsichtsrat*), or, if the Supervisory Board (*Aufsichtsrat*) has not done so, the Management Board (*Vorstand*) with the approval of the Supervisory Board (*Aufsichtsrat*) may issue Rules of Procedure (*Geschäftsordnung*) for the Management Board (*Geschäftsordnung für den Vorstand*). In a resolution of the Supervisory Board (*Aufsichtsrat*) on 16 April 2010, respective Company's Rules of Procedure for the Management Board (*Geschäftsordnung für den Vorstand*) were adopted. The Company's Rules of Procedure for the Management Board (*Geschäftsordnung für den Vorstand*) contain in accordance with the Company's Articles of Association (*Satzung*) a list of transactions by the Management Board (*Vorstand*), which require the consent of the Supervisory Board (*Aufsichtsrat*), e.g. investments as well as sale of assets exceeding a certain monetary threshold. The Company's Rules of Procedure for the Management Board (*Geschäftsordnung für den Vorstand*) also determine the schedule of responsibilities of the members of the Company's management board (*Vorstand*) as amended from time to time.

The resolutions of the Management Board (*Vorstand*) are in principle passed by simple majority of the votes cast, unless the applicable law or the Company's Rules of Procedure for the Management Board (*Geschäftsordnung für den Vorstand*) provide otherwise.

16.2.1 Directors' Remuneration

The services of Mr. ZHANG Yu, Ms. HE Xiuming and Ms. Xiaoping Zhao-Moll with KINGHERO Group are based on service agreements concluded with the Company represented by Mr. Marcus Wenzel as chairman of the Supervisory Board (*Aufsichtsrat*). The service agreements of Mr. ZHANG Yu, Ms. Xiaoping Zhao-Moll and Ms. HE Xiuming were concluded on 15 July 2010.

Under the respective service agreements, only Ms. Xiaoping Zhao-Moll is entitled to remuneration for her service as member of the Management Board (*Vorstand*). Ms. Zhao-Moll is entitled to a gross annual remuneration of EUR 120,000 payable in 12 monthly instalments of EUR 10,000 each. Furthermore, Ms. Zhao-Moll is entitled to a variable remuneration in an amount equivalent to 1% of the profit of the KINGHERO Group before tax and remuneration of the Management Board.

16.2.2 Directors' Shareholdings and Options

As of the date of this Prospectus, the shareholding interests of the Directors are as follows:

Shareholder	Number of Shares	Percentage of Share Capital (%)
ZHANG Yu (for his own account)	3,752,969	71.49
ZHANG Yu (as trustee on behalf of the other Existing Shareholders)	1,497,031	28.51
Total	**5,250,000**	**100%**

Ms. HE Xiuming and Ms. Xiaoping Zhao-Moll do not hold any shares in the Company.

The Company has not granted any options to acquire or subscribe for shares in the Company to any of its Directors or employees.

16.2.3 Conflict of Interests

Potential conflicts may arise from Mr. ZHANG Yu's shareholdings in the Company since he has personal interests in the development of the value of his shares in the Company.

Apart from the ones mentioned above, there exist no potential conflicts of interest between any duties of the members of the Management Board to the Company and their private interests and other duties.

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16.3 Supervisory Board (*Aufsichtsrat*)

Pursuant to section 10 of the Company's Articles of Association (*Satzung*) and in accordance with Sections 95 and 96 of the German Stock Corporation Act (AktG), the Supervisory Board (*Aufsichtsrat*) consists of three members appointed by the General Shareholders' Meeting (*Hauptversammlung)*. Unless otherwise determined by shareholders' resolution, the term of each Supervisory Board (*Aufsichtsrat*) member expires at the end of the annual General Shareholders' Meeting (*Hauptversammlung)* that formally ratifies the actions of the Supervisory Board (*Aufsichtsrat*) members for the fourth financial year following commencement of the member's term of office. The financial year in which the term commences is not included. Each member of the Supervisory Board (*Aufsichtsrat*) can be re-elected.

The General Shareholders' Meeting (*Hauptversammlung)* not only appoints members to the Supervisory Board (*Aufsichtsrat*) but can also remove them with simple majority of the votes cast. Pursuant to section 10 subsection (4) of the Company's Articles of Association (*Satzung*), any Supervisory Board (*Aufsichtsrat*) member may resign with at least one month's prior written notice. The notice period can be waived by mutual agreement. If the resignation is for good cause, it may take immediate effect.

The Supervisory Board (*Aufsichtsrat*) appoints a Chairman (*Aufsichtsratsvorsitzender*) and a Deputy Chairman (*Stellvertretender Aufsichtsratsvorsitzender*) from among its members. The Chairman (*Aufsichtsratsvorsitzender*) or, if unable to attend, the Deputy Chairman (*Stellvertretender Aufsichtsratsvorsitzender*), is obligated to convene and conduct the meetings of the Supervisory Board (*Aufsichtsrat*).

The Supervisory Board (*Aufsichtsrat*) is not entrusted with the day-to-day business and therefore cannot set binding directives for the Management Board (*Vorstand*). However, under Section 9 subsection (4) of the Company's Articles of Association (*Satzung*) and the Rules of Procedure for the Management Board (*Geschäftsordnung für den Vorstand*), certain transactions are subject to the Supervisory Board's (*Aufsichtsrat*) consent.

The Supervisory Board (*Aufsichtsrat*) is responsible for appointment of the members of the Management Board (*Vorstand*) and can revoke them for good cause such as gross breach of fiduciary duties.

The most important tasks of the Supervisory Board (*Aufsichtsrat*) is the advice, control and supervision of the business operated by the Management Board (*Vorstand*). This advisory and supervisory role covers all the activities of the Management Board (*Vorstand*). In assessing the Management Board's (*Vorstand*) activities, the Supervisory Board (*Aufsichtsrat*) is not limited to the assessment of the legitimacy of the activities but its supervision also includes the appropriateness and economic consequences of the activities.

In order to enable the Supervisory Board (*Aufsichtsrat*) to fulfill its tasks, the Management Board (*Vorstand*) is obliged to report to the Supervisory Board (*Aufsichtsrat*) on a regular basis. The Supervisory Board (*Aufsichtsrat*) (and each of its members) can request a report from the Management Board (*Vorstand*) to the Supervisory Board (*Aufsichtsrat*) on the transactions of the Company, on legal and business relations with affiliated companies and on the course of business of these companies, in so far as they are of economic importance to the Company. Every member of the Supervisory Board (*Aufsichtsrat*) is entitled to review these reports.

The Supervisory Board (*Aufsichtsrat*) can also arrange for special audits and investigations of the work of the Management Board (*Vorstand*), in particular the examination of certain transactions and the books of the Company.

The Supervisory Board (*Aufsichtsrat*) has a limited right of representation. It represents the Company in legal transactions and in the event of legal disputes with members of the Management Board (*Vorstand*). Furthermore, the Supervisory Board (*Aufsichtsrat*) represents the Company together with the Management Board (*Vorstand*) in the event of an action to challenge a General Shareholders' Meeting (*Hauptversammlung*) resolution brought by a shareholder.

The members of the Supervisory Board (*Aufsichtsrat*) are jointly responsible for performing their duties. The tasks and duties of the members of the Supervisory Board (*Aufsichtsrat*) can be further defined in Rules of Procedure for the Supervisory Board (*Geschäftsordnung für den Aufsichtsrat*) and certain tasks can be assigned to a committee or to individual members of the Supervisory Board (*Aufsichtsrat*). The Supervisory Board (*Aufsichtsrat*) shall also consider the German Corporate Governance Code, which is however not mandatory for companies listed in the Entry Standard segment of Frankfurt Stock Exchange.

The members of the Supervisory Board (*Aufsichtsrat*) are guided by the interests of the Company. They represent neither solely the shareholders nor the employees and must therefore consider the interests of the Company in their decisions and actions. The interests of the Company include the interests of the shareholders and the workforce and, to a certain extent, the interests of the public. The members of the Supervisory Board (*Aufsichtsrat*) act entirely independently and on their own account.

By means of resolution dated 13 August 2009, the General Shareholders' Meeting of the Company has appointed Mr. Marcus Wenzel, Dr. Christoph Dylla and by means of resolution dated 10 February 2010 Mr. CHEN Xiaofeng as current members of the Supervisory Board (*Aufsichtsrat*) for a period until the expiration of the General Shareholders' Meeting (*Hauptversammlung*) exonerating the Management Board (*Vorstand*) and the Supervisory Board (*Aufsichtsrat*) for the financial year 2013. The Supervisory Board has elected Mr. Wenzel as its chairman (*Aufsichtsratsvorsitzender*) and Dr. Dylla as its deputy chairman (*Stellvertretender Aufsichtsratsvorsitzender*) by resolution dated 17 February 2010.

On 16 April 2010, the Supervisory Board (*Aufsichtsrat*) adopted Rules of Procedure for the Supervisory Board (*Geschäftsordnung für den Aufsichtsrat*). Pursuant to section 13 sub-section (3) of the Company's Articles of Association (*Satzung*) and the Rules of Procedure for the Supervisory Board (*Geschäftsordnung für den Aufsichtsrat*), the Supervisory Board (*Aufsichtsrat*) has a quorum if each member has been duly invited to the Supervisory Board meeting (*Aufsichtsratssitzung*) and a minimum of half of the members participate, but in any case at least 3 members. Resolutions of the Supervisory Board require simple majority of the votes cast, unless the applicable laws does not provide otherwise. Resolutions are in principle adopted in meetings of the Supervisory Board (*Aufsichtsrat*). However, resolutions may also be passed outside of meetings, e.g. by way of circular, telegraphic or telephonic resolutions or by e-mail, if this is determined by the chairman of the Supervisory Board (*Aufsichtsrat*).

The members of the Supervisory Board (*Aufsichtsrat*) can be reached at the Company's address.

The table below shows the current members of the Supervisory Board of the Company and their respective terms of office.

Name	**Age**	**Initially appointed on**	**Term expires in**	**Role**
Mr. Marcus Wenzel	45	13 August 2009	2014	Chairman (*Aufsichtsratsvorsitzender*)
Dr. Christoph Dylla	66	13 August 2009	2014	Deputy Chairman (*Stellvertretender Aufsichtsratsvorsitzender*)
Mr. CHEN Xiaofeng	35	10 February 2010	2014	Member of the Supervisory Board

Mr. Marcus Wenzel

After receiving his degree in business studies in Germany with principal subjects in finance and international management, Mr. Wenzel started his professional career as sales executive with International Delton Company Ltd. in Hong Kong and became CEO in 1989. From 1990 until 2004, Mr. Wenzel was CEO and Chief Product Developer of Hong Kong based International Delton Fabrics Ltd where his main responsibilities included, inter alia, the development of textiles for the European and American market for various well-known fashion brands. He also developed and further expanded Delton's export activities to European and Asian countries such as Germany, France, Italy, Spain, Thailand and Indonesia. Since 2004, Mr. Wenzel serves as chairman of the International Delton Groupheadquartered in Hong Kong. He holds additional mandates within the Northern Capital Group in Hong Kong.

Except as mentioned above, Mr. Markus Wenzel has not held over the last five years and does currently not hold any additional mandates on administrative, management and supervisory bodies outside the Company.

Dr. Christoph Dylla

Dr. Dylla studied law at the University of Cologne, Germany where he also obtained his doctorate degree. From 1973 to 1976 he worked with Deutsche Solvay Werke in Solingen, Germany and later joined Calor Emag E-AG as head of human resources. During his professional career he was employed as division head and human resources director with various enterprises, inter alia with Daimon-Duracell GmbH and Daimon-Duracell Batterien GmbH. From 1987 until his retirement in 2008, Mr. Dylla served as human resources director of Hydro Deutschland GmbH (now Yara Brunsbüttel GmbH) in various locations including Germany, Oslo (Norway) and Milan (Italy). His responsibilities also included general administration, legal affairs and purchasing.

Except as mentioned above, Dr. Christoph Dylla has not held over the last five years and does currently not hold any additional mandates on administrative, management and supervisory bodies outside the Company.

Mr. CHEN Xiaofeng

Mr. CHEN Xiaofeng studied Law at Xiamen University from September 2002 to June 2005 and holds a Juris Master (JM) degree of Xiamen University. From September 1998 to July 2002 he worked as an International Project Officer with the International Exchange Department of Hunan Agricultural University (HAU). Since July 2005 he is an attorney at law in Tenet & Partners Law firm based in Xiamen. Mr. CHEN Xiaofeng specialises in advising on foreign direct investment into China. Mr. CHEN Xiaofeng is fluent in English, Spanish and Mandarin.

Mr. CHEN Xiaofeng has not held over the last five years and does currently not hold any additional mandates on administrative, management and supervisory bodies outside the Company.

16.3.1 Remuneration

Pursuant to the Articles of Association, the General Shareholders' Meeting resolves upon the remuneration for the members of the Supervisory Board. By resolution dated 31 May 2010, the General Shareholders' Meeting (*Hauptversammlung*) has, in accordance with section 18 subsection (1) of the Company's Articles of Association (*Satzung*), determined the following remuneration for the members of the Supervisory Board (*Aufsichtsrat*):

Mr. Wenzel as chairman of the Supervisory Board (*Aufsichtsratsvorsitzender*) shall receive a gross remuneration of EUR 20,000 per year while Mr. Dylla as deputy chairman (*Stellvertretender Aufsichtsratsvorsitzender)* shall receive a gross remuneration of EUR 15,000 per year and Mr. CHEN shall receive a gross remuneration of EUR 12,000 per year.

If a person is a member of the Supervisory Board only for part of a financial year, remuneration is determined for a proportionate period of time (*pro rata termporis*). In addition, every member of the Supervisory Board (*Aufsichtsrat*) is entitled to reimbursement for expenses incurred in performing the duties of its office.

16.3.2 D&O Insurance

The Company has entered into directors' and officers' insurance in its name, covering the members of the Supervisory Board, based on prevailing market conditions.

16.3.3 Shareholding and Options

None of the members of the Supervisory Board directly or indirectly holds any shares in the Company.

The Company has not granted any options to acquire or subscribe for shares in the Company to any of the members of the Supervisory Board.

16.3.4 Conflict of Interests

There exist no potential conflicts of interest between any duties of the members of the Supervisory Board (*Aufsichtsrat*) to the Company and their private interests and other duties.

16.3.5 Committees

As at the date of this Prospectus, the Supervisory Board (*Aufsichtsrat*) of the Company has not established an audit committee or remuneration committee.

16.4 Specific Information on the Members of the Supervisory Board (*Aufsichtsrat*) and the Management Board (*Vorstand*)

For the previous five years no member of the Management Board (*Vorstand*) or Supervisory Board (*Aufsichtsrat*) has been convicted in relation to a fraudulent offence. Neither have any official accusations and/or sanctions been made in relation to members of the Management Board (*Vorstand*) or Supervisory Board (*Aufsichtsrat*) by law enforcement agencies or regulatory authorities. No member of the Management Board (*Vorstand*) or Supervisory Board (*Aufsichtsrat*) has ever been viewed by a court as unfit for a membership in an administrative board, executive board or supervisory board (*Aufsichtsrat*) of a company or for the activity in the management or conduct of the transactions of an issuer.

For the previous five years no member of the Management Board (*Vorstand*) or Supervisory Board (*Aufsichtsrat*) acting in the capacity of the position of a member of an administrative board, executive board or supervisory board (*Aufsichtsrat*), or as senior manager or as incorporator of an issuer was affected by insolvency, insolvency administration or liquidation. Furthermore, at no times for the previous five years there was any official incrimination and/or sanction of such person by statutory or regulatory authorities (including designated professional bodies) and no such person has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies (*Aufsichtsräte*) of an issuer or from acting in the executive or conduct of the affairs of an issuer for the previous five years. Next to the members of the Management Board (*Vorstand*), the Company has no senior managers who are relevant to establishing that the Company has the appropriate expertise and experience for the management of its business.

The Company and KINGHERO Group have not granted the members of the Management Boards (*Vorstände*) and Supervisory Boards (*Aufsichtsräte*) any loans. The members of the two boards have not concluded any transactions with the Company or KINGHERO Group outside KINGHERO Group's course of ordinary business.

No member of the Management Board (*Vorstand*) or Supervisory Board (*Aufsichtsrat*) has entered into a service agreement with any company of KINGHERO Group providing for any special compensation upon the termination of the service relation. In particular, no pension or retirement benefits will be provided. There is no family relationship, neither among the members of the Management Board (*Vorstand*) or the Supervisory Board (*Aufsichtsrat*), nor between any members of the Management Board (*Vorstand*) and any members the Supervisory Board (*Aufsichtsrat*). Furthermore, there are no agreements or arrangements with majority shareholders, customers, suppliers or other persons based on which any Management Board (*Vorstand*) or Supervisory Board (*Aufsichtsrat*) member has been appointed.

Mr. ZHANG Yu, the chairman of the Management Board (*Vorstandsvorsitzender*), currently holds shares in the Company (see section 16.2.2 ''Directors' Shareholdings and Options'').

Except as mentioned above, the members of the the Management Board (*Vorstand*) and the Supervisory Board (*Aufsichtsrat*) do not have any conflict of interests related to their obligations towards the Company on the one hand and their private interests or other obligations on the other. In the opinion of the Company, potential conflicts of interest do not exist either.

16.5 General Shareholders' Meeting (*Hauptversammlung*)

Except as stipulated otherwise by law, the Company's shareholders exercise their rights in General Shareholder's Meetings (*Hauptversammlung*). The shareholders resolve in General Shareholder's Meetings (*Hauptversammlung*) amongst others on the use of the balance sheet profit, the approval of the annual financial statements, the exoneration of the Management Board (*Vorstand*) and Supervisory Board (*Aufsichtsrat*) members, the appointment of the Company's auditor, and the election of the Supervisory Board (*Aufsichtsrat*) members.

The convening of (an extraordinary) General Shareholders' Meeting (*Hauptversammlung*) can be initiated by the Management Board (*Vorstand*), the Supervisory Board (*Aufsichtsrat*) or, under certain circumstances, by shareholders holding an aggregate of at least 5% of the registered share capital. The Supervisory Board (*Aufsichtsrat*) must call a General Shareholders' Meeting (*Hauptversammlung*) whenever the interests of the Company require. The Annual General Shareholders' Meeting (*Ordentliche Hauptversammlung*) must be held during the first eight months of each financial year.

The Annual General Shareholder's Meeting (*Ordentliche Hauptversammlung*) is either held at the registered office of the Company or at the seat of a German Stock Exchange.

The General Shareholders' Meeting must be called at least 30 days prior to the day until the end of which the shareholders must register for the General Shareholders' Meeting. The day of the calling is not counted. Only Shareholders of the Company who have registered for the General Shareholders' Meeting (*Hauptversammlung*) in due time and have proven their eligibility to attend are entitled to attend and exercise their voting right in the General Shareholders' Meeting (*Hauptversammlung*). The shareholders document their eligibility to participate in the General Shareholders' Meeting (*Hauptversammlung*) by certification of their shareholding, prepared in text format by the depository institution (Section 126b German Civil

Code (BGB)) in German or English and referring to the start of the 21st day before the day of the General Shareholders' Meeting (*Hauptversammlung*). The registration and the certification must be received at the place announced in the invitation at the Company's registered offices by no later than six days before the day of the annual General Shareholders' Meeting (*Hauptversammlung*). The day of the General Shareholders' Meeting and the day of receipt is not counted.

Each share grants the right to one vote. A voting right may be exercised by a proxy. Unless otherwise specified by the German Stock Corporation Act (*Aktiengesetz - AktG*), the resolutions of the Annual Ordinary General Shareholder's Meeting (*Hauptversammlung*) are passed by a simple majority of the votes cast. If the German Stock Corporation Act (*Aktiengesetz - AktG*) requires that a resolution be passed by a majority of the shares present, a simple majority will suffice. Neither the German Stock Corporation Act (*Aktiengesetz - AktG*) nor the Company's Articles of Association (*Satzung*) provide for a minimum participation level at the Annual General Shareholder's Meeting .

According to the German Stock Corporation Act (*Aktiengesetz - AktG*) currently in force, certain resolutions of fundamental importance require a majority of at least three quarters of the share capital represented when the resolution is passed. Resolutions of fundamental importance include in particular:

- amendments to the Company's Articles of Association (*Satzung*);
- capital increases;
- capital reductions;
- the creation of authorized or conditional capital;
- the transfer of the Company's entire assets (*Übertragung des gesamten Gesellschaftsvermögens*);
- any reorganisations pursuant to the German Transformation Act (*Umwandlungsgesetz*) such as mergers (*Verschmelzungen*), spin-offs (*Spaltungen*) and type-changing transformations (*Formwechsel*);
- the conclusion of inter-company agreements (in particular control and profit-and-loss transfer agreements); and
- the dissolution of the Company.

16.6 Corporate Governance Codex

The German Corporate Governance Code in its current version of 26 May 2010 (the "**Code**") contains recommendations and suggestions for managing and supervising German companies listed on a stock exchange. The Code contains provisions relating to shareholders and the General Shareholders' Meeting, the Management Board, the Supervisory Board, as well as to transparency, accounting policies and auditing. There is no obligation to comply with the recommendations and suggestions of the Code.

The Management Board and Supervisory Board of the Company however identify with the goals of the Code to foster responsible and transparent corporate management and control, oriented to a sustained increase in company value. The Management Board and Supervisory Board will be largely following the recommendations and suggestions of the Code. Details will be agreed upon between the Management Board and the Supervisory Board.

Because the Company intends to be listed in the Open Market / Entry Standard segment of the Frankfurt Stock Exchange, the Company will not be required to publish an annual declaration pursuant to section 161 of the German Stock Corporation (*Aktiengesetz – AktG*) that it follows and will follow the recommendations of the Code or which of the recommendations were or will not be followed, and why they were or will not be followed.

Since most of the members of the Management Board of the Company reside in the PRC, it may be difficult for them to act in compliance with German standards for corporate governance (see: "*Risk Factors – Risks Related to KINGHERO Group's Operations –Not all members of the Management Board (Vorstand) are experienced with regard to German legal requirements and KINGHERO Group currently does not yet have a comprehensive corporate compliance system.").* The Management Board of the Company will receive training and constant legal advice on its duties arising from the Corporate Governance Code and of its duties vis-à-vis the Supervisory Board arising from the German Stock Corporation Act *(Aktiengesetz)*.

The Supervisory Board of the Company is aware that – because of the linguistic differences and the geographical distance – it may be more difficult to fulfill its supervisory duties arising from the German Stock Corporation Act, for example with regard to the duties stated in Section 111 of the German Stock Corporation Act (see: "*Risk Factors – Risks Related to KINGHERO Group's Operations – The Company's Supervisory Board (Aufsichtsrat) may have difficulties in adequately supervising the Management Board (Vorstand) since the management is located in China and the majority of the members of the Supervisory Board (Aufsichtsrat), in particular the Chairman of the Supervisory Board (Aufsichtsratsvorsitzender), reside in Germany.")*.

17. TRANSACTIONS AND LEGAL RELATIONS WITH RELATED PARTIES

17.1 General

From 1 January 2007 to 31 March 2010, the Company has entered into several transactions with related parties. Related parties of the Company include companies which are consolidated within the Company or in which the Company holds an investment, which enables the Company to exercise considerable influence over the business policies of the company in which it holds such investment, as well as the major shareholders of the Company, including their affiliates.

Further, related parties of the Company include members of the Management Board (*Vorstand*) and the Supervisory Board (*Aufsichtsrat*), including their close family members and companies over which members of the Management Board (*Vorstand*) or Supervisory Board (*Aufsichtsrat*) of the Company or their family members could exercise considerable influence or hold a substantial amount of the voting rights.

The following parties are considered to be related parties of the Company in the terms as set out above:

- Xiamen Michelle Fashion Co., Ltd. ("Michelle");
- Xiamen Kinghero Fashion Co., Ltd. ("Kinghero Xiamen");
- Kinghero Group Holdings Limited ("Kinghero HK");
- Mr. ZHANG Yu, controlling shareholder of the Company and Chairman of the Management Board (*Vorstandsvorsitzender*) of the Company and all his family members;
- Mr. ZHANG Zhaosong, brother of ZHANG Yu, Deputy General Manager of Kinghero Xiamen;
- Ms. HE Xiuming, Member of the Management Board (*Vorstandsmitglied*) of the Company, and all her family members;
- Ms. Xiaoping Zhao-Moll, Member of the Management Board (*Vorstandsmitglied*) and all her family members;
- Mr. Marcus Wenzel, Chairman of the Supervisory Board (*Aufsichtsratvorsitzender*) of the Company and all his family members;
- Dr. Christoph Dylla, Deputy Chairman of the Supervisory Board (*stellvertretender Aufsichtsratsvorsitzender*) of the Company and all his family members;
- Mr. CHEN Xiaofeng, Member of the Supervisory Board (*Aufsichtsratsmitglied*) of the Company and all his family members

17.2 This section describes transactions between the Company and its related parties concluded in the period between 1 January 2007 and 31 March 2010.

17.2.1 Share Transfer Agreements

During the recent restructuring of the KINGHERO Group which took place in 2009 various KINGHERO Group entities and their shareholders entered into several share transfer agreements as set out in more detail in section 14.5 "*Recent Restructuring of KINGHERO Group*". In particular, Mr. ZHANG Yu transferred all of the shares in Kinghero Xiamen to Michelle for a purchase price of RMB 5,000,000 (EUR 545,500.17) and Kinghero Xiamen transferred its 12.5% shareholding in Michelle to Kinghero HK for a purchase price of RMB 1,000,000 (EUR 109,100.03).

17.2.2 Human Resources Cooperation Agreement

On 30 September 2009, Kinghero Xiamen entered into a human resources cooperation agreement with Michelle for the purpose of utilizing the surplus capability of Michelle. According to this agreement, Michelle allowed Kinghero Xiamen to use 56 of its production workers for a term commencing on 1 October 2009 and ending when production facilities of Michelle are maturely equipped for full operation. Within this term, Kinghero Xiamen will bear these workers' salaries whereas Michelle remains obliged to pay these workers' social insurance contributions.

17.2.3 Commission Production Agreements

Michelle has engaged Kinghero Xiamen as a contractor for the production of various types of menswear and womenswear, such as shirts, suites, trousers, skirts, jackets, etc. The commissioning production has been exercised on the basis of a series of commission production agreements concluded between the parties between October 2009 and January 2010.

General terms and conditions of the commission production agreements include:

- Ordering party (Michelle) shall provide samples and technical requirements. The pre-production sample and the first article of mass-production must be approved by ordering party;

- Place of delivery shall be the warehouse designated by ordering party. Transportation costs shall be born by contractor;

- All raw materials and accessories shall be procured in accordance with ordering party's samples and requirements on quality;

- In case of delay of delivery, contractor shall pay a contractual penalty equivalent to 5% of the remuneration of the delayed delivery for each day of delay;

- In case a delay of delivery is foreseen, the ordering party is entitled to set an extended term for delivery. If no delivery is made until expiry of such extended term for delivery, the ordering party shall be entitled to terminate the contract, and the contractor shall compensate all losses caused hereby to the ordering party, including but not limited to losses and damages caused to the ordering party's expected profit;

- In case that the product quality does not meet the requirements, the ordering party is entitled to terminate the contract and request compensation for all losses caused hereby to the ordering party, including but not limited to losses and damages caused to the ordering party's expected profit;

- After delivery and within the period of quality guarantee, the contractor shall bear all responsibilities arising out of disputes between the ordering party and its distributors or consumers for any quality defects;

- Confidentiality, intellectual property rights and liability for breach;

- Term for payment: within three months after delivery, or as otherwise agreed hereon;

- Settlement of dispute: settlement through civil proceedings. The People's Court at the place of Michelle's location shall be agreed as the competent court.

17.2.4 Provision of Capital for Acquisition of Real Estate

On 25 September 2009 Kinghero Xiamen and Michelle entered into two separate real estate purchase contracts with Xiamen Jimei State-Owned Asset Investment Co., Ltd. ("**Seller**") for the purchase of land use rights and production facilities in Houxu Industrial Park for a total purchase price of RMB 77,774,925.30 (TEUR 8,485 as of 31 March 2010) (see section 13.23.1 "*Real Estate Purchase Contracts*").

According to a confirmation letter issued by the Seller on 29 January 2010, the Seller has received an amount of RMB 6,817,162.70 (TEUR 693.3 as of 31 December 2009) from Kinghero Xiamen as part of the purchase price to be paid by Michelle. Hence, Kinghero Xiamen has provided capital in the aforementioned amount to Michelle for the latter's purchase price for the above mentioned real estate. On 21 April 2010 Kinghero Xiamen and Michelle signed a confirmation letter confirming that Michelle repaid RMB 6,817,162.70 to Kinghero Xiamen on 9 April 2010.

17.2.5 Remunerations for Key Management Staff Members

17.2.5.1 The Company (Kinghero AG)

In the relevant period, members of the Company's Management and Supervisory Board as key management members have obtained a total gross remuneration for their services rendered to the Company as follows:

	ZHANG Yu	HE Xiuming	Marcus Wenzel (August 2009 to 31 March 2010)	Dr. Christoph Dylla (August 2009 to 31 March 2010)	CHEN Xiaofeng (February 2010 to 31 March 2010)
2009 (EUR)	Nil	Nil	12,500	9,375	2,000

17.2.5.2 Kinghero HK

Kinghero HK is a mere holding company and has no key employees or service agreements with its management.

17.2.5.3 Michelle

In 2009, Michelle has not paid any remuneration to the members of its management.

17.2.5.4 Kinghero Xiamen

In the relevant period, key management staff members of Kinghero Xiamen have obtained a total gross yearly amount of remuneration for their services rendered to Kinghero Xiamen as follows:

	ZHANG Yu	ZHANG Zhaosong	HE Xiuming	CHEN Jianzhu
2007 RMB/(EUR)	96,000.00 (9,216.00)	48,580.00 (4,663.68)	53,420.00 (5,128.32)	32,784.00 (3,147.26)
2008 RMB/(EUR)	96,000.00 (9,446.40)	50,049.80 (4,924.90)	55,553.50 (5,466.46)	33,424.00 (3,288.92)
2009 RMB/(EUR)	118,766.67 (12,517.96)	56,446.67 (5,949.46)	68,620.00 (7,232.52)	40,961.67 (4,317.34)
Up until 31 March 2010 RMB/(EUR)	30,000.00 (3,178.20)	16,316.67 (1,728.59)	19,066.67 (2,019.92)	12,000.00 (1,271.28)

The related party transactions described above have not been entered into at current market conditions and have not been concluded as arm's length transactions pursuant to the procedure of Article 3 of Regulation (EC) No. 1606/2002.

Except for the Human Resources Cooperation Agreement and the Commission Production Agreements between Michelle and Kinghero Xiamen, the related party transactions set out above were non-trade related.

In 2007, transactions of Kinghero Xiamen with related parties amounted to TEUR 23 (key management personnel compensation). In 2008, transactions of Kinghero Xiamen with related parties amounted to TEUR 24 (key management personnel compensation). In 2009, transactions of Kinghero Xiamen with related parties amounted to TEUR 743. As at 31 March 2010, transactions of Kinghero Xiamen with related parties amounted to TEUR 57.

In 2008, transactions of Michelle with related parties amounted to TEUR 840 (called up share capital). In 2009, transactions of Michelle with related parties amounted to TEUR 731. As at 31 March 2010, transactions of Michelle with related parties amounted to TEUR 28.

According to Company's directors, there are no further material related parties transaction from 1 January 2007 until the date of this Prospectus.

18. TAXATION IN GERMANY

This section, "Taxation in Germany", contains a brief summary of some major principles of German taxation which are or may become significant in connection with the acquisition, holding or transfer of shares or subscription rights. It is not meant to be a comprehensive and complete description of all tax-related circumstances which may be of relevance for shareholders. This summary is based on the provisions of German tax law in force at the time of preparation of this Prospectus *and the double taxation treaties currently concluded between the Federal Republic of Germany and other* states. In both areas, the relevant provisions may change, and under certain circumstances, even retroactively.

Potential investors in the shares are therefore advised to consult their tax advisors with respect to the tax consequences of buying, holding or transferring shares or subscription rights and with respect to the procedure which must be followed in case regarding a possible refund of German dividend withholding tax (*Abgeltungssteuer*). Only such tax advisors are in a position to adequately consider the specific tax situation of the individual investor.

18.1 Taxation of the Company

The profit of corporations domiciled in Germany is in principle subject to corporation tax (*Körperschaftsteuer*) and trade tax (*Gewerbesteuer*).

A German AG's taxable income is subject to German corporation tax (*Körperschaftsteuer*) at a rate of 15% plus solidarity surcharge (Solidaritätszuschlag) of 5.5% assessed thereon, totaling 15.825%. When determining the German AG's taxable income, basically all of its earnings have to be included. German corporation tax and solidarity surcharge are not tax deductible. This basic principle, though, is subject to certain modifications:

- Dividends received by a German AG from another corporation are in principle exempt from German corporation tax (*Körperschaftsteuer*). However, 5% of the tax-exempt dividends are treated as non-deductible business expenses, thereby economically leading to a minimum taxation of such 5% at the corporation tax (*Körperschaftsteuer*) rate (including solidarity surcharge (Solidaritätszuschlag)) of 15.825%. Expenses actually incurred which have an economic connection with the dividends may be fully deducted. Write-offs on shares are not tax deductible. The de facto 95% tax exemption for dividends received by corporations does not apply to credit institutions and insurance companies if special requirements are met.

- Likewise, in case a German AG derives a capital gain from the transfer of the shares in another corporation, economically 5% of the capital gain would be taxed at a rate of 15.825%.

In addition, German corporations are subject to trade tax (*Gewerbesteuer*) for the trade income earned in their German permanent establishments. For the purposes of trade tax (*Gewerbesteuer*), dividends and other profit shares received from domestic and foreign corporations and profits from the sale of shares in other corporations are generally treated in the same manner as for corporate tax (*Körperschaftsteuer*) purposes. However, dividends and profit shares are, in general, 95% tax-exempt only if the company held at least 15% of the distributing company's share capital at the beginning of the relevant assessment period (*Erhebungszeitraum*). Otherwise also the remaining 95% of the dividends are subject to German trade tax (*Gewerbesteuer*) due to the so-called trade tax add-back. Trade income is determined by the taxable income for income tax or corporate income tax purposes modified by certain additions and deductions. The additions include one-fourth of the sum of the following items, which must be added back when computing income for trade tax purposes, for example: loan remuneration (e.g. interest), 20% of rental and leasing payments for movable fixed assets, 65% of rental and leasing payments for immovable fixed assets. The add-backs apply only to the extent payments exceed an exemption amount of EUR 100,000. Deductions include for example 1.2% of 140% of the assessed value (Einheitswert) of real property and distributive share of profits from an interest in a domestic of foreign partnership. Additional restrictions apply to dividends and other profit shares originating from foreign corporations. The trade tax (*Gewerbesteuer*) amount owed is calculated by the trade earnings (*Gewerbeertrag*), multiplied by the trade tax assessment rate (*Gewerbesteuermesszahl*) and the local multiplier (*Hebesatz*) applied by the municipality or municipalities in which the Company maintains a permanent establishment (*Betriebsstätte*). The trade tax (*Gewerbesteuer*) assessment rate for corporations is currently 3.5%. The relevant multiplier for each local municipality ranges currently between 200% and 490%. For example the highest multiplier 490% or factor of 4.9, yields a tax rate of 17.15%. Trade tax is not tax-deductible.

Corporate income tax and trade losses incurred by the company in one year may be carried back to the immediately preceding assessment period up to an amount of EUR 511,500.

Tax losses carried forward can only be used subject to the minimum taxation policy (*Grundsatz der Mindestbesteuerung*). According to this policy, corporation tax (*Körperschaftsteuer*) and trade tax (*Gewerbesteuer*) losses carried forward may only be fully offset against profits earned by the Company in any financial year up to a maximum amount of EUR 1 million. If the taxable income (*Gesamtbetrag der Einkünfte*) of the Company exceeds this maximum amount, only 60% of the exceeding amount may be offset against tax losses carried forward. The remaining 40% of profits is subject to tax besides exceeding tax losses carried forward. Tax losses carried forward which are not utilized can in principle be carried forward indefinitely for corporation tax or trade tax purposes and be offset with future taxable income.

Changes in the ownership of corporations can, however, cause forfeiture of losses for tax purposes – so-called change-in-ownership rules. The restriction applies on two levels. Acquisitions of more than 25% and less than 50% of a corporation's shares or voting rights within a five year period by a person or parties related thereto trigger pro rata forfeiture of losses. The forfeiture of losses is total where more than 50% of the shares or voting rights are transferred.

Interest expense is only deductible in the event the company is in compliance with the so-called interest barrier (*Zinsschranke*). The interest barrier restricts the deductibility of interest expense to 30% of the earnings before interest, taxes, depreciation and amortization (EBITDA) determined for tax purposes for corporate income tax and trade tax purposes. The non-deductible part of the interest expense can be carried forward to future financial years and might reduce the taxable profit of the company in the future if the interest expense in such period is deductible under the interest barrier. There is a risk that the non-deductible part of interest expense might be forfeited, for example in case of restructurings or in case of the termination of the business. The interest barrier will not apply if the interest expense is less than EUR 3 million or in the event the company complies to the so-called "escape clause", provided there is no harmful shareholder debt financing. The escape clause stipulates the complete deductibility of interest expense in the event that the company's equity ratio is not lower than that of the group. For the purpose of the equity ratios of the financial statements at the end of the preceding business year end are relevant. Only in case that there is no harmful shareholder debt financing, the escape clause will be applicable. A harmful shareholder debt financing is existing if the shareholder (holding directly or indirectly more than 25% of the shares) or any related party hereto or any third party who has a right of recourse against the shareholder or a related party hereto receives interest exceeding 10% of the negative interest balance (difference between interest income and interest expenses) from the respective corporation or from another affiliated company.

18.2 Taxation of Shareholders

Shareholders are subject to tax in particular in connection with the holding of shares (taxation of dividends), the disposal of shares (taxation of capital gains) and the gratuitous or partial gratuitous transfer of shares (inheritance and gift tax).

18.3 Taxation of Dividends

18.3.1 Withholding Tax (*Abgeltungssteuer*)

Generally, a German AG is responsible for withholding taxes on its dividend distribution at a 25% flat tax rate plus a 5.5% solidarity surcharge (*Solidaritätszuschlag*) on this flat tax amount, adding up to a total of 26.375%.

Such withholding tax is levied and withheld by the German AG irrespective of whether and to what extent the dividend distribution is taxable at the level of the shareholder residing inside or outside Germany. Certain exceptions may apply if the dividend is paid to corporations in another EU Member State to which the EU Parent/Subsidiary Directive applies. A partial exemption may also be available under a respective double taxation treaty. In these cases the restrictive preconditions according to § 50d (3) German Income Tax Act have to be fulfilled. Application forms may be obtained from the German Federal Central Tax Office (Bundeszentralamt für Steuern), An der Kuppe 1, 53225 Bonn, Germany (www.bzst.bund.de).

Dividends to a corporation domiciled outside of Germany are subject to a reduced withholding tax (irrespective of any double taxation treaties) in the event the shares do not constitute an asset of a permanent establishment in Germany nor an asset for which a permanent representative has been appointed in Germany. In this case, 2/5 of the withholding tax will be refunded upon application. The refund requires that the corporation fulfils the preconditions of § 50d (3) German Income Tax Act.

For shareholders resident in Germany (that means, shareholders whose residence, habitual abode, management, or domicile is located in Germany) holding their shares as business assets as well as for shareholders residing outside Germany (foreign shareholders) holding their shares in a permanent establishment or a fixed base in Germany, or as assets for which a permanent representative has been appointed in Germany, the tax withheld is credited against the shareholders' personal income tax or corporate income tax liability. Any tax withheld in excess of the shareholder's personal tax liability is refunded. The same principles apply to the solidarity surcharge.

18.3.2 Taxation of Dividend Income of Investors Resident in Germany Holding their Shares as Private Assets

For individual shareholders resident in Germany holding their shares as private assets dividends are subject to the withholding tax (*Abgeltungsteuer*). Under this regime dividend income of private investors will be taxed at the principle withholding tax of 25% plus a 5.5% solidarity surcharge thereon (aggregate tax burden: 26.375%) and church tax if applicable. Except for an annual lump sum allowance (*Sparerpauschbetrag*) of EUR 801 (EUR 1,602 for married couples filing jointly), private investors will not be entitled to deduct expenses incurred in connection with the capital investments from their dividend income. If the tax rate results in a higher tax burden as opposed to the private investor's individual tax rate the investor may opt for taxation at the individual tax rate. The withholding tax will be credited against the income tax. Private investors are not entitled to deduct expenses incurred in connection with the capital investments from their income except of the annual lump sum allowance even if they opt for taxation at an individual tax rate. This option may be exercised only for all capital income and married couples may only jointly exercise the option.

18.3.3 Taxation of Dividend Income of Investors Resident in Germany Holding their Shares as Business Assets

If shares are held as business assets of a shareholder, the taxation depends on whether the shareholder is a corporation, a sole proprietor, or a partnership (*Mitunternehmerschaft*):

Corporations

Dividend distributions to corporate shareholders are generally exempt from corporate income tax. However, 5% of the tax-exempt dividend income is deemed to be non-deductible business expense for tax purposes and is therefore subject to corporate income tax (plus solidarity surcharge) and trade tax. Business expenses actually incurred in connection with the shares are entirely tax deductible. 95% of dividend income must be added back when determining the trade taxable income and is therefore subject to trade tax unless the investor holds at least 15% of the share capital of the company at the beginning of the relevant assessment period.

Sole Proprietors

For sole proprietors holding their shares as business assets, generally 60% of the dividend distributions are taxable. Correspondingly, 60% of the business expenses related to the dividend income are deductible for tax purposes (subject to any other restrictions on deductibility). In addition, dividends are entirely subject to trade tax if the shares are held as a business asset of a permanent establishment in Germany and if the shareholder does not hold at least 15% of the share capital of the company at the beginning of the relevant assessment period. The trade tax levied – depending on the municipal trade tax rate and the individual tax situation – is partly or entirely credited against the shareholder’s personal income tax liability.

Partnerships

If shares are held by a partnership, personal income tax or corporate income tax is levied only on the level of the partners. If a partner is subject to corporate income tax, dividends are generally tax-exempt to 95%. If the partner is subject to personal income tax, 60% of the dividends are taxable and 60% of the business expenses related to dividend income are deductible. At the level of a partnership which is liable to trade tax, the entire dividends are subject to trade tax if the partnership does not hold at least 15% of the share capital of the company at the beginning of the relevant assessment period. However, depending on the applicable municipal trade tax rate and individual circumstances, the trade tax paid at the level of a partnership may partly or entirely be credited against the personal income tax liability of the partners if the partners are natural persons.

If the partnership holds 15% of the share capital of the company at the beginning of the relevant assessment period, only 5% of the dividends are subject to trade tax in the event the partners are corporations or the dividends are trade tax exempt in the event the partners are individuals.

18.3.4 Taxation of Dividend Income of Investors not Resident in Germany

Shareholders who have neither a domicile nor a habitual place of abode in Germany ("German non-resident"), are subject to limited tax liability for German income tax (*Einkommenssteuer*) purposes. Accordingly, such shareholders are taxed only on their 'domestic income' as defined and catalogued by the German Income Tax Act (*Einkommensteuergesetz = EStG*).

For foreign shareholders who do not hold their shares in a permanent establishment or a fixed base in Germany, or as an asset for which a permanent representative has been appointed in Germany, the German tax liability is, in principle, satisfied upon deduction of withholding tax (possibly reduced by way of a refund under a double taxation treaty or EU Parent /Subsidiary Directive.

However, shareholders who hold their shares in a permanent establishment or a fixed base in Germany, or in business assets for which a permanent representative has been appointed in Germany, are subject to the same rules described above for shareholders resident in Germany.

18.4 Taxation of Capital Gains

18.4.1 Taxation of Capital Gains of Investors Resident in Germany Holding their Shares as Private Assets

Any gain from the sale or redemption of the shares will be subject to a withholding tax (*Abgeltungsteuer*) of 25% plus a solidarity surcharge of 5.5% thereon resulting in an aggregated tax burden of 26.375%. Except for an annual lump sum allowance (*Sparerfreibetrag*) of EUR 801 (EUR 1,602 for married couples filing jointly) private investors will not be entitled to deduct expenses incurred in connection with the capital investment from their capital gain. If the flat tax results in a higher tax burden as opposed to the private investor's individual tax rate the investor may opt for taxation at his individual tax rate. Private investors are not entitled to deduct expenses incurred in connection with the capital investments from their income except for the annual lump sum allowance even if they opt for taxation at an individual tax rate. The option may only be exercised for all capital gains and income from capital investments and married couples may only exercise the option jointly.

Losses from the disposition of the shares may only be offset against other capital gains resulting form the disposition of shares. Offsetting of overall losses with other income (for example business or rental income) and other capital income is not possible. Such losses are to be carried forward and be offset against positive capital gains deriving from the sale of shares in future years.

The general flat tax will not apply if the seller of the shares or, in case of gratuitous transfer, its legal predecessor has held, directly or indirectly, at least 1% of the share capital of the company at any time during the five years prior to the disposal. 60% of the capital gains are taxed upon this disposal.

Capital gains are principally subject to withholding tax of 25% plus 5.5% solidarity surcharge thereon (in total 26.375%) in the event a German credit of financial institution (including a German branch of a foreign credit or financial institution) stores or administrates or carries out the sale of the shares and pays or credits the capital income. If the shares have not been acquired by such German credit or financial institution and administered thereafter, for example in case of a change of administration (*Depotwechsel*), withholding tax may be levied on 30% of the sale proceeds.

18.4.2 Taxation of Capital Gains of Investors Resident in Germany Holding their Shares as Business Assets

If shares are held as business assets of a shareholder, the taxation of capital gains realized upon disposal depends on whether the shareholder is a corporation, a sole proprietor, or a partnership:

Corporations

Capital gains realized by corporate shareholder upon disposal of shares are generally exempt from corporate income tax and trade tax. Capital gains for this purpose is the amount by which the selling price or the equivalent value after deduction of selling costs exceeds the tax base at the time of disposal. However, 5% of the capital gain is deemed to be a non-deductible business expense and is therefore subject to corporate and trade tax. Losses incurred upon the disposal of shares or other impairments of the shares' value are not tax deductible. A reduction of profit is also defined as any losses incurred in connection with a loan or security in the event the loan or the security is granted by the shareholder or by a related person hereto or by a third person with the right of recourse against the before mentioned persons and the shareholder holds directly or indirectly 25% or more of the capital of the company.

Sole Proprietors

If the shares are held by sole proprietors, 60% of the capital gains realized upon disposal are taxed. Correspondingly, 60% of the business expenses related to such capital gains and 60% of any losses incurred upon disposal of shares are tax deductible. In addition, 60% of the capital gains are subject to trade tax if the sole proprietor is subject to trade tax. However, trade tax is partly or entirely credited against the shareholder's personal income tax liability depending on the applicable municipal trade tax rate and individual circumstances.

Partnerships

If the shareholder is a partnership, taxation depends on whether the partners are subject to personal income tax or corporate income tax: If the partners are subject to corporate income tax, any capital gains are generally tax exempt in amount of 95%. If the partners are subject to personal income tax, 60% of the capital gains are taxable. In addition, 60% of the capital gains are subject to trade tax at the level of a partnership if the partnership is liable to trade tax and the partners are individuals and 5% of the capital gains are subject to trade tax if the partners are corporations. However, the trade tax paid at the level of a partnership partly or entirely be credited – depending on the applicable municipal trade tax rate and individual circumstances – against the personal income tax liability of the partners who are individuals.

18.4.3 Taxation of Capital Gains of Shareholders Outside Germany

Capital gains realized upon disposal of shares by a shareholder resident outside Germany are only subject to German income tax (plus solidarity surcharge) in the event (i) the shares are held in a permanent establishment or through a fixed base in Germany, or held as assets for which a permanent representative has been appointed in Germany or (ii) the selling shareholders or, in case of a gratuitous transfer, its legal predecessor has held, directly or indirectly, at least 1% of the share capital of the company at any time during the five year period prior to the disposal. No withholding tax should be assessed upon the sale provided sufficient proof of the foreign tax status is given.

In this case:

- 5% of the capital gain is subject to corporate income tax and solidarity surcharge, if the shareholder is a corporation; and
- 60% of the capital gain is taxed in all other cases.

However, some of the German double taxation treaties provide for a complete exemption from German taxation (except in case (i)) in such cases and assign the right to tax to the shareholder's state of residence. Capital gains realized upon disposal of shares held in a permanent establishment or through a fixed base in Germany, or held as assets for which a permanent representative has been appointed in Germany, are subject to the same rules as described above for shareholders resident in Germany.

18.4.4 Special Rules for Banks, Financial Services Institutions, Financial Institutions, Life and Health Insurance Companies, and Pension Funds

To the extent banks and financial services institutions hold shares that are attributable to their trading book pursuant to § 1 (12) of the German Banking Act (*Kreditwesengesetz*) neither the standard tax exemption for corporations nor the part-income system applies to dividend income received or to capital gains or losses realized upon the disposal of shares, that means dividend income and capital gains are fully subject to corporate income tax or personal income tax and, if applicable, to trade tax. The same applies to shares that were acquired by financial institutions within the meaning of the German Banking Act in order to realize short-term proprietary trading gains. Furthermore, this applies to banks, financial services institutions and financial institutions domiciled in another member state of the European Community or another contracting party to the EEA Agreement. The standard tax exemption for corporations neither applies to dividends received nor to capital gains or losses if the shares are attributable to the capital investments (*Kapitalanlagen*) of life and health insurance companies or pension funds. Certain exceptions may apply to corporations if the EU Parent/Subsidiary Directive (90/435/ EEC of 23 July 1990, as amended) applies to the company's dividends and the preconditions of § 50d (3) German Income Tax Act are fulfilled.

18.5 Inheritance and Gift Tax

The transfer of shares by way of gift or succession is subject to German inheritance and gift tax only if one of the following criteria is met:

(i) The testator, donor, heir, donee, or any other beneficiary has his or her residence or habitual abode, registered domicile or place of management in Germany at the time of the transfer or is a German citizen who has not stayed abroad for more than five years without having a residence in Germany;

(ii) Irrespective of these personal circumstances, the shares are held as business assets for which a permanent establishment is maintained or a permanent representative is appointed in Germany; or

(iii) At the time of succession or donation, the testator or donor held, either alone or with other closely related persons, directly or indirectly, at least 10 % of the registered share capital of the Company.

The few double taxation treaties on inheritance and gift tax which Germany has entered into generally provide that German inheritance or gift tax is levied only in case (i) and, with certain restrictions, in case (ii). Special provisions apply to certain German expatriates and former German citizens.

18.6 Other Taxes

No German capital transfer tax, VAT, stamp duty, or similar tax is levied on the acquisition, sale, or other forms of transferring shares. However, an entrepreneur may opt for value-added tax being levied on a transaction that is normally tax-exempt if the transaction is executed for the enterprise of another entrepreneur. Net wealth tax *(Vermögenssteuer)* is currently not levied in Germany.

19. TAXATION IN THE REPUBLIC OF AUSTRIA

The following section is a summary of taxation principles under Austrian law which are or may become relevant in connection with the acquisition, holding or transfer of the shares. The summary is not an exhaustive description of taxation under Austrian law that may be relevant to the shareholders. The summary is based on the Austrian tax laws applicable as of the date of this Prospectus and on the provisions of treaties for the avoidance of double taxation (Double Taxation Treaties) entered into between Austria and Germany. It should be noted that the law may change and that the treaty may be amended, and that the Austrian tax authorities may alter their interpretation of the law and the treaty, and that any such changes, amendments and new interpretations may have retroactive effect.

Potential purchasers of Shares in the Company are urged to consult their tax advisors as to the tax consequences of acquiring, holding and transferring Shares and as to the rules for obtaining a refund of withholding tax paid (*Kapitalertragsteuer*). The specific tax situation of each shareholder can only be addressed adequately by means of individual tax advice.

In addition, the tax considerations relevant to purchasers that are subject to special tax provisions, such as foundations, charities and governmental described below.

19.1 Income Taxation of Shareholders

Individuals who maintain their residence or have their habitual place of abode in Austria (“individuals taxresident in Austria”) are subject to Austrian income tax with respect to all of their income, regardless of the geographic source of such income. Individuals who do not reside in Austria (“individuals not tax-resident in Austria”) are subject to Austrian income tax only with respect to income from certain specified sources (e.g., income earned through a permanent establishment in Austria).

Corporations with their seat or place of management in Austria (“corporations tax-resident in Austria”) are subject to Austrian corporate income tax with respect to all of their income, regardless of the geographic source of such income. Corporations with their seat and place of management outside Austria (“corporations not tax-resident in Austria”) are taxed in Austria only with respect to income from certain specified sources (e.g., income earned through a permanent establishment in Austria).

19.2 Taxation of Dividend Income

19.2.1 Tax Treaty and EC Directive

Pursuant to Article 10 of the treaty to avoid double taxation between Austria and Germany ("Austria- Germany Double Taxation Treaty"), dividends paid by a corporation resident in Germany to a person resident in Austria may be taxed in Austria. However, pursuant to Article 10 Paragraph 2 of the Austria-Germany Double Taxation Treaty, such dividend income may be subject to German withholding tax at a rate of up to 15% of the dividends' gross amount. The withholding tax rate drops to 5% of the gross amount of the dividends if the receiving entity is a corporation holding shares corresponding to at least 10% of the payer's capital.

Pursuant to Article 23 Paragraph 2(b) of the Austria-Germany Double Taxation Treaty, any withholding tax levied in Germany pursuant to Article 10 of the Austria-Germany Double Taxation Treaty can be credited against any Austrian income tax owed by the recipient of the dividends. Such tax credit, however, is limited to an amount specified in Article 23 Paragraph 2(b) of the Austria-Germany Double Taxation Treaty.

Certain exceptions may apply to corporations resident in another EU Member State to which the EU Parent/ Subsidiary Directive (90/435/ EEC of 23 July 1990, as amended) applies.

19.2.2 Individuals

Individuals tax-resident in Austria who hold their shares as private assets or business assets will pay taxes of 25% on the dividends.

In practice, dividends from a German corporation are often paid out by an Austrian coupon-paying agent (usually an Austrian bank or a foreign bank's permanent establishment in Austria). Such agent would normally also withhold tax at a rate of 25% on the dividends paid. However, pursuant to a 2003 regulation issued by the Austrian Federal Minister of Finance (Auslands-KESt VO 2003), an Austrian coupon-paying agent deducting withholding tax from the paid coupons may itself, up to a certain maximum percentage, credit any German withholding tax actually paid against the Austrian witholding tax it deducts prior to paying the coupons. A coupon-paying agent in Austria that credits, i.e., pays out, dividends from a German corporation must withhold tax at a rate of 25% (*Kapitalertragsteuer*). In this situation, pursuant to the Auslands-KESt VO 2003, the coupon-paying agent can directly credit any German withholding taxes paid against such Austrian withholding tax, but such credit must not exceed 15% of the dividend income. In the event that the dividends are not paid out by an Austrian coupon-paying agent and, accordingly, no Austrian withholding tax is paid on the dividends, a special income tax rate (*Sondersteuersatz*) of 25% applies. Both the withholding tax and the special income tax discharge any additional income tax liability on the dividend income (*Endbesteuerung*). Expenses directly connected to the dividend income are not deductible for tax purposes. An individual owing less tax if the normal tax rate were applied can apply to have the dividend income taxed at half his or her average income tax rate.

19.2.3 Corporations

Dividends received by a corporation tax-resident in Austria from a German corporation are generally exempt from Austrian corporate income tax (*Körperschaftsteuer*). However, differences may result from whether the corporation tax-resident in Austria holds a stake in the German corporation of at least 10% (international participation) or not (portfolio participation):

19.2.4 International participation exemption (*Internationales Schachtelprivileg*)

The dividends from a German corporation are exempt from the corporate income tax if the criteria for application of the international participation exemption (Internationales Schachtelprivileg) are met. For the international participation exemption to apply, a corporation tax-resident in Austria must demonstrate that it has held (directly or indirectly) shares corresponding to at least 10% of the German corporation's capital for no less than one year without interruption.

In addition, none of the conditions that would prevent the privilege's application as determined in a decree by the Federal Minister of Finance in an effort to prevent tax evasion and the abuse of tax shelters may apply (Federal Gazette 2004/295). Such conditions include (i) the focus of the foreign subsidiary's business directly or indirectly consisting in generating income from interest, from leasing tangible and intangible assets and from selling investments and (ii) when determining its taxable earnings and tax rate, the income of the foreign company not being subject to taxation in its residence state at a rate which is comparable to the Austrian corporate income tax rate (i. e. more than 15%).

In the event that any of clause (i) to (ii) of the preceding sentence applies, the dividends received by the corporation tax-resident in Austria remain subject to Austrian corporate income tax, but any German withholding tax levied on the dividends will be credited against such Austrian tax. Austrian withholding tax levied by a coupon-paying agent in Austria, if any, may be credited against corporate income tax in Austria or refunded by the Austrian tax authorities.

19.2.5 Portfolio participation (*Portfolio Beteiligung*)

Dividends received by a corporation tax-resident in Austria from a German corporation in which the corporation tax-resident in Austria holds shares corresponding to less than 10% of the corporation's capital are also exempt from Austrian corporate income tax, unless (i) the German corporation is itself (directly or indirectly) not subject to a German tax that is comparable to the Austrian corporate income tax, (ii) the German tax that is comparable to the Austrian corporate income tax is more than 10 percentage points lower than the Austrian corporate income tax rate (25%) or (iii) the German corporation benefits from a comprehensive personal or material tax exemption in Germany (other than an exemption under the international participation exemption).

In the event that any of clause (i) to (iii) of the preceding sentence applies, the dividends received by the corporation tax-resident in Austria remain subject to Austrian corporate income tax, but any German withholding tax levied on the dividends will be credited against such Austrian tax. Austrian withholding tax levied by a coupon-paying agent in Austria, if any, may be credited against corporate income tax in Austria or refunded by the Austrian tax authorities.

19.2.6 Partnerships

If the Shares are held by a partnership organized under the laws of Austria, the tax treatment of the dividends depends, among other things, on whether the partner in question is an individual or a corporation.

19.3 Taxation of Capital Gains

19.3.1 Tax Treaty

Pursuant to Article 13 Paragraph 5 of the Austria-Germany Double Taxation Treaty, capital gains on the sale of shares in a German corporation received by a person resident in Austria within the meaning of the Austria-Germany Double Taxation Treaty are only taxable in Austria.

19.3.2 Individuals

If an individual tax-resident in Austria holds the shares as private assets and sells them within one year of acquisition, any capital gains earned on the sale are treated as speculation gains and taxed at the individual’s progressive income tax rate, which may be as high as 50%. The taxable gains are determined by taking the amount received from the sale and subtracting the acquisition cost of the shares and any other expenses the shareholder incurred to generate the speculation gains. Losses from speculation transactions can only be used to reduce gains from speculation transactions that were carried out in the same calendar year. Speculation gains are tax-exempt if the total income from speculation transactions in the calendar year is EUR 440.00 or less.

If the individual tax-resident in Austria held at least 1% of the Company’s shares as private assets at any time in the five years prior to the sale, any shares sold after the end of the minimum holding period are subject to income tax at half the individual’s average income tax rate. If the sale of shares in such a case results in a loss, that loss can only be set off from gains from other sales involving stakes of 1% or more.

Gains on the sale of shares held as business assets by an individual tax-resident in Austria are subject to income tax regardless of the length of time they are held. They are taxed at the individual’s progressive income tax rate, which may be as high as 50%, if sold within one year of acquisition. If held for longer than one year, they are taxed at half the individual’s average income tax rate.

If a shareholder who, at any point in time during the last five years has held a shareholding of at least 1% in the corporation’s capital takes steps resulting in Austria losing its taxation rights to other countries (e.g. by transferring his/her residence outside of Austria), a capital gain amounting to the difference between the acquisition cost and the fair market value of the shares is realized. If the shareholder moves to another EU member state or an EEA member state with which Austria has entered into an agreement on mutual assistance and tax enforcement, taxation of such capital gain is deferred upon request of the shareholder. The deferred tax would be levied upon actual disposal of the shares as well as upon transfer of the shareholder’s residence for tax purposes to a state other than an EU member state or an eligible EEA member state. After a period of ten years from the shareholder’s move abroad Austrian tax should no longer be levied.

19.3.3 Corporations

Capital gains earned by corporations tax-resident in Austria are considered part of the income derived from business or trade activity. Unless the Austrian corporation chooses upon acquisition to have the investment recognized for tax purposes, capital gains and losses on shares in a German corporation can be tax neutral if the requirements of the international participation exemption are met. These requirements are that the corporation taxresident in Austria has held (directly or indirectly) shares corresponding to at least 10% of the German corporation’s capital for a period of no less than one year prior to the sale of the shares. In addition, none of the conditions that would prevent the privilege’s application as determined in a decree by the Federal Minister of Finance in an effort to prevent tax evasion and the abuse of tax shelters may apply (Federal Gazette 2004/295). Such conditions include (i) the focus of the German corporations business directly or indirectly consisting in generating income from interest, from leasing tangible and intangible assets and from selling investments and (ii) when determining ist taxable earnings and tax rate, the income of the foreign company not being subject to taxation in its residence state at a rate which is comparable to the Austrian corporate income tax rate (i. e. more than 15%).

If the international participation exemption applies and the investment is considered tax neutral, gains, losses and other changes in the investment’s value are not taken into account for Austrian tax purposes. Otherwise, gains on the sale of shares are taxable at the ordinary rate of 25%, and one-seventh of any losses on the sale of shares is deductible in the financial year incurred and in the following six financial years, given the proof that the losses are not caused by a distribution by the Company. Write-downs on the value of shares and losses on the sale of shares can be deducted immediately for tax purposes, if a previous write-down to the fair market value was reversed or if hidden reserves are realized in the same period on the sale of other investments that were previously written down over a seven-year period ending before the current year.

19.3.4 Partnerships

If the shares are sold from the assets of a partnership organized under the laws of Austria, the tax treatment of the capital gains will depend on whether the partner in question is an individual or corporation.

19.4 Shareholders Not Tax-Resident in Austria

Dividends and capital gains on shares in a German corporation earned by individuals and corporations not tax-resident in Austria are subject to non-resident taxation if the shares are held by a permanent establishment in Austria. The international participation exemption may apply in the case of corporations not tax-resident in Austria.

19.5 Inheritance and Gift Tax

No inheritance or gift tax is levied in Austria. However, notice must be given to the tax authorities if a gift of shares in a corporation is made, provided that certain de minimis thresholds are exceeded. With respect to gifts among family members, only if the total value of such gifts made within one calendar year exceeds EUR 50,000, notice must be given. In other cases, only if gifts amounting to less than EUR 15,000 over a period of five years, no notice is necessary.

20. UNDERWRITING

20.1 Underwriting Agreement

The New Shares will be underwritten by BankM as Joint Lead Manager and Settlement Agent for the Placement and the Inclusion.

In the agreement between the Company and BankM to be executed at a date before the end of the placement period ("**Underwriting Agreement**"), BankM will commit to subscribe an amount of New Shares corresponding to the amount of received valid subscriptions obtained from third parties at the issue price of EUR 1.00 per New Share. BankM is obliged to credit the difference in the amount between the issue price of EUR 1.00 per New Share and the placement price per New Share to an account of the Company.

20.2 Commissions

For the placement of New Shares BankM receives a flat fee of 5.75% of the placement volume, i.e. the gross proceeds from the offering of the New Shares which is the number of New Shares actually sold multiplied by the offer price. BankM is permitted to deduct this fee from receipts out of the sale of the shares.

20.3 Securities Loan and Greenshoe Option

With regard to the capital increase and a potential over-allotment and in order to timely deliver the shares to investors, up to 2,070,000 no par value ordinary bearer shares (*Inhaber-Stückaktien*) of the Selling Shareholder in KINGHERO AG will be granted to BankM by way of a securities loan without remuneration. The Selling Shareholder has further granted BankM an option to acquire the Greenshoe Shares at the offer price less agreed commission. This option expires 30 calendar days after the commencement of trading of the shares.

20.4 Termination/Indemnity

The Underwriting Agreement will provide that BankM may terminate the Underwriting Agreement under certain circumstances, even after the shares have been allocated and listed, up to delivery and settlement. Such circumstances include in particular an adverse change or prospective adverse change in the assets, financial condition or results of operations or an impairment of the business of the Company, a material change in the management structure of the Company, a complete or partial suspension of trading on the Frankfurt, London or New York Stock Exchanges or an adverse change in the national or international financial, political, industrial, economic or legal conditions or capital markets conditions or currency exchange rates or an outbreak or escalation of hostilities or terrorist activities.

If the Underwriting Agreement is terminated, the offer will not take place. In such case, shares which have already been allocated to investors will be invalidated and investors will have no claim for delivery. Claims relating to any subscription fees paid and costs incurred by any investor in connection with the subscription are governed solely by the legal relationship between the investor and the institution to which the investor submitted its purchase order. Investors who have engaged in short sales of shares will bear the risk of not being able to fulfil their delivery obligations in connection with such sale.

If a termination is declared after the entry of the implementation of the capital increase in the Commercial Register, or if the entry of the implementation of the capital increase can no longer be prevented, then

(a) BankM may require the Selling Shareholder, within a 30-day period from such request, to purchase and accept transfer, and the Selling Shareholder may require BankM to sell and transfer to him the New Shares at the issue amount for such New Shares plus any financing costs incurred by BankM;

(b) alternatively, if and to the extent the Selling Shareholder is in default with its obligation to purchase the New Shares in accordance with the preceding paragraph (a), BankM may be entitled to sell the respective New Shares at its discretion. In the event such shares are sold at a price that exceeds the issue price of EUR 1.00 for such shares plus fees and expenses and plus any financing costs incurred by BankM, BankM shall pay the excess proceeds to the Company.

The Company will agree in the Underwriting Agreement to indemnify and hold harmless BankM and its directors, officers, partners and employees, any affiliate and each person who may be deemed to control BankM (each an "**Indemnified Person**") against any losses, claims, damages, liabilities, charges, expenses or demands (or actions in respect thereof) to which such Indemnified Person may become subject and which arise out of, or in relation to, or in connection with (i) any breach by the Company of its representations and warranties pursuant to the Underwriting Agreement or (ii) any untrue statement of a material fact contained in the Prospectus or any omission to state therein a material fact required to be stated therein necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. In each such case, the Company will in addition reimburse each Indemnified Person for any properly documented legal or other expenses (together with any amount equal to VAT, if applicable) incurred by such Indemnified Person in connection with investigation or defending any such action or claim including with respect to an alleged breach, alleged untrue statements, or an alleged omission as such expenses are incurred. The Selling Shareholder will also severally and not jointly agree under the Underwriting Agreement to indemnify and hold harmless BankM under certain circumstances.

20.5 Other Relationships

BankM or their affiliates may, from time to time, engage in transactions or perform services for the Company in the ordinary course of business.

20.6 Selling and Transfer Restrictions

The offering consists of public offerings in Germany and Austria and private placements outside Germany, Austria and the United States. The shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended, and are only being offered outside the United States in reliance on Regulation S under the Securities Act.

This Prospectus does not constitute an offer, solicitation or invitation to subscribe for shares in any jurisdiction in which such offer, solicitation or invitation is unlawful or is not authorized or to any person to whom it is unlawful to make such offer, solicitation or invitation. No action has been or will be taken under the requirements of the legislation or regulations of, or of the legal or regulatory authorities of, any jurisdiction, except for the filing and/or registration of this Prospectus in Germany and Austria in order to permit a public offering of the shares and the public distribution of this Prospectus in Germany and Austria. The distribution of this Prospectus and the offering of the shares in certain jurisdictions may be restricted by the relevant laws in such jurisdictions. Persons who may come into possession of this Prospectus are required by the Company to inform themselves about, and to observe and comply with, any such restrictions at their own expense and without any liability of the Company. Persons to whom a copy of this Prospectus has been issued shall not circulate the same to any other person or reproduce or otherwise distribute this Prospectus or any information herein for any purpose whatsoever nor permit or cause the same to occur.

21. RECENT DEVELOPMENTS AND OUTLOOK

Notwithstanding the unfavourable economic conditions in the United States and Europe from the end of 2008, the gross domestic product of PRC has increased for 8.7% and 11% in 2009 and the first quarter of 2010 respectively. In order to compensate the decrease in exports in the financial turmoil, PRC Government encourages the domestic consumption starting from early 2009. Successful fiscal and economic policies have been launched to support domestic consumption. Thus, the Company believes that garment consumption will continue to grow in PRC. The economy of the PRC today is the third largest in the world measured by its nominal gross domestic product. Meanwhile, urbanization has been accelerated as a result of the rapid economic growth in the PRC. The income levels of urban households have increased and living standards have improved. These factors will boost up the garment consumption in coming years. As PRC consumers have become more affluent, they have been gradually switching from mid to high-end domestic branded products with better designs and higher quality. KINGHERO Group believes this change will result in a gradually expanding target customer base with respect to those consumers interested in casual wear.

The Company expects that its sales in 2010 will be increased significantly. A first indication for this assumption is given by the revenues generated in the – for seasonal reasons generally strong – first quarter of 2010, which amounted to TEUR 14,925, compared to TEUR 10,447 for the first quarter of 2009 (showing an increase of 42.86%). Bank balances as of 31 March 2010 amount to TEUR 20,337 due to a cash capital increase in the operating Chinese subsidiaries during the first quarter of 2010, and the profitable operations of the Chinese subsidiaries in the first three months of 2010.

The Company expects to achieve further revenue growth over the coming years by the implementation of its growth strategy that is associated with strengthening the brand building and the sales network, increasing production capacity and acquiring new technologies. The strong current growth of the Company however might be jeopardized, if the Company is unable to accordingly increase its production capacities.

Subject to a successful placement of the New Shares and continued growth in PRC, KINGHERO Group is planning to establish 30 flagship stores in the coming years. The number of designated distributors is expected to increase from 34 to 60. KINGHERO Group is intending to purchase new equipment for the six factory buildings, acquired in September 2009. At the beginning of 2011 these new factories are expected to be fully operational.

Since 31 March 2010 and the date of this Prospectus no significant changes in the financial or trading position of KINGHERO Group have occurred.

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22. FINANCIAL INFORMATION

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1. NOTE TO THE USER

The Company was incorporated on 16 April 2009 as a shelf company *(Vorratsgesellschaft)* and was acquired in the course of certain restructuring steps and therefore has no historical financial data (within the meaning of Annex 1 No. 20.1 of (EC) Regulation No. 809/2004), except for its opening balance sheet and the stand alone financial statements in accordance with the German Commercial Code as at 31 December 2009 and for the short financial year from 16 April 2009 to 31 December 2009. However, the business of the Company essentially corresponds to the business activities that previously comprised the business of Kinghero Xiamen. The operational business of KINGHERO Group was and is managed by Kinghero Xiamen and Michelle, the wholly-owned and direct subsidiaries of Kinghero HK and the Company's indirect subsidiaries. The entities of KINGHERO Group existing prior to the restructuring and the Company are under common control within the meaning of IFRS 3 "Business Combinations".

Kinghero Xiamen was over the reporting period the only significant operating subsidiary of KINGHERO Group. This is due to the fact that Michelle only started business in July 2009. Hence in order to present the business, financial condition and result of operations for the last three financial years in relation to the business of KINGHERO Group, the Company has prepared financial statements of Kinghero Xiamen as at and for the years ended 31 December 2007, 31 December 2008, and 31 December 2009 prepared in accordance with IFRS, as endorsed for application in the EU. The Company has also prepared financial statements of Michelle as at and for the year ended 31 December 2009, prepared in accordance with IFRS, as endorsed for application in the EU, prior historical data not being material due to the start up of business in 2009. The selected financial information, which is reflected in this section, was derived from the aforementioned financial statements. These financial statements were audited by Grant Thornton.

Additionally, interim financial information for the three month period ended 31 March 2010 has been presented for Kinghero Xiamen and also for Michelle as derived from both these companies' individual interim financial statements prepared in accordance with IFRS, as endorsed for application in the EU, as at and for the three month period ended 31 March 2010 with comparative information. These interim financial statements were reviewed by Grant Thornton.

As the formation of the Group had legal effect on 31 March 2010, the first consolidated financial data of KINGHERO Group is derived from the consolidated statement of financial position prepared in accordance with IFRS, as endorsed for application in the EU, as at 31 March 2010. As this date is the initial moment of the legal existence of KINGHERO Group, there is consequently no consolidated statement of comprehensive income, consolidated statement of changes in equity or consolidated statement of cash flow and hence the Company has only presented a consolidated statement of financial position as at 31 March 2010. This consolidated statement of financial position was reviewed by Grant Thornton.

The aforementioned financial statements are not the legally required financial statements of the Company but have been prepared on a voluntary basis for the purpose of this Offering. The purpose of these financial statements is to put the investor in the position to better compare the development of the business, financial condition and the results of operations of KINGHERO Group over the last three years.

The following figures were commercially rounded; their sums when added may not be the same as the sums indicated.

2. FINANCIAL STATEMENTS OF KINGHERO FASHION (XIAMEN) CO., LTD. FOR THE FINANCIAL YEARS ENDED 31 DECEMBER 2007, 2008 AND 2009

2.1 Statements of Comprehensive Income for the financial years ended 31 December 2007, 31 December 2008 and 31 December 2009

		Year ended 31 December		
		2007	2008	2009
	Note	TEUR	TEUR	TEUR
Revenue	3	24,272	32,142	48,921
Cost of sales	4	(15,957)	(21,790)	(33,193)
Gross profit		8,315	10,352	15,728
Other income	3	-	-	89
Selling and distribution expenses		(2,656)	(1,694)	(2,144)
Administrative expenses		(234)	(318)	(379)
Finance income	5	8	16	12
Finance costs	5	(10)	-	-
Profit before taxation	6	5,423	8,356	13,306
Income tax expense	7	(818)	(1,461)	(2,652)
Net profit		4,605	6,895	10,654
Other Comprehensive Income:				
Movement in foreign currency translation reserve		(240)	1,022	(691)
Total Comprehensive Income		4,365	7,917	9,963
Profit attributable to: owners of the parent		4,605	6,895	10,654
Total Comprehensive income attributable to: owners to the parent:		4,365	7,917	9,963

The comparability is affected by movements in the relative value of the functional currency (RMB) compared to the presentational currency (EUR).

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

2.2 Statements of Financial Position as at 31 December 2007, 31 December 2008 and 31 December 2009

	Note	2007 TEUR	2008 TEUR	2009 TEUR
Assets				
Non-current				
Property, plant and equipment	8	5,438	6,543	5,565
Intangible assets	9	194	218	211
		5,632	6,761	5,776
Current				
Inventories	10	1,319	1,095	2,536
Trade and other receivables	11	3,428	4,547	10,531
Receivables from related parties	12	-	-	795
Cash and bank balances	13	1,796	1,878	4,651
		6,543	7,520	18,513
Total assets		12,175	14,281	24,289
Equity and Liabilities				
Capital and Reserves				
Share capital	15	486	486	486
Statutory reserve	15	243	243	243
Foreign currency translation reserve	15	(331)	691	-
Retained earnings	15	7,682	8,673	19,327
		8,080	10,093	20,056
Non current liabilities				
Other provisions	16	-	-	36
Current liabilities				
Corporate income tax payable	7	211	392	719
Trade and other payables	14	3,884	3,796	3,478
		4,095	4,188	4,197
Total equity and liabilities		12,175	14,281	24,289

The comparability is affected by movements in the relative value of the functional currency (RMB) compared to the presentational currency (EUR).

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

2.3 Statements of Changes in Equity for the financial years ended 31 December 2007, 31 December 2008 and 31 December 2009

	Attributable to equity holders of the Company				
	Share capital	**Translation reserve**	**Statutory reserve**	**Retained earnings**	**Total Equity**
	TEUR	**TEUR**	**TEUR**	**TEUR**	**TEUR**
	(Note 15)	(Note 15)	(Note 15)		
Balance at 1 January 2007	486	(91)	243	4,517	5,155
Total comprehensive income	-	(240)	-	4,605	4,365
Dividends (Note 17)	-	-	-	(1,440)	(1,440)
Balance at 31 December 2007	**486**	**(331)**	**243**	**7,682**	**8,080**
Total comprehensive income	-	1,022	-	6,895	7,917
Dividends (Note 17)	-	-	-	(5,904)	(5,904)
Balance at 31 December 2008	**486**	**691**	**243**	**8,673**	**10,093**
Total comprehensive income	-	(691)	-	10,654	9,963
Balance at 31 December 2009	**486**	**-**	**243**	**19,327**	**20,056**

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

2.4 Statements of Cashflow for the financial years ended 31 December 2007, 31 December 2008 and 31 December 2009

		Year ended 31 December		
		2007	2008	2009
	Note	TEUR	TEUR	TEUR
Cash flows from operating activities				
Profit before taxation		5,423	8,356	13,306
Adjustments for:				
Interest income		(8)	(16)	(12)
Interest expense		10	-	-
Depreciation of property, plant and equipment	8	62	63	118
Operating profit before working capital changes		5,487	8,403	13,412
(Increase)/decrease in inventories		(585)	503	(1,706)
Increase in trade and other receivables		(1,173)	(393)	(7,188)
Increase/(decrease) in trade and other payables		1,617	(911)	602
Cash generated from operations		5,346	7,602	5,120
Interest received		8	16	12
Interest paid		(10)	-	-
Income tax paid		(748)	(1,315)	(2,300)
Net cash generated from operating activities		4,596	6,303	2,832
Cash flows from investing activities				
Purchase of property, plant and equipment		(2,357)	(530)	-
Net cash used in investing activities		(2,357)	(530)	-
Cash flows from financing activities				
Repayment of bank borrowings		(242)	-	-
Dividends paid		(1,440)	(5,904)	-
Net cash used in financing activities		(1,682)	(5,904)	-
Net increase/(decrease) in cash and bank balances		557	(130)	2,832
Cash and bank balances at beginning of financial year		1,281	1,796	1,878
Effects of currency translation		(42)	212	(59)
Cash and bank balances at end of financial year	13	1,796	1,878	4,651

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

2.5 Notes to the financial statements of Kinghero Fashion (Xiamen) Co., Ltd.

1. THE COMPANY

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) in so far as these have been endorsed by the EU on a voluntary basis in accordance with section 315a paragraph 1 of the German Commercial Code.

The principal activity of the Company is manufacture, wholesale and retail of garments. The principal place of business of the Company is located at Sunban South Road 88th, North District of Jimei, Xiamen, Fujian Province, the People's Republic of China (the "PRC").

The immediate holding company is Xiamen Michelle Fashion Co., Ltd, which is incorporated in the Republic of China. Xiamen Michelle Fashion Co., Ltd, is itself an immediate subsidiary of Kinghero Group Holdings Limited, which is incorporated in Hong Kong. Kinghero Group Holdings Ltd. has not prepared consolidated financial statements although required to do so by Hong Kong Accounting Standard 27. The auditor of the single entity financial statements of Kinghero Group Holdings Ltd. has qualified his audit opinion in this regard.

As at the date of this report, there is only one class of shares in the Company, being ordinary shares. The rights and privileges of the shares are stated in the Bye-laws. There is no founder, management or deferred or unissued shares reserved for issuance for any purpose.

The figures presented in the financial statements have been rounded to the nearest EUR thousand.

The financial statements for the years ended 31 December 2007, 2008 and 2009 (including comparatives) are expected to be approved and authorised for issue by the supervisory board in its meeting in September 2010. Until approved, the financial statements may be amended.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These stand alone Financial Statements are prepared in accordance with International Financial Reporting Standards ("IFRS") including related interpretations that are in effect at the end of the reporting period (31 December 2009), in so far as these have been endorsed by the EU. These Financial Statements are the first set of financial statements prepared in accordance with IFRS by the Company.

The significant accounting policies that have been applied in the preparation of these Financial Statements are summarised below.

These accounting policies have been used throughout all periods presented in the Financial Statements.

The Financial Statements are presented in accordance with IAS 1 Presentation of Financial Statements (Revised 2007). In accordance with IFRS 1, the Company presents three statements of Financial Position in its first IFRS Financial Statements. The financial year of the Company is from 1 January to 31 December. The financial statements have been prepared for the purpose of inclusion in the Prospectus for the Initial Public Offering of KINGHERO AG. For purpose of comparison the company added statements of comprehensive income, statements of changes in equity, and statements of cash flow as of 31 December 2007.

In future periods, the Company presents two comparative periods for the statement of financial position only when it: (i) applies an accounting policy retrospectively, (ii) makes a retrospective restatement of items in its Financial Statements, or (iii) reclassifies items in the Financial Statements.

IFRS 1, First-time Adoption of Financial Reporting Standards, has been applied in preparing these Financial Statements. The Company maintains its accounting records in Chinese Renminbi (RMB) and prepares its statutory financial statements in accordance with People's

Republic of China (PRC) generally accepted accounting practice. The financial information in these financial statements is based on the statutory records without any differences between PRC accounting records and IFRS, The transition to IFRS does not affect the reported financial position, financial performance or cash flow. Consequently the company does not prepare reconciliations from PRC GAAP to IFRS.

Basis of preparation of Financial Statements

The Company has adopted IFRS and interpretations which are effective for accounting periods after 1 January 2007 for the preparation of these Financial Statements of the Company since 1 January 2007. IFRS 1, First-time Adoption of Financial Reporting Standards, has been applied in preparing these Financial Statements. These Financial Statements are the first set of financial statements prepared in accordance with IFRS by the Company.

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements and in preparing an opening IFRS statement of financial position as at 1 January 2007 for the purpose of the first set of IFRS financial statements. The accounting policies have been applied consistently by the Company.

The financial year of the Company is from 1 January to 31 December. The financial statements as at 31 December 2007, 2008 and 2009 including statements of comprehensive income, statements of financial position, statements of changes in equity, statements of cash flow and the accompanying notes to the financial statements have been prepared for the purpose of inclusion in the Prospectus for the Initial Public Offering of KINGHERO AG. The Company maintains its accounting records in Chinese Renminbi (RMB) and prepares its statutory financial statements in accordance with People's Republic of China (PRC) generally accepted accounting practice. The financial information in these financial statements is based on the statutory records without any valuation differences between PRC accounting records and IFRS, The transition to IFRS does not materially affect the reported financial position, financial performance or cash flow. Consequently the company does not prepare reconciliations from PRC GAAP to IFRS.

Published accounting standards to be applied in fiscal years after 2009

At the date of preparation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to be relevant to the Company's financial statements. Unless otherwise stated below, none of the new standards is expected to have a major impact on the presentation of the Company's financial position, or results of operations, or on its earnings per share.

IFRIC 12 (Service Concession Arrangements) addresses the recognition of service agreements between public-sector entities and private companies for the operation of public infrastructure such as swimming pools, freeways, electric and water utilities by private licensees. This interpretation has to be applied for annual periods beginning on or after 1 January 2010. It has been adopted by the European Union in March 2010.

In January 2008, the IASB published the revised standards IFRS 3 (Business Combinations) and IAS 27 (Consolidated and Separate Financial Statements). Significant changes required by IFRS 3 (revised 2008) include: In future, a non-controlling interest may be measured either at fair value (i.e. including goodwill) or at the proportionate share of the identifiable net assets of the entity. In the case of a step acquisition, the acquirer must remeasure its previously held interest at fair value on the date on which it gains control of the acquiree and recognize the resulting gain or loss in income. The difference between the (remeasured) carrying amount of the interest in the subsidiary and the acquirer's remeasured proportionate share of the net assets of the subsidiary must be recognized as goodwill. Liabilities recognized as of the acquisition date for the purpose of future purchase price adjustments in light of future events can no longer be offset against goodwill in subsequent periods. Ancillary acquisition costs must be recognized in income. The principal changes required by IAS 27 (revised 2008) are: A reduction in the equity interest held in a subsidiary that does not result in a loss of control by the parent is now to be accounted for as an equity transaction. If a reduction in the equity interest held in a subsidiary involves a loss of control, the assets and liabilities of the subsidiary must be derecognized in their entirety. The remaining interest in the company is to be recognized at fair value. The difference between the remaining carrying amounts and the fair values must be recognized in income. Non-controlling interests that become negative due to incurred losses must be recognized at their net negative amounts. IFRS 3 (revised 2008) and IAS 27 (revised 2008) are applicable prospectively for annual periods beginning on or after 1 July 2009. Earlier application is permitted provided that both revised standards are applied simultaneously. The impact on the presentation of the Company's financial position and results of operations will depend on the scale of future business combinations or divestments. It has been adopted by the European Union on 3 June 2009.

In June 2009, the IASB issued amendments to IFRS 2 (Share-based Payment). These amendments clarify the scope of IFRS 2, as well as the accounting for cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another related entity or shareholder has the obligation to settle the award. These amendments are to be applied for annual periods beginning on or after 1 January 2010. They have been adopted by the European Union in March 2010

The Annual Improvements 2009 consist of a number of smaller accounting changes for presentation, recognition and measurement purposes – some of which are changes in terminology only, and some of which are substantive but will have no material effect on amounts reported. The Improvements are to be applied for annual periods beginning on or after 1 July 2009 and 1 January 2010. They have been adopted by the European Union in March 2010.

IFRIC 15 (Agreements for the Construction of Real Estate), which addresses revenue recognition for real estate sold before completion. The interpretation defines the criteria for deciding whether IAS 11 (Construction Contracts) or IAS 18 (Revenue) is applicable. It is applicable for annual periods beginning on or after 1. January 2010. It has been adopted by the European Union in 22 July 2009.

IFRIC 16 (Hedges of a Net Investment in a Foreign Operation). It defines the risk to which hedge accounting may be applied in this context and which entity may hold the respective hedging instrument. This interpretation is to be applied for annual periods beginning on or after 1 July 2009.

IFRIC 17 (Distributions of Non-cash Assets to Owners). This interpretation defines when an obligation to distribute a non-cash dividend is to be recognized, that it must be measured at fair value, and that the difference between the dividends paid and the carrying amount of the net assets distributed must be recognized in profit or loss at the distribution date. This interpretation, which is to be applied prospectively for annual periods beginning on or after 31 October 2009.

IFRIC 18 (Transfers of Assets from Distributors). This interpretation relates to agreements in which an entity receives from a distributor an item of property, plant and equipment – or cash earmarked exclusively for its acquisition or construction – that the entity must then use either to connect the distributor to a network or to provide the distributor with ongoing access to a supply of goods or services. The interpretation specifies the circumstances and timing of asset recognition by the receiving entity and how the asset is to be measured. It also clarifies how to determine the receiving entity's obligation to render one or more separately identifiable services in exchange for the transferred asset and sets forth the conditions for revenue recognition. IFRIC 18 is to be applied prospectively to transfers of assets from distributors on or after 31. October 2009.

Amendments to IAS 32 (Financial Instruments). The amendment "Classification of Right Issues" addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. These amendments are to be applied for annual periods beginning on or after 31 January 2010. They have been adopted by the European Union in December 2009.

The following accounting standards and amendments to existing standards have been published but are not yet effective and have not yet been adopted by the European Union:

- Amendments to IFRS 1: First-time Adoption: Additional Exemptions to First-time Adopters (effective from 1. January 2010)
- Amendments to IFRS 1: First-time Adoption: Limited Exemptions from Comparative IFRS 7 Disclosures for First-time Adopters (effective from 1. July 2010)
- IFRS 9: Financial Instruments (effective from 1 January 2013)
- Revised IAS 24: Related Party Disclosures: Relationship with the state (effective from 1. January 2011)
- Amendments to IFRIC 14: Prepayments of a Minimum Funding Requirement (effective from 1. January 2011)
- IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments (effective from 1. July 2010)
- Annual Improvements 2010 (effective from 1 January 2011)

The Financial Statements have been prepared in accordance with the significant accounting policies set out below and these accounting policies are in accordance with IFRS.

The preparation of the Financial Statements in conformity with IFRS requires the use of judgments, estimates and assumptions that affect the application of accounting policies as disclosed below, reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Financial statements and the reported amounts of revenue and expenses during the financial years.

Overall Considerations

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. The financial statements have been prepared using the measurement bases and accounting policies specified by IFRS for each type of asset, liability, income and expense. These are more fully described below.

Presentation of Financial Statements

The financial statements are presented in accordance with IAS 1 Presentation of Financial Statements. The statement of comprehensive income has been prepared using the function of expense method.

The Company has elected to adopt IAS 1 (Revised 2007) by presenting the 'Statement of comprehensive income' in one statement.

Critical accounting estimates and judgment

Estimates and judgments are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Key sources of estimation uncertainty

Income taxes

The Company has exposure to income tax arising from their operations in the PRC. Significant judgment is required in determining the provision for income taxes. There are also claims for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for expected tax issues based on estimates of whether additional taxes will be due. When the final tax outcome of these matters is different from the amounts that were initially recognized, such differences will impact the income tax expense and deferred tax provisions in the period in which such determination is made. The carrying amount of the Company's income tax payable as at 31 December 2007, 2008 and 2009 amounted to EUR 211,000, EUR 392,000 and EUR 719,000 respectively.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management determines the estimated useful lives of property, plant and equipment to be within 5 to 20 years. The carrying amount of the Company's property, plant and equipment as at 31 December 2007, 2008 and 2009 was EUR 5,438,000, EUR 6,543,000 and EUR 5,565,000 respectively. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets. Therefore, future depreciation charges could be revised. A 5% difference in the expected useful lives of the property, plant and equipment would not result in a significant change to the Company's net profit for the respective financial years.

Inventories

Inventories are measured at the lower of cost and net realizable value. In estimating net realizable values, management takes into account the most reliable evidence available at the times the estimates are made. The Company's core business is subject to raw material price changes and changes in customer behavior which may cause selling prices to change rapidly.

Provisions

The respective legislation in the PRC requires the Company to commit itself to remediate any environmental damages which may have been incurred. Management is of the opinion that no environmental damage has been caused by the Company and hence has not provided for this. The Company has made a provision for the legal obligation to dismantle buildings on land for which the company has land use rights in respect of future dismantling costs at the time the respective land-use-rights expire. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding additional amount of property, plant and equipment of equivalent value to the provision is also created. This is subsequently depreciated as part of the asset. Other than the unwinding discount on the provision, any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding amount of property, plant and equipment.

Critical judgment made in applying accounting policies

In the process of applying the Company's accounting policies as described below, management is of the opinion that there are no instances of application of judgments which are expected to have a significant effect on the amounts recognized in the Financial Statements

<u>Estimation of cost attributable to intangible assets (land use rights) and to property plant and equipment.</u>

As part of a real estate transaction the company acquired land use rights and buildings for total consideration of EUR 4,901,000 in 2009. This consideration was not attributed separately to land use rights and to the building in the real estate purchase agreement. Management has obtained an estimated amount of the purchase price attributable to the land use rights and to the building from the stated-owned developer who determined the open market value of the land use rights based on similar real estate transactions, assuming existing market conditions remain unchanged.

<u>Impairment of trade receivables</u>

The Company's management assesses the collectability of trade receivables. This estimate is based on the credit history of the Company's distributors and the current market condition. Management assesses the collectability of trade receivables at the statement of financial position date and makes the provision, if any.

Property, plant and equipment

Property, plant and equipment are recognised at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment comprises the purchase price and any costs directly attributable to bringing the asset to the working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally recognised in profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, and the expenditure of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset.

Advance payments for property, plant and equipment acquired are recognised as an asset when payment for the property, plant and equipment has been made in advance of the final delivery of the property, plant and equipment.

Depreciation on property, plant and equipment is calculated using the straight-line method to write off the cost of property, plant and equipment, less any estimated residual values, over the following estimated useful lives:

Buildings	20 years
Plant and machinery	10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	10 years

The estimated residual values, estimated useful lives, and depreciation method of the property, plant and equipment are reviewed, and adjusted as appropriate, at each statement of financial position date.

The gain or loss on disposal or retirement of an item of property, plant and equipment recognised in profit or loss is the difference between the net disposal proceeds and the carrying amount of the relevant asset.

Intangible assets

Intangible assets are recognised at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to profit or loss, using the straight-line method, so as to write off the cost of land use rights, over the remaining lease term of the land.

The amortisation period and amortisation methods for intangible assets are reviewed and adjusted as appropriate at each statement of financial position date as follows:

Land use rights over the remaining term of land use rights to expiration in December 2055.

Impairment of non-financial assets

Property, plant and equipment are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the cash-generating-unit ("CGU") to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The difference between the carrying amount and recoverable amount is recognised as an impairment loss, unless the asset is carried at revalued amount, in which case, such impairment loss is treated as a revaluation decrease.

An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of impairment loss for an asset other than goodwill is recognised in profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

Financial assets

The financial assets of the Company are categorized as loans and receivables. The Company does not have any other financial assets. The Company's loans and receivables comprise trade and other receivables, cash and cash equivalents, restricted cash and amounts due from related parties in the statement of financial position.

Regular purchases and sales of financial assets are accounted for at trade date.

The loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally via the provision of goods and services to distributors (e.g. trade receivables), but also incorporate other types of contractual monetary assets. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue if any, and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognized when there is objective evidence that the Company will be unable to collect all of the amounts due under the terms of receivables, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivables. For trade receivables, which are reported net of impairment provisions, such provisions are recorded in a separate allowance account with the loss being recognized within administration expense in profit or loss. On confirmation that the trade receivables will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Gains on loans and receivables are primarily from interest and are determined on the effective interest method. Losses are primarily from impairment and are determined by management analysis of the ageing of loans and receivables based on experience of default risk and history.

In 2009, 2008 and 2007 the net gains on loans and receivables amounted to EUR Nil.

Trade and other receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, as all mature within 12 months after the statement of financial position date.

Receivables are measured on initial recognition at fair value plus transaction cost and subsequently carried at amortised cost using the effective interest method. Allowances for impairment are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition.

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work-in-progress comprise raw materials, direct labour and other overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

The carrying values of inventories are disclosed under note 10.

Equity reserves and dividend payments

Share capital represents the nominal value of shares that have been issued in the Company.

Share capital is determined using the nominal value of shares that have been issued.

Retained earnings include all current and prior period results as determined in the statement of comprehensive income.

Foreign currency translation differences arising on the translation are included in the translation reserve.

Dividend distributions payable to equity shareholders are included in 'other liabilities' when the dividends have been approved in a general meeting prior to the reporting date.

In accordance with the relevant laws and regulations of PRC, the subsidiary of the Company established in PRC are required to transfer 10% of its annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve. When the balance of such reserve reaches 50% of the subsidiary's share capital, any further transfer of its annual statutory net profit is optional. Such reserve may be used to offset accumulated losses or to increase the registered capital of the subsidiary subject to the approval of the relevant authorities. However, except for offsetting prior years' losses, such statutory reserve must be maintained at a minimum of 25% of the share capital after such usage. The statutory reserves are not available for dividend distribution to the shareholders.

Relevant transactions with owners of the parent are recorded separately within equity.

Financial liabilities

Financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument. Financial liabilities are recognised initially at fair value, plus in the case of financial liabilities other than derivatives, directly attributable transaction costs. Subsequent to initial recognition, all financial liabilities are measured at amortised cost using the effective interest method, except for derivatives, which are measured at fair value. All interest related charges are recognised as an expense in profit or loss.

Financial liabilities are derecognised when the obligation for the liabilities is discharged or cancelled or expired. For financial liabilities other than derivatives, gains and losses are recognised in profit or loss when the liabilities are derecognised or impaired, and through the amortisation process.

The Company's financial liabilities include trade and other payables and borrowings.

Trade and other payables

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest method.

Provisions and contingent liabilities

Provisions are recognized when the Company has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. However, this asset may not exceed the amount of the related provision. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Provisions for environmental protection are recorded if future cash outflows are likely to be necessary to ensure compliance with environmental regulations or to carry out remediation work, such costs can be reliably estimated and no future benefits are expected from such measures. Estimating the future costs of environmental protection and remediation involves many uncertainties, particularly with regard to the status of laws and regulations. Management considers that environmental damage has not been caused by the Company and hence has not provided for environmental protection.

The respective legislation in the PRC requires the Company to commit itself to remediate any environmental damages which may have been incurred may lead to a (constructive) obligation.

Liabilities for dismantling costs are recognized when the Company has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that liability can be made. Where an obligation exists due to land-use-rights regulations, this will be on construction and an obligation for decommissioning may also crystallize during the period of operation of a facility through a change in legislation or through a decision to terminate operations.

The Company has made provisions for dismantling costs for the legal obligation to dismantle buildings on land to which the Company has land use rights in accordance with Management's estimation of the future dismantling costs at the time the respective land-use-rights expire.

The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding item of property, plant and equipment of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the asset. Other than the unwinding discount on the provision, any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding item of property, plant and equipment.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized. All provisions and contingent liabilities are reviewed at each reporting date and adjusted to reflect the current best estimate.

Revenue and other income

Revenue is measured at the fair value of the consideration received or receivable and presented net of goods and services taxes and trade discounts.

The Company sells menswear and womenswear via distributors. Revenue from the sale of manufactured products are recognised when the Company has transferred to the distributors the significant risks and rewards of ownership of the goods, which generally coincides with the delivery and acceptance of goods by the distributor; and when the Company can reliably measure the amount of revenue and the cost incurred and to be incurred in respect of the transaction; and it is probable that the collectability of the related receivables is reasonably assured.

Rental income from operating leases is recognised on a straight-line basis over the lease term.

Interest income

Interest income is recognised as it accrues, using the effective interest method.

Employee benefits - Retirement benefits scheme

Pursuant to the relevant regulations of the PRC government, the Company participates in a local municipal government retirement benefits scheme (the "Scheme"), whereby the subsidiaries located in the PRC are required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries located in the PRC. The only obligation of the Company with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above. Contributions under the Scheme are charged to the profit or loss as incurred. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions. These plans are considered defined contribution plans. The Company has no legal or constructive obligations to pay further contributions after its payment of the fixed contributions into the national pension schemes. Contributions to national pension schemes are recognized as an expense in the period in which the related service is performed.

Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. Directors and certain managers are considered key management personnel of the Company.

Income tax

Tax expense recognised in profit or loss comprises the sum of current and deferred tax not directly recognized in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period in the respective countries in which the Company is operating.

Value-added tax (“VAT”)

The Company’s sale of goods in the PRC are subject to VAT at the applicable tax rate of 17% for the PRC domestic sales. Input VAT on purchases can be deducted from output VAT. The net amount of VAT recoverable from, or payable to, the tax authority is included as part of "other receivables" or "other payables" in the statement of financial position.

Revenue, expenses and assets are recognized net of the amount of VAT except:

(i) where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

(ii) receivables and payables that are stated with the amount of VAT included.

Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

The Company conducts its business predominately in the PRC and hence its functional currency is the Renminbi (RMB).

The presentation currency of the Company is EUR, being the presentation currency of its future ultimate German domiciled legal parent and holding company, and therefore the financial information has been translated from RMB to EUR at the following rates:

	Period end rates	Average rates
31 December 2007	EUR 1.00 = RMB 10.6496	EUR 1.00 = RMB 10.4167
31 December 2008	EUR 1.00 = RMB 9.5238	EUR 1.00 = RMB 10.1626
31 December 2009	EUR 1.00 = RMB 9.8328	EUR 1.00 = RMB 9.4877

The results and financial positions of the Company in its functional currency RMB are translated into the presentation currency for the purpose of presentation in the listing prospectus of its future ultimate legal parent as follows:

(1) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(2) Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(3) All resulting exchange differences are recognised in the foreign currency translation reserve, a separate component of equity.

(ii) Transactions and balances

Foreign currency transactions are measured and recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rates ruling at the respective statement of financial position dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Related parties

The Company has the following types of related parties:

(i) entities or individuals which directly, or indirectly through one or more intermediaries, (1) control, or are under common control with, the Company; (2) have an interest in the Company that gives them significant influence over the Company;

(ii) the key management personnel of the Company or its direct parent and its future ultimate parent company;

(iii) close members of the family of any individual referred to in (i) or (ii);

Leases

Lessee

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the profit or loss on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets.

Lessor

Leases of machinery where the Company retains substantially all risks and rewards incidental to ownership are classified as operating leases. Rental income from operating leases (net any incentives given to the business) is recognised in profit or loss in a straight-line basis over the lease term.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors of the Company which makes strategic decisions. The management of the Company bases its decisions on the internal reporting on menswear and womenswear, which are the Company's two business segments.

Segment information is presented in respect of the Company's business segment. The primary format, business segment, is based on the Company's management and internal reporting structure. In presenting information on the basis of the business segment, segment revenue and segment assets are based on the nature of the products provided by the Company.

The accounting policies the Company uses for segment reporting under IFRS 8 are the same as those used in its financial statements.

Development activities

The Company develops new collections of menswear and womenswear. This includes research into current trends and the development of the designs for the production of the current seasons' collections. Costs of each current seasonal range of menswear and womenswear are expensed when incurred, as the benefits to the company tend to be linked to the short term nature of fashion trends and so are not expected to be of benefit for substantially longer than one accounting period. The amounts of this expense on collection design in 2007, 2008 and 2009 were TEUR 663, TEUR 483 and TEUR 457 respectively.

Government assistance

Government assistance obtained in the land use rights and property transaction described in notes 8 and 9 is taken into account in determining the carrying amount of these assets. The assistance involved a favourable purchase price, which was subject to subsequent increase should certain conditions not be fulfilled. The conditions are set out in note 8. In June 2010 however, the compensation penalty which would lead to the subsequent increase in purchase price was waived.

3. REVENUE AND OTHER INCOME

The Company's revenue is as follows:

	Year ended 31 December		
	2007	2008	2009
	TEUR	TEUR	TEUR
Sales of goods	24,272	32,142	48,921
Other income:			
Income from operating lease	-	-	89

4. COST OF SALES

Cost of sales comprise of purchasing materials, labour costs for personnel employed in production, depreciation and amortization of non-current assets used for production purposes, trading goods and others (mainly utilities and maintenance costs). The following table shows a breakdown of costs of sales for the period under review for each category:

	Year ended 31 December 2007 TEUR	2008 TEUR	2009 TEUR
Materials	14,027	19,674	30,861
Labour	790	1,046	1,089
Depreciation of property, plant and equipment	52	53	108
Operating lease expense	156	161	213
Collection design	663	483	457
Other	269	373	465
	15,957	21,790	33,193

5. FINANCE INCOME AND FINANCE COSTS

Finance Income

	Year ended 31 December 2007 TEUR	2008 TEUR	2009 TEUR
Interest income	8	16	12

Finance costs

	Year ended 31 December 2007 TEUR	2008 TEUR	2009 TEUR
Interest expense on bank borrowings	10	-	-

6. PROFIT BEFORE TAXATION

The Company's profit before taxation is arrived at after charging:

	Year ended 31 December 2007 TEUR	2008 TEUR	2009 TEUR
Advertising expenses	1,599	412	506
Operating lease expense	16	16	25
Depreciation of property, plant and equipment charged to administrative expenses	10	9	9

Costs relating to staff are disclosed in detail in note 23.

7. INCOME TAX EXPENSE

	Year ended 31 December 2007 TEUR	2008 TEUR	2009 TEUR
Current income tax on profit arising from operations in PRC	818	1,461	2,652

No deferred tax has been provided as the Company did not have any material temporary differences which give rise to a deferred tax asset or liability at the statement of financial position dates.

Reconciliation between tax expense and profit before taxation at PRC's statutory tax rates is as follows:

	Year ended 31 December 2007 TEUR	2008 TEUR	2009 TEUR
Profit before taxation	5,423	8,356	13,306
Tax calculated at the tax rate of 20% (2007: 15% and 2008: 18%)	814	1,504	2,661
Insignificant temporary differences not recognised as deferred taxes	4	(43)	(9)
	818	1,461	2,652

The Company is subject to PRC income tax on profit arising or derived from the tax jurisdiction in which subsidiaries of the Company operate and are domiciled. Business operations set up in the special economic zones by foreign enterprises are subject to a reduced enterprise income tax rate. The provision for PRC income tax on profits arising from operations in the PRC is calculated based on reduced enterprise income tax rates of 15%, 18% and 20% for the financial year ended 31 December 2007, 2008 and 2009 respectively, in accordance with the relevant PRC income tax rules and regulations.

Movement in income tax payable is as follows:

	Year ended 31 December 2007 TEUR	2008 TEUR	2009 TEUR
Beginning of financial year	148	211	392
Current year tax expenses on profit	818	1,461	2,652
Income tax paid	(748)	(1,315)	(2,300)
Translation adjustment	(7)	35	(25)
End of financial year	211	392	719

8. PROPERTY, PLANT AND EQUIPMENT

	Advance payment for Buildings TEUR	Buildings TEUR	Plant and Machinery TEUR	Furniture, Fixtures and Office Equipment TEUR	Motor vehicles [b] TEUR	Total [a] TEUR
Cost						
At 1 January 2007	2,913	-	529	25	51	3,518
Additions	2,149	-	9	-	-	2,158
Translation adjustment	(91)	-	(18)	(1)	(1)	(111)
At 31 December 2007	4,971	-	520	24	50	5,565
Additions	-	-	530	-	-	530
Translation adjustment	587	-	62	3	6	658
At 31 December 2008	5,558	-	1,112	27	56	6,753
Transfer to Land and Buildings	(4,690)	4,690	-	-	-	-
Additions	-	36	-	-	-	36
Transfer to related party [c]	(693)	-	-	-	-	(693)
Translation adjustment	(175)	-	(35)	(1)	(2)	(213)
At 31 December 2009	-	4,726	1,077	26	54	5,883
Accumulated Depreciation						
At 1 January 2007	-	-	41	5	24	70
Depreciation charge	-	-	52	5	5	62
Translation adjustment	-	-	(3)	(1)	(1)	(5)
At 31 December 2007	-	-	90	9	28	127
Depreciation charge	-	-	53	5	5	63
Translation adjustment	-	-	15	2	3	20
At 31 December 2008	-	-	158	16	36	210
Depreciation charge	-	-	108	5	5	118
Translation adjustment	-	-	(9)	(1)	-	(10)
At 31 December 2009	-	-	257	20	41	318
Net Book Value						
At 31 December 2007	4,971	-	430	15	22	5,438
At 31 December 2008	5,558	-	954	11	20	6,543
At 31 December 2009	-	4,726	820	6	13	5,565

(a) All property, plant and equipment held by the Company are located in the PRC.
(b) Motor vehicles with carrying amount of EUR 22,000, EUR 20,000 and EUR 13,000 were held in trust by employees of the Company at the respective statement of financial position dates.
(c) This amount of the advance payment made for buildings was transferred to the Company's parent Xiamen Michelle Fashion Co. Ltd. in accordance with a decision taken by management to allocate some of the buildings to be acquired to the parent company. This allocation was in line with an agreement made in 2009 between the parent Company and the property developer. Previously all buildings were to be purchased by the Company.

Buildings held by the Company are located in the PRC. They are recorded at cost less accumulated impairment. Buildings were not depreciated in 2009 as the Company had not yet moved into the buildings. Title to and ownership of the buildings has not yet passed to the Company, but is expected to pass once certain formalities have been concluded. The Company expects to relocate to the purchased buildings following the inclusion of its shares for trading on the Open Market (Entry

Standard) of the Frankfurt Stock Exchange. The additions also include the capitalization of the net present value of a provision for dismantling costs (see note 16).

The aforementioned buildings were acquired from a state owned entity at a beneficial price. This was taken into account in determining their carrying cost. The government assistance rendered is subject to conditions as follows:

The Company has given an undertaking that within six months of its future ultimate parent company being listed in Germany, production shall commence in the new buildings. Upon commencement of production:

- The Company's annual production level has to achieve more than RMB1,500/m2.
- Capital investment amount has to achieve more than USD200/m2.
- Relevant enterprise income tax to be paid has to achieve more than RMB100/m2.

In the event that the above conditions are not met, the Company has to pay compensation equivalent to 15% of the total purchase price.

In the event that the Company contravenes certain conditions related to continuity of production and type of usage of the buildings, the Seller has the right to unilaterally void the Agreement and demand compensation of 10% of total purchase price. The seller can also purchase the Property back from the Buyer at the Net Book Value. NBV can be calculated at Cost of Purchase X (50 – No of years in use) / 50.

Additionally if the Company defaults on payment of the full purchase price, the Company is obligated to pay compensation to the Seller. However by agreement in June 2010, the compensation penalties mentioned above were waived.

9. INTANGIBLE ASSETS

	Advance payments TEUR	Land use rights TEUR	**Total** TEUR
Cost and Net Book Value			
At 1 January 2007	-	-	-
Additions	199	-	199
Translation adjustment	(5)	-	(5)
At 31 December 2007	194	-	194
Translation adjustment	24	-	24
At 31 December 2008	218	-	218
Reclassification	(218)	218	-
Translation adjustment	-	(7)	(7)
At 31 December 2009	-	211	211

Intangible assets relate solely to land use rights acquired for the land located in Hou Xi Zhen, Jimei, Xiamen, Fujian Province, the PRC. These expire in December 2055.

The Company made payments in advance for these land use rights, which it subsequently acquired by contract dated September 2009. Title to the land use rights has not yet passed to the Company, but is expected to pass once certain formalities have been concluded.

The land use rights are recorded at cost less accumulated impairment. Land use rights have not yet been amortized as the Company has not yet relocated to the relevant site for which it has acquired the land use rights. The Company expects to relocate to the site following the inclusion of its shares for trading on the Open Market (Entry Standard) of the Frankfurt Stock Exchange.

The aforementioned land use rights were acquired from a state owned entity at a beneficial price. This was taken into account in determining their carrying cost. The government assistance rendered is subject to the same conditions as described in note 8.

10. INVENTORIES

	As at 31 December 2007 TEUR	2008 TEUR	2009 TEUR
Raw materials	428	371	219
Work-in-progress	187	133	34
Finished clothes	704	591	2,283
	1,319	1,095	2,536

The amount of inventories recognized as an expense during 2007, 2008 and 2009 was TEUR 14,027, TEUR 19,674 and TEUR 30,861 respectively disclosed under cost of sales.

11. TRADE AND OTHER RECEIVABLES

	As at 31 December		
	2007	2008	2009
	TEUR	TEUR	TEUR
Trade receivables	3,428	4,409	10,441
Advances to a third party	-	138	-
Prepayment	-	-	81
Other receivables	-	-	9
	3,428	4,547	10,531

Trade receivables are non-interest bearing and generally have an average credit terms of 30 to 90 days.

The aging based on invoice date are as follows:

	As at 31 December		
	2007	2008	2009
	TEUR	TEUR	TEUR
Within 30 days	2,322	3,264	6,738
31 to 60 days	1,060	1,145	3,216
More than 60 days	46	-	487
	3,428	4,409	10,441

Advances to a third party are unsecured, interest-free and are expected to be repaid within 12 months from the statement of financial position date.

Trade receivables and other receivables are denominated in Renminbi.

	As at 31 December		
	2007	2008	2009
	TEUR	TEUR	TEUR
Financial Assets			
Loans and receivables			
Trade receivables	3,428	4,409	10,441
Receivables from related parties	-	-	795
Cash and cash equivalents	1,796	1,878	4,651
Total financial assets classified as loans and receivables	5,224	6,287	15,887

All financial assets classified as loans and receivables are current and non-interest bearing. Management considers the carrying amounts recognized in the statement of financial position to be a reasonable approximation of their fair value due to the short duration. Net gains and losses on loans and receivables amounted to EUR Nil in 2009. The maximum credit risk is assessed by management to be the amounts shown in the above table as at the respective reporting dates.

12. RECEIVABLES FROM RELATED PARTIES

	As at 31 December		
	2007	2008	2009
	TEUR	TEUR	TEUR
Amount due from holding companies	-	-	795

Amount due from holding companies relates both to the Company's immediate parent Company (TEUR 693) and Kinghero Group Holdings, Hong Kong (TEUR 102) are non-trade, unsecured, interest-free and expected to be repaid within the next 12 months.

13. CASH AND BANK BALANCES

	As at 31 December		
	2007	2008	2009
	TEUR	TEUR	TEUR
Cash at bank	1,793	1,874	4,650
Cash on hand	3	4	1
	1,796	1,878	4,651

The cash at bank bears effective interest rate of 0.72%, 0.36% and 0.36% per annum at the respective statement of financial position dates.

The cash and bank balances denominated in Renminbi amounting to EUR1,796,000, EUR 1,878,000 and EUR 4,651,000 at the respective statement of financial position dates are not freely remissible for use by the Company because of currency exchange restrictions.

14. TRADE AND OTHER PAYABLES

	As at 31 December		
	2007	2008	2009
	TEUR	TEUR	TEUR
Trade payables	3,457	3,226	2,831
Other payables	279	368	440
Salary payables	148	202	207
	3,884	3,796	3,478

Included in other payables are outstanding balances for the purchases of property, plant and equipment amounting to EUR 167,000 as at 31 December 2008. Apart from this, other payables include mainly amounts for VAT and other taxes.

The carrying amounts of trade and other payables at the statement of financial position dates approximate to their fair value due to the short duration of maturity.

Trade and other payables are denominated in Renminbi.

Financial Liabilities at Amortized Cost

	As at 31 December		
	2007	2008	2009
	TEUR	TEUR	TEUR
Trade payables	3,457	3,226	2,831
Other payables for PPE	0	167	0
Salary payables	148	202	207
	3,605	3,595	3,038

All financial liabilities recorded at amortized cost fall due within one year. Due to the short term nature of these, management considers the carrying amounts of financial liabilities measured at amortized cost in the statement of financial position to be reasonable approximation of their fair value.

There were no net gains/losses on financial liabilities in 2007, 2008 or 2009.

15. SHARE CAPITAL AND RESERVES

The Company was incorporated on 9 July 2002 with registered capital of RMB 1,500,000 (Equivalent of EUR 146,000). Subsequently the registered capital of the Company was increased to RMB5,000,000 (Equivalent of EUR 486,000) in 2004 via a capital contribution of RMB 3,500,000 (Equivalent of EUR 340,000). The registered capital of the Company is fully paid up. The share capital is not divided up into shares as there is only one shareholder. The shares have voting rights pro rata the proportion of nominal capital owned. The share capital has remained unchanged during the reporting periods.

Statutory reserve

The statutory reserve of the company amounts to EUR 243,000 at 31 December 2009 (2008 and 2007: EUR 243,000).

Retained earnings

The retained earnings reserve comprises the cumulative net gains and losses recognized in the Company's statement of comprehensive income.

Foreign currency translation reserve

Foreign currency translation reserve represents the foreign currency translation difference arising from the translation of the financial statements from RMB to EUR.

16. OTHER PROVISIONS

	2009 TEUR
Dismantling costs	36

Other provisions are considered non current and relate to costs for dismantling buildings and fixtures constructed on land for which the rights of usage have a fixed term. The Company makes full provision for the future cost of dismantling buildings on a discounted basis. The provision for the cost of dismantling the production facilities at the end of the useful life of the land-use-rights pertaining to the land on which they have been built has been estimated using existing technology in PRC, current prices and discounted using a discount rate of 6%. These costs are generally expected to be incurred over the next 45 years. While the provision is based on the best estimate of future costs and the contractually secured useful life of land-use-rights, there is uncertainty regarding both the amount and timing of incurring these costs.

17. DIVIDENDS

Dividends declared during the relevant financial periods represent dividends declared and paid to the equity holders of the Company.

18. OPERATING LEASE COMMITMENTS

The Company leases factory and office space from non-related parties under non-cancellable operating lease agreements. The leases have varying terms and renewal rights.

The major leasing arrangements consist of leases on the Company's factory and office premises on which rentals are payable will expire on 31 December 2010, and the current rent payable on the lease is EUR 15,000 per month which are subject to revision on renewal.

The future minimum lease payables under non-cancellable operating leases contracted for at the statement of financial position date but not recognised as liabilities, are as follows:

	As at 31 December		
	2007	2008	2009
	TEUR	TEUR	TEUR
Not later than one year	169	242	183
Between one and five years	169	103	-
	338	345	183

Operating lease rentals expensed in the reporting periods amounted to TEUR 172 in 2007, TEUR 177 in 2008 and TEUR 238 in 2009 respectively.

At the statement of financial position date, the Company had the following rental income under non-cancellable lease for machineries with a term of more than one year:

	As at 31 December		
	2007	2008	2009
	TEUR	TEUR	TEUR
Lease which expires:			
Not later than one year	-	-	94
Between one and five years	-	-	5
	-	-	99

The leases on the Company's machineries on which rentals are received will expire on January 2011 with renewals at the then prevailing rates.

19. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to market risk, concentration risk, credit risk and liquidity risk. The Company's overall risk management strategy seeks to minimize adverse effects from the unpredictability of financial markets on the Company's financial performance.

The board of directors provides guidance for overall risk management as well as policies covering specific areas. Management analyses and formulates measures to manage the Company's exposure to financial risk in accordance with the objectives and underlying principles approved by the board of directors. Generally, the Company employs a conservative strategy regarding its risk management. As the Company's exposures to market risk and financial risk are kept at a minimum level, the Company has not used any derivatives or other financial instruments for hedging purposes. The Company does not hold or issue derivative financial instruments for trading purposes.

(i) Market risk - currency risk

Currency risk arises within entities in the Company when transactions are denominated in foreign currency.

The Company has no significant concentration of transactional currency risk. The Company operates predominantly in the PRC and transacts primarily in Renminbi.

However the Company prepares its financial statements in EURO and therefore its results and net asset position are exposed to retranslation risk as a result of fluctuation in the RMB EURO exchange rate.

(ii) Market risk - interest rate risk

The Company is not significantly exposed to interest rate risk as it is primarily self financing. The Company has no interest bearing loans or significant interest-bearing assets.

(iii) Concentration risk

Concentration risk arises from the sales to the Company's authorized distributors. In view of the nature of the industry and the Company's sales strategy which is the selling of their products to consumers through the authorized distributors, the management does not consider the risk to be significant. The Company's policy is to monitor the business development of the authorized distributors and to continuously source for suitable distributors who are able to promote the brand and expand the existing distribution network.

(iii) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty fails to meet its contractual obligations. Credit risk of the Company arises primarily from the Company's trade receivables.

The Company's exposure to credit risks is restricted by credit limits that are approved by the general manager. The Company typically allows the existing customer credit terms of up to 3 months. In deciding whether credit shall be extended, the Company will take into consideration factors such as the relationship with the customer, its payment history and credit worthiness. In relation to new distributors, the sales and marketing department will prepare credit proposals for approval by the general manager.

The Company performs on-going credit evaluation of its distributors' financial position. The concentration of credit risk from the Company's trade receivables 35%, 31% and 26% for the financial years ended 2007, 2008 and 2009 respectively, comprising 5 distributors.

As the Company does not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the statement of financial position.

The Company's major classes of financial assets are trade receivables, receivables from related parties and cash and bank balances.

The company considers 30 to 90 days to be normal collection period.

No impairment loss needed to be recognized in the profit or loss in respect of financial assets during the reporting periods.

(iv) Liquidity risk

The Company's financial liabilities are expected to mature within 1 year from the statement of financial position dates. The contractual undiscounted cash flows of the financial liabilities approximate their carrying amounts.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as and when they fall due. The Company's approach to managing liquidity is to regularly monitor their current and expected liquidity requirements and ensure, as far as possible, that it will have sufficient cash reserve and available funding through credit facilities to meet its liabilities when due, without incurring unacceptable losses or risking damages to the Company's reputation. The company was able to generate positive operating cash flows over the reporting period.

20. RELATED PARTY DISCLOSURES - SIGNIFICANT RELATED PARTY TRANSACTIONS

An entity or individual is considered a related party of the Company for the purposes of the financial statements if: (i) it possesses the ability, directly or indirectly, to control or exercise significant influence over the operating and financial decision of the Company or vice versa; or (ii) it is subject to common control or common significant influence.

Related party information

a) Entities/individuals with common control or significant influence over the company.

- Mr. Zhang Yu; controlling shareholder of Kinghero AG and Kinghero Group Holding Co. Ltd.
- Kinghero Group Holding Co., Ltd., sole shareholder of Xiamen Michelle Fashion Co. Ltd. and a company incorporated and controlled by Mr. Zhang Yu; place of registration: Hong Kong, PRC;
- Xiamen Michelle Fashion Co., Ltd., sole shareholder of Kinghero;
- Kinghero AG, a company controlled by Mr. Zhang Yu; place of registration: Munich, Germany, the future ultimate parent company

	2007 TEUR	2008 TEUR	2009 TEUR
Xiamen Michelle Fashion Co., Ltd			
Payment on behalf of this company- deposit on land and buildings taken over by parent in 2009	-	-	693
Staff cost recharged by parent company	-	-	17
Key management personnel compensation			
- salaries and related cost	22	23	30
- retirement scheme contribution	1	1	3

In addition to these balances, receivables from related parties are disclosed in note 12.

Along with the hiring out of workers, the Company was engaged by its parent with the production of various types of menswear and womenswear. The commissioning production has been exercised on the basis of a series of commission production agreement (Processing Contract) concluded by both parties between October 2009 and January 2010.

For the purpose of settlement of part of the purchase price for real estate to be purchased by its parent company, the Company performed the obligation to pay an amount of EUR 693 in place of the parent. The parent company has refunded this amount to the Company on 9 April 2010.

On 30 September 2009 the Company entered into a human resources cooperation agreement with its parent. According to this agreement the Company was allowed by its parent to use 56 of the parent company's employees for production work. According to this agreement the Company refunded the compensation for these employees to the parent. However, as foreseen in the agreement, the parent paid for the Social Security contributions pertaining to the employees loaned back to the Company.

b) Key management/directors of the Company and close family members

- Mr. Zhang, Yu, business man
- Ms. He Xiuming; business woman
- Mr. Zhang Zhaosong; business man
- Ms. Zhang Weimin; close family member

Included in "salaries and related cost" is director's remuneration amounting to EUR 9,000, EUR 9,000 and EUR 13,000 for the financial year ended 31 December 2007, 2008 and 2009 respectively.

In addition Mr. Zhang Yu sold his shares in the Company to Xiamen Michelle Fashion Co., Ltd for the nominal value of the shares.

Mr. Zhang was also the recipient of the dividends paid by the Company in 2007 of EUR 1,440,000 and in 2008 of EUR 5,904,000.

21. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to support the Company's stability and growth so as to maximize shareholders' returns and stakeholders' benefits.

A capital structure which does not make significant use of debt financing and seeks to establish a ratio of equity to total assets of 50% or above is considered to be advisable and achievable by the Company's management, providing the Company with a stable basis for achieving its business objectives. Over the reporting period, the company actually achieved a ratio of equity to total assets of 66,4%, 70,7 % and 82,7% as at 31 December 2007, 31 December 2008 and 31 December 2009 respectively. As at 31 December 2007, 31 December 2008 and 31 December 2009 the Company also did not have any debt borrowing. The Company actively and regularly reviews its capital structure by taking into consideration the future capital requirements of the Company, capital efficiency, prevailing and projected profitability, projected operating cash flows, projected expenditures and projected strategic investment opportunities. As part of managing the capital structure, the Company may adjust the amount of dividend payment, obtain new borrowings or sell assets to reduce or avoid borrowings.

22. SEGMENT INFORMATION

(i) Business segment

Management determines the operating segments, which represents product category, based on reports reviewed and used for strategic decisions. The Company's business segments are organized into two main operating segments:

- Menswear
- Womenswear

Both of these segments are managed by the Company. The Company intends to transfer the management of womenswear to its immediate parent company Xiamen Michelle Fashion Co. Ltd. and started with this transfer in 2009, although the volume of business transferred was only marginal in that year. It is expected that in the future the Company will manage only menswear and its immediate parent company will manage womenswear. The segmental analysis is expected to change with this development.

Both operating segments are monitored and strategic decisions are made on the basis of the segmental gross margins. Items of expense and income below the gross profit margin are not analysed by management on a segmental basis, as these are not considered relevant for the operational and strategic analysis of the business. Management considers the Company's total assets, comprising property, plant and equipment, inventory, trade and other receivables and cash and bank balances as reasonable allocable to the two operating segments on a pro rata basis determined by segment revenues.

The segment information provided to the management for the reportable segments for the financial period from 1 January 2007 to 31 December 2007 is as follows:

	Men's wear	Women's wear	Total
	TEUR	TEUR	TEUR
Revenue	13,435	10,837	24,272
Cost of sales	(8,989)	(6,968)	(15,957)
Gross profit	4,446	3,869	8,315
Segment assets	6,739	5,436	12,175

The segment information provided to the management for the reportable segments for the financial period from 1 January 2008 to 31 December 2008 is as follows:

	Men's wear	Women's wear	Total
	TEUR	TEUR	TEUR
Revenue	18,721	13,421	32,142
Cost of sales	(12,580)	(9,210)	(21,790)
Gross profit	6,141	4,211	10,352
Segment assets	8,318	5,963	14,281

The segment information provided to the management for the reportable segments for the financial period from 1 January 2009 to 31 December 2009 is as follows:

	Men's wear	Women's wear	Total
	TEUR	TEUR	TEUR
Revenue	27,692	21,229	48,921
Cost of sales	(18,607)	(14,586)	(33,193)
Gross profit	9,085	6,643	15,728
Segment assets	13,748	10,541	24,289

The Company’s revenues in 2007, 2008 and 2009 were derived wholly from the PRC, hence a further geographical segment analysis is not meaningful to the management of the Company.

During 2007, 2008 and 2009, there are no sales over 10% of the Company’s’ revenues depended on a single customer. All sales were to external distributors.

The totals presented for the Company’s operating segments can be derived directly from the Company’s key financial figures for sales, cost of sales and total assets as presented in the financial statements without reconciliation.

23. EMPLOYEE BENEFITS

	Year ended 31 December		
	2007	**2008**	**2009**
Average number of employees of the Company	960	1,124	974
Management and administration	75	95	96
Sales	490	550	556
Production	395	479	322
	960	1,124	974

The aggregate payroll costs of these employees were as follows:

	As at 31 December		
	2007	**2008**	**2009**
Wages and salaries	1,865	2,368	2,581
Social security costs	35	39	191
	1,900	2,407	2,772

Retirement Benefit Plans

The eligible employees of the Company- who are citizens of the PRC are members of a state-managed retirement benefit scheme operated by the local government. The Company is required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Company with respect to the retirement benefit scheme is to make the specified contributions. The cost of retirement benefit contributions charged to the profit or loss in the years 2007, 2008 and 2009 amount to EUR 15,000, EUR 23,000 and EUR 134,000 respectively.

24. CONTINGENCIES

Social insurance back payments

According to PRC law, in particular, Chinese regulations for social insurance and housing funds, the Company is required to make contributions for the social insurance and for the housing funds to its employees. The Company has in the past not paid the full amount which should have been paid in respect of these contributions, but considers the risk for additional payments for prior periods to be not probable. As at reporting date, the Company estimates that such a claim for additional payments would not exceed TEUR 340. As at 2 April 2010, Mr. ZHANG Yu has undertaken an agreement with the Company according to which he would reimburse the Company for any losses incurred for such additional social insurance and housing funds payments.

Trademark claims

The Company uses the trademark Michelle ”米雪儿” (Pinyin: “Mi Xue Er”) for its sales of womenswear. There are currently two other unrelated companies which both own a trademark named ”米雪儿” (Pinyin: “Mi Xue Er”) whose wording and pronunciation is similar to the trademark for which the Company has applied for registration. Although the above two similar trademarks are word trademarks only and not a combined word / logo mark as applied for by the Company’s subsidiary, it cannot be excluded that any third party will initiate legal actions to revoke the application for trademark registration or such third party raises a claim for tort against the trademark "金米雪儿" or claims because of unfair competition against the company name of Michelle (Chinese Character: 米雪儿). These claims could result in future liabilities of the Company, its subsidiary or its parent company. Management has not been able to estimate the potential amount of any claim.

25. SUBSEQUENT EVENTS

Other than the events disclosed in Note 7 (subsequent waiver of compensation penalties) and Note 24 (undertaking by Mr. ZHANG Yu) and the fact that the Company became part of the KINGHERO AG Group, no other item, transaction or event of a material or unusual nature has arisen in the interval between 31 December 2009 and the date of the report from the independent auditor.

2.6 Audit Opinion

To KINGHERO AG, Munich

We have audited the financial statements converted from RMB (Chinese currency) to Euro comprising the statements of comprehensive income, the statements of financial position, the statements of changes in equity, statements of cashflow and the notes to the financial statements B for the financial years ended December 31, 2007, 2008 and 2009 of Kinghero Fashion (Xiamen) Co., Ltd., Xiamen, People=s Republic of China. The preparation of the financial statements in accordance with the International Financial Reporting Standards (IFRS), as endorsed for application in the EU and as set forth in the notes to the financial statements, is primarily the responsibility of the management of the Company and, in view of the intended listing, also the responsibility of the board of management of KINGHERO AG, Munich. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB (Handelsgesetzbuch - German Commercial Code) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with IFRS, as endorsed for application in the EU, are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the financial statements comply, as set forth in the notes to the financial statements, with the IFRS, as endorsed for application in the EU, and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with these requirements.

Hamburg, June 18, 2010

Grant Thornton GmbH
Wirtschaftsprüfungsgesellschaft
(German certified audit firm)

Graf von Kanitz
Wirtschaftsprüfer
(German certified auditor)

Robinson
Wirtschaftsprüfer
(German certified auditor)

3. CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2010 OF KINGHERO FASHION (XIAMEN) CO., LTD.

3.1 Condensed Interim Statement of Comprehensive Income

	Three months ended 31 March 2010	**Three months ended 31 March 2009**
	TEUR	**TEUR**
Revenue	**14,902**	10,447
Cost of sales	**(9,375)**	(6,715)
Gross profit	**5,527**	3,732
Other income	**23**	19
Selling and distribution expenses	**(551)**	(534)
Administrative expenses	**(308)**	(282)
Finance income	**8**	2
Profit before taxation	**4,699**	2,937
Income tax expense	**(1,034)**	(578)
Net profit	**3,665**	2,359
Other Comprehensive Income: Currency translation reserve movement	**1,568**	541
Total Comprehensive Income	**5,233**	2,900
Profit attributable to: owners of the parent	**3,665**	2,359
Total Comprehensive income attributable to: owners to the parent:	**5,233**	2,900

The comparability is affected by movements in the relative value of the functional currency (RMB) compared to the presentational currency (EUR).

3.2 Condensed Interim Statement of Financial Position

	31 March 2010	31 December 2009
	TEUR	**TEUR'**
Assets		
Non-current		
Property, plant and equipment	**5,939**	5,565
Intangible assets	**227**	211
	6,166	5,776
Current		
Inventories	**3,183**	2,536
Trade and other receivables	**11,612**	10,531
Receivables from related parties	**853**	795
Cash and bank balances	**11,578**	4,651
	27,226	18,513
Total assets	**33,392**	24,289
Equity and Liabilities		
Capital and Reserves		
Share capital	**486**	486
Statutory reserve	**243**	243
Foreign currency translation reserve	**1,568**	-*
Retained earnings	**22,992**	19,327
	25,289	20,056
Non current liabilities		
Other provisions	**39**	36
Current liabilities		
Corporate income tax payable	**1,065**	719
Trade and other payables	**6,972**	3,478
Payables to related parties	**27**	0
	8,064	4,197
Total equity and liabilities	**33,392**	24,289

*Amount is less than EUR 1,000

The comparability is affected by movements in the relative value of the functional currency (RMB) compared to the presentational currency (EUR).

3.3 Condensed Interim Statement of Changes in Equity

	Attributable to equity holders of the Company				
	Share capital TEUR	**Translation reserve TEUR**	**Statutory reserve TEUR**	**Retained earnings TEUR**	**Total Equity TEUR**
Balance at 1 January 2009	486	691	243	8,673	10,093
Total comprehensive income	-	541	-	2,359	2,900
Balance at 31 March 2009	486	1,232	243	11,032	12,993
Total comprehensive income	-	(1,232)	-	8,295	7,063
Balance at 31 December 2009	**486**	**-***	**243**	**19,327**	**20,056**
Total comprehensive income	**-**	**1,568**	**-**	**3,665**	**5,233**
Balance at 31 March 2010	**486**	**1,568**	**243**	**22,992**	**25,289**

*Amount is less than EUR 1,000

The comparability is affected by movements in the relative value of the functional currency (RMB) compared to the presentational currency (EUR).

3.4 Condensed Interim Statements of Cash Flows

	Three months ended 31 March 2010 TEUR	Three months ended 31 March 2009 TEUR
Cash flows from operating activities		
Profit before taxation	**4,699**	2,937
Adjustments for:		
Depreciation of property, plant and equipment	**30**	32
Operating profit before working capital changes	**4,729**	2,969
Increase in inventories	**(343)**	(2,425)
(Decrease)/increase in trade and other receivables and receivables from related parties	**220**	(2,419)
Increase in trade and other payables and payables to related parties	**3,104**	3,741
Cash generated from operations	**7,710**	1,866
Income tax paid	**(749)**	(418)
Net cash generated from operating activities	**6,961**	1,448
Net increase in cash and bank balances	**6,961**	1,448
Cash and bank balances at beginning of the period	**4,651**	1,878
Effects of currency translation	**(34)**	(28)
Cash and bank balances at end of the period	**11,578**	3,298

The comparability is affected by movements in the relative value of the functional currency (RMB) compared to the presentational currency (EUR).

3.5 Selected notes to the condensed interim financial statements of Kinghero Fashion (Xiamen) Co., Ltd.

1. NATURE OF OPERATIONS

The principal activity of the Company is manufacture, wholesale and retail of menswear and womenswear. The principal place of business of the Company is located at Sunban South Road 88th, North District of Jimei, Xiamen, Fujian Province, the People's Republic of China (the “PRC”).

The Company sells its products via a network of distributors located in the PRC.

The immediate holding company is Xiamen Michelle Fashion Co., Ltd, which is incorporated in the Republic of China. Xiamen Michelle Fashion Co., Ltd, is itself an immediate subsidiary of Kinghero Group Holdings Limited, which is incorporated in Hong Kong. The ultimate parent company is Kinghero AG, which is incorporated in Munich, Germany. The Company became part of the Kinghero AG group on March 31, 2010, the effective date of the transfer of the shares in Kinghero Group Holdings Limited into Kinghero AG.

2. GENERAL INFORMATION AND STATEMENT OF COMPLIANCE WITH IFRS

These condensed single entity interim financial statements of the Company are prepared for the three months period ended 31 March 2010 with comparatives. They have been prepared for the purpose of inclusion in the listing prospectus of the Company’s ultimate parent, Kinghero AG.

The condensed interim financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) and its interpretations of the International Financial Reporting Interpretations Committee (IFRIC) for interim financial information effective within the European Union. Accordingly, these condensed interim financial statements do not include all of the information required in annual financial statements by IFRS.

The condensed interim financial statements have been reviewed. In the opinion of the Company’s Board of Management, the condensed interim financial statements include all adjustments of a normal and recurring nature considered necessary for a fair presentation of results for interim periods. Results of the period ended 31 March 2010 are not necessarily indicative for future results.

These interim financial statements have been prepared in conformity with IAS 34 “Interim Financial Reporting”. This requires the Board of Management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The accounting principles and practices as applied in the condensed interim financial statements correspond to those pertaining to the most recent annual financial statements. A detailed description of the accounting policies is published in the notes to the financial statements of the Company’s financial statements as of December 31, 2009.

The condensed interim financial statements of the Company have been rounded to the nearest thousand Euro. Amounts are stated in thousands of Euros (kEUR) except where otherwise indicated.

The condensed interim financial statements of the Company for the period from January 1 to March 31, 2010 are expected to be authorized for issue in accordance with a resolution of the Board of Management in September 2010. Until authorization they can be amended..

3. SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ESTIMATES

These condensed interim financial statements have been prepared using accounting policies specified by those IFRSs that are in effect at the end of the reporting period (31 March 2010). The accounting policies have been applied consistently throughout the Group for the purpose of preparation of these condensed interim financial statements, except for the adoption of

- Amendments to IAS 32 (effective 1 February 2010) – Financial instruments: Presentation
- Amendments to IFRS 1 (effective 1 January 2010, not yet adopted by the European Union) - Additional Exemptions for First-time Adopters

The adoption of the amendments does not have any material effect on the Company's financial statements.

The following new or revised standards, interpretations and amendments to published standards were approved, but will not be applicable for the Company for the first quarter in 2010 and were not adopted early in these condensed interim financial statements:

- IFRS 9 (effective from 1 January 2013, not yet adopted by the European Union) – Financial instruments
- Revised IAS 24 (effective from 1 January 2011, not yet adopted by the European Union) – Related party transactions
- Amendments to IFRIC 14 (effective 1 January 2011, not yet adopted by the European Union) – Prepayments of a minimum funding requirement
- IFRIC 19 (effective 1 July 2010, not yet adopted by the European Union) – Extinguishing financial liabilities with equity instruments
- Amendment to IFRS 1 (effective 1 July 2010, not yet adopted by the European Union) - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
- Annual Improvements 2010 (effective 1 January 2011, not yet adopted by the European Union)

Management does not expect the standards to have a material effect on the Company's financial statements.

There have been no changes in estimates compared to the financial statements of the Company for the year ended 31 December 2009.

4. CURRENCY TRANSLATION

Items included in the condensed interim financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency").

The Company conducts its business predominately in the PRC and hence its functional currency is the Renminbi (RMB).

The presentation currency of the Company is EUR, being the presentation currency of its future ultimate German domiciled legal parent and holding company, and therefore the financial information has been translated from RMB to EUR at the following rates:

	Period end rates	Average rates
31 March 2010	EUR 1.00 = RMB 9.1659	EUR 1.00 = RMB 9.4393
31 December 2009	EUR 1.00 = RMB 9.8328	EUR 1.00 = RMB 9.4877
31 March 2009	EUR 1.00 = RMB 9.0171	EUR 1.00 = RMB 8.9174

5. SIGNIFICANT EVENTS AND TRANSACTIONS

Effective 31 March 2010 the entire share capital of Kinghero Group Holdings Limited was transferred to Kinghero AG in preparation for the listing of Kinghero AG. Hence the Company became part of the Kinghero AG group on 31 March 2010.

6. SEGMENT REPORTING

Management determines the operating segments, which represents product category, based on reports reviewed and used for strategic decisions. The Company's business segments are organized into two main operating segments:

- Menswear
- Womenswear

Both these segments are managed by the Company. The Company intends to transfer the management of womenswear to its immediate parent company Xiamen Michelle Fashion Co. Ltd. and started with this transfer in 2009, although the volume of business transferred was only marginal in that year. It is expected that in the future the Company will manage only menswear and its immediate parent company will manage womenswear. The segmental analysis is expected to change with this development.

Both operating segments are monitored and strategic decisions are made on the basis of the segmental gross margins. Items of expense and income below the gross profit margin are not analysed by management on a segmental basis, as these are not considered relevant for the operational and strategic analysis of the business. Management considers the Company's total assets, comprising property, plant and equipment, inventory, trade and other receivables and cash and bank balances as reasonable allocable to the operating segments on a pro rata basis determined by segment revenues.

During the period under review, there were no inter-segment transfers.

The accounting policies the Group uses for segment reporting under IFRS 8 are the same as those used in its financial statements for the year ended 31 December 2009.

The segment information provided to the management for the reportable segments for the financial period from 1 January 2010 to 31 March 2010 is as follows:

	Menswear	**Womenswear**	**Total for reportable segments**	**Reconciling items**	**Total disclosed in the financial statements**
	TEUR	**TEUR**	**TEUR**	**TEUR**	**TEUR**
Revenue	9,890	3,919	13,809	1,093	14,902
Cost of sales	5,947	2,553	8,500	875	9,375
Gross profit	3,943	1,366	5,309	218	5,527
Segment assets	22,162	8,781	30,943	2,449	33,392

The reconciling items relate to non strategic one time sales of unbranded childrenswear to one distributor amounting to 7% of revenues.

The segment information provided to the management for the reportable segments for the comparative financial period from 1 January 2009 to 31 March 2009 is as follows:

	Menswear	Womenswear	Total
	TEUR	TEUR	TEUR
Revenue	7,461	2,986	10,447
Cost of sales	4,722	1,993	6,715
Gross profit	2,739	993	3,732
Segment assets	17,347	6,942	24,289

The Company's revenues for financial period from 1 January 2010 to 31 March 2010 and its comparatives were derived wholly from the PRC, hence a further geographical segment analysis is not meaningful to the management of the Company.

During the interim period, there are no sales over 10% of the Company's revenues which is dependent on a single customer. All sales were to external distributors.

The totals presented for the Company's operating segments can be derived directly from the Company's key financial figures for sales, cost of sales and total assets as presented in the financial statements without reconciliation.

7. ANALYSIS OF SELECTED ITEMS OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

Sales increased approximately 50% quarter-on-quarter mainly due to an increase in demand on the back of a recovering economy. The increase in revenue is also supported by an increase of authorised distributors with 33 authorised distributors in FY2010 Q1 compared to 29 in FY2009 Q1. The 4 new authorised distributors contributed 21% of the revenue in FY2010 Q1. In addition, the Company made non strategic one time sales of unbranded childrenswear to one distributor amounting to 7% of revenues. Sales are recognised when goods are delivered and accepted by the distributors. Administrative expenses increase mainly relates to increase in social security contributions and other miscellaneous staff related one-off expenses to reward their effort in supporting the Company listing.

Inventories balance increased quarter-on-quarter as Company accumulated inventories based on increased orders as a result of stronger demand on the back of a recovering economy coupled with the appointment of 4 new distributors contributing 21% of Q1 revenue.

Increase in trade and other payables due to higher purchases in FY2010 in response to higher demands for clothes and increased orders.

8. COMMITMENTS AND CONTINGENCIES

Between the financial statements of the Company for the year ended 31 December 2009 and the accounting period of the interim financial statements as at 31 March 2010, no material changes in commitments and contingencies have occurred.

9. RELATED PARTY DISCLOSURES – SIGNIFICANT RELATED PARTY TRANSACTIONS

An entity or individual is considered a related party of the Company for the purposes of the financial statements if: (i) it possesses the ability, directly or indirectly, to control or exercise significant influence over the operating and financial decision of the Company or vice versa; or (ii) it is subject to common control or common significant influence.

Related party information

a) Entities/individuals with common control or significant influence over the company.

- Mr. Zhang Yu; controlling shareholder of Kinghero AG and Kinghero Group Holding Co. Ltd.
- Kinghero Group Holding Co., Ltd., sole shareholder of Xiamen Michelle Fashion Co. Ltd. and a company incorporated and jointly owned by Zhang Yu; place of registration: Hong Kong, PRC;
- Xiamen Michelle Fashion Co., Ltd., sole shareholder of Kinghero;
- Kinghero AG, a company controlled by Zhang Yu; place of registration: Munich, Germany, the ultimate parent company

In addition to the amounts disclosed as receivables from and payables to related parties the Company had the following transactions with related parties during the three months ended 31 March 2010.

	Three months ended 31 March 2010	Three months ended 31 March 2009
	TEUR	TEUR
Xiamen Michelle Fashion Co., Ltd		
Staff cost recharged by parent company	14	-
Payment on behalf by parent company - Rental and utilities	27	-
Subcontractor fees charged to parent company	7	-
Key management personnel compensation		
- salaries and related cost	8	7
- retirement scheme contribution	1	1

Along with the hiring out of workers, the Company was engaged by its parent with the production of various types of menswear and womenswear. The commissioning production has been exercised on the basis of a series of commission production agreement (Processing Contract) concluded by both parties between October 2009 and January 2010.

On September 30, 2009 the Company entered into a human resources co-operation agreement with its parent. According to this agreement the parent allows the Company to use 56 of the parent's employees for production work. According to this agreement the Company refunds the compensation for these employees to the parent (staff cost recharged by parent company). However, as foreseen in the agreement, the parent continues to pay for the Social Security contributions pertaining to the employees loaned back to the Company.

For the purpose of settlement of part of the purchase price for real estate to be purchased by its parent company, the Company performed the obligation to pay an amount of EUR 693 in place of the parent. The parent company has refunded this amount to the Company on 9 April 2010.

b) Key management/directors of the Company and close family

- Mr. Zhang, Yu, business man
- Ms. He Xiuming, business woman
- Mr. Zhang Zhaosong; business man

- Ms. Zhang Weimin; close family

Included in “salaries and related cost” are director’s remuneration amounting to EUR 9,000 (2009: EUR 8,000) for the financial period ended 31 March 2010.

10. EVENTS AFTER THE REPORTING DATE

Except for the Company becoming part of the Kinghero AG Group on March 31, 2010, no significant non-adjusting events or any significant adjusting events have occurred between the reporting date and the date of authorisation.

3.6 Review Report

To Kinghero AG, Munich

We have reviewed the condensed interim financial statements – comprising the condensed statement of comprehensive income, the condensed statement of financial position, the condensed statement of changes in equity, the condensed statement of cash flows and selected explanatory notes – of Kinghero Fashion (Xiamen) Co., Ltd for the period from 1 January 2010 to 31 March 2010. The preparation of the condensed interim financial statements in accordance with those IFRS applicable to interim financial reporting as adopted by the EU is the responsibility of the Company's management. Our responsibility is to issue a report on the condensed interim financial statements based on our review.

We conducted our review of the condensed interim financial statements in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review such that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim financial statements have not been prepared, in material aspects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the level of assurance attainable by means of an audit of the financial statements. Since, in accordance with our engagement, we have not performed an audit of the financial statements, we cannot issue an audit opinion.

Based on our review, no matters have come to our attention that cause us to believe that the condensed interim financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial statements as adopted by the EU.

Hamburg, 18 June 2010

Grant Thornton GmbH
Wirtschaftsprüfungsgesellschaft

Friedrich Graf von Kanitz — Wirtschaftsprüfer

Timothy Robinson — Wirtschaftsprüfer

4. FINANCIAL STATEMENTS XIAMEN MICHELLE FASHION CO., LTD. FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2009

4.1 Statement of Comprehensive Income for the financial year ended 31 December 2009

	Note	2008 TEUR	2009 TEUR
Revenue	3	-	21
Cost of sales	4	-	(8)
Gross profit		-	13
Other operating income	3	-	17
Other operating expenses	5	-	(17)
Selling and distribution expenses	5	-	(3)
Administrative expenses	5	-	(14)
Loss before taxation	5	-	(4)
Income tax	6	-	1
Net Loss		-	(3)
Other Comprehensive Income		89	(26)
Total Comprehensive Income		89	(29)
Net Loss attributable to: owners of the parent		-	(3)
Total Comprehensive income attributable to: owners to the parent:		89	(3)

Xiamen Michelle Fashion Co. Ltd., Xiamen, PRC (hereafter "Company") was incorporated in November 2004 and commenced trading only in July 2009 with one sole distributor. The company relies currently on the production facilities of its subsidiary Kinghero Fashion (Xiamen) Co. Ltd. in order to produce womenswear for sale to this distributor and operates from rented business premises. As no trading took place before 2009, no financial statements for the periods before 2009 were produced.

The Company is in the initial phases of its operations and the figures presented above are consequentially of very limited use in indicating its future earnings.

Other comprehensive income arises solely on the retranslation of the opening statement of financial position.

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

4.2 Statement of Financial Position as at 31 December 2009

	Note	2008 TEUR	2009 TEUR
Assets			
Non-current			
Property, plant and equipment	7	-	2,906
Intangible assets	8	-	124
Investment in subsidiary	9	-	509
Deferred tax assets	10	-	1
		-	3,540
Current			
Inventories	11	-	810
Trade receivables	12	-	2
Receivables from related parties	13	840	-
Cash and bank balances	14	-	4
		840	816
Total assets		840	4,356
Equity and Liabilities			
Capital and Reserves			
Share capital	15	759	759
Foreign currency translation reserve	15	81	55
Accumulated losses	15	-	(3)
		840	811
Non current Liabilities			
Other provisions	16	-	21
Current liabilities			
Other payables	17	-	2,316
Payables to related parties	18	-	1,208
Total current liabilities		-	3,524
Total equity and liabilities		840	4,356

The Company was incorporated in November 2004 and commenced trading only in July 2009. Despite incorporation in 2004, the share capital was only paid up in June 2009. However, the share capital was called up in 2004. Comparatives are shown for the prior year due to the existence of the share capital and the related party receivables on incorporation for that capital.

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

4.3 Statement of Changes in Equity for the Financial Year ended 31 December 2009

	Share capital TEUR (Note 15)	Translation reserve TEUR (Note 15)	Accumulated losses TEUR	Total Equity TEUR
Balance at 1 January 2008	759	(8)	-	751
Total comprehensive income	-	89	-	89
Balance at 31 December 2008	75	81	-	840
Total comprehensive income	-	(26)	(3)	(29)
Balance at 31 December 2009	**759**	**55**	**(3)**	**811**

The Company was incorporated in November 2004 and commenced trading only in July 2009.

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

4.4 Statement of Cash Flows for the financial year ended 31 December 2009

	Note	2009
		TEUR
Cash flows from operating activities		
Loss before taxation and working capital changes		(4)
Increase in inventories		(810)
Increase in trade receivables		(2)
Increase in other payables		1
Net cash used in operating activities		(815)
Cash flows from financing activities		
Increase in payables to related parties		5
Proceeds from shares issued		814
Net cash generated from financing activities		819
Net increase in cash and bank balances		4
Cash and bank balances at beginning of financial year		-
Cash and bank balances at end of financial year	14	**4**

Non cash transactions

The investments of the company in land use rights and property, plant and equipment described in notes 7 and 8 have not been fully settled in cash by 31 December 2009 and resulted in an increase in other payables of EUR 2,315,000 and an increase in payables to related parties of EUR 682,000.

The investment of the company in its subsidiary, as described in note 9 has not been settled in cash by 31 December 2009 and resulted in an increase in payables to related parties of EUR 509,000

The Company was incorporated in November 2004 and commenced trading only in July 2009. Accordingly, comparatives are not disclosed, as no cash flows occurred in the prior period.

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

4.5 Notes to the financial statements of Xiamen Michelle Fashion Co., Ltd.

1. THE COMPANY

The financial statements of Xiamen Michelle Fashion Co. Ltd., Xiamen City, PRC ("the Company") have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) in so far as these have been endorsed by the EU on a voluntary basis in accordance with the standards set out in section 315a paragraph 1 of the German Commercial Code.

The principal activity of the Company is wholesale of womenswear The principal place of business of the Company is located at Sunban South Road 88th, North District of Jimei, Xiamen, Fujian Province, the People's Republic of PRC (the "PRC").

The Company was incorporated in November 2004 but commenced trading only in July 2009. Hence there is no material historical financial data available for the Company prior to 2009. For this reason comparatives are not disclosed.

The immediate holding company is Kinghero Group Holdings Limited, which is incorporated in Hong Kong and the future ultimate holding company is KINGHERO AG, which is incorporated in Munich, Germany. Kinghero Group Holdings Ltd. has not prepared consolidated financial statements although required to do so by Hong Kong Accounting Standard 27. The auditor of the single entity financial statements of Kinghero Group Holding Ltd. has qualified his audit opinion in this regard.

As at the date of this report, there is only one class of shares in the Company, being ordinary shares. The rights and privileges of the shares are stated in the Bye-laws. There is no founder, management or deferred or unissued shares reserved for issuance for any purpose.

The figures presented in the financial statements have been rounded to the nearest EUR thousand.

The financial statements for the year ended 31 December 2009 are expected to be approved and authorised for issue by the supervisory board in its meeting in September 2010. Until approved, the financial statements may be amended.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These stand alone Financial Statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRS") in so far as these have been endorsed by the EU including related interpretations, and have been consistently applied throughout the financial year ended 31 December 2009.

Basis of preparation of Financial Statements

The Company has adopted IFRS and interpretations which are effective for accounting periods after 1 January 2009 for the preparation of these Financial Statements of the Company since 1 January 2009.

The Company has applied IFRS 1, First-time Adoption of Financial Reporting Standards in preparing these Financial Statements. These Financial Statements are the first set of financial statements prepared in accordance with IFRS by the Company and are its first set of financial statements overall.

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements and in preparing an opening IFRS statement of financial position as at 1 January 2009 for the purpose of the first set of IFRS financial statements. The accounting policies have been applied consistently by the Company.

The financial year of the Company is between 1 January and 31 December. These financial statements have been prepared for the purpose of going public of KINGHERO AG. The Company maintains its accounting records in Chinese Renminbi (RMB) and prepares their statutory financial statements in accordance with People's Republic of PRC (PRC) generally accepted accounting practice. The financial information in these financial statements is based on the statutory records without any valuation differences between PRC accounting records and IFRS which have a net impact on the Company's equity or total comprehensive income. The transition to IFRS does not affect the reported financial position, financial performance or cash flow. Consequently the company does not prepare reconciliations from PRC GAAP to IFRS.

Published accounting standards to be applied in fiscal years after 2009

At the date of preparation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to be relevant to the Company's financial statements. Unless otherwise stated below, none of the new standards is expected to have a major impact on the presentation of the Company's financial position, or results of operations, or on its earnings per share.

IFRIC 12 (Service Concession Arrangements) addresses the recognition of service agreements between public-sector entities and private companies for the operation of public infrastructure such as swimming pools, freeways, electric and water utilities by private licensees. This interpretation has to be applied for annual periods beginning on or after 1 January 2010. It has been adopted by the European Union in March 2010.

In January 2008, the IASB published the revised standards IFRS 3 (Business Combinations) and IAS 27 (Consolidated and Separate Financial Statements). Significant changes required by IFRS 3 (revised 2008) include: In future, a non-controlling interest may be measured either at fair value (i.e. including goodwill) or at the proportionate share of the identifiable net assets of the entity. In the case of a step acquisition, the acquirer must remeasure its previously held interest at fair value on the date on which it gains control of the acquiree and recognize the resulting gain or loss in income. The difference between the (remeasured) carrying amount of the interest in the subsidiary and the acquirer's remeasured proportionate share of the net assets of the subsidiary must be recognized as goodwill. Liabilities recognized as of the acquisition date for the purpose of future purchase price adjustments in light of future events can no longer be offset against goodwill in subsequent periods. Ancillary acquisition costs must be recognized in income. The principal changes required by IAS 27 (revised 2008) are: A reduction in the equity interest held in a subsidiary that does not result in a loss of control by the parent is now to be accounted for as an equity transaction. If a reduction in the equity interest held in a subsidiary involves a loss of control, the assets and liabilities of the subsidiary must be derecognized in their entirety. The remaining interest in the company is to be recognized at fair value. The difference between the remaining carrying amounts and the fair values must be recognized in income. Non-controlling interests that become negative due to incurred losses must be recognized at their net negative amounts. IFRS 3 (revised 2008) and IAS 27 (revised 2008) are applicable prospectively for annual periods beginning on or after 1 July 2009. Earlier application is permitted provided that both revised standards are applied simultaneously. The impact on the presentation of the Company's financial position and results of operations will depend on the scale of future business combinations or divestments. It has been adopted by the European Union on 3 June 2009.

In June 2009, the IASB issued amendments to IFRS 2 (Share-based Payment). These amendments clarify the scope of IFRS 2, as well as the accounting for cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another related entity or shareholder has the obligation to settle the award. These amendments are to be applied for annual periods beginning on or after 1 January 2010. They have been adopted by the European Union in March 2010.

The Annual Improvements 2009 consist of a number of smaller accounting changes for presentation, recognition and measurement purposes – some of which are changes in terminology only, and some of which are substantive but will have no material effect on amounts reported. The Improvements are to be applied for annual periods beginning on or after 1 July 2009 and 1 January 2010. They have been adopted by the European Union in March 2010.

IFRIC 15 (Agreements for the Construction of Real Estate), which addresses revenue recognition for real estate sold before completion. The interpretation defines the criteria for deciding whether IAS 11 (Construction Contracts) or IAS 18 (Revenue) is applicable. It is applicable for annual periods beginning on or after 1. January 2010. It has been adopted by the European Union in 22 July 2009.

IFRIC 16 (Hedges of a Net Investment in a Foreign Operation). It defines the risk to which hedge accounting may be applied in this context and which entity may hold the respective hedging instrument. This interpretation is to be applied for annual periods beginning on or after 1 July 2009.

IFRIC 17 (Distributions of Non-cash Assets to Owners). This interpretation defines when an obligation to distribute a non-cash dividend is to be recognized, that it must be measured at fair value, and that the difference between the dividends paid and the carrying amount of the net assets distributed must be recognized in profit or loss at the distribution date. This interpretation, which is to be applied prospectively for annual periods beginning on or after 31 October 2009.

IFRIC 18 (Transfers of Assets from Distributors). This interpretation relates to agreements in which an entity receives from a distributor an item of property, plant and equipment – or cash earmarked exclusively for its acquisition or construction – that the entity must then use either to connect the distributor to a network or to provide the distributor with ongoing access to a supply of goods or services. The interpretation specifies the circumstances and timing of asset recognition by the receiving entity and how the asset is to be measured. It also clarifies how to determine the receiving entity's obligation to render one or more separately identifiable services in exchange for the transferred asset and sets forth the conditions for revenue recognition. IFRIC 18 is to be applied prospectively to transfers of assets from distributors on or after 31. October 2009.

Amendments to IAS 32 (Financial Instruments). : The amendment "Classification of Right Issues" addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. These amendments are to be applied for annual periods beginning on or after 31 January 2010. They have been adopted by the European Union in December 2009.

The following accounting standards and amendments to existing standards have been published but are not yet effective and have not yet been adopted by the European Union:

- Amendments to IFRS 1: First-time Adoption: Additional Exemptions to First-time Adopters (effective from 1. January 2010)
- Amendments to IFRS 1: First-time Adoption: Limited Exemptions from Comparative IFRS 7 Disclosures for First-time Adopters (effective from 1. July 2010)
- IFRS 9: Financial Instruments (effective from 1 January 2013)
- Revised IAS 24: Related Party Disclosures: Relationship with the state (effective from 1. January 2011)
- Amendments to IFRIC 14: Prepayments of a Minimum Funding Requirement (effective from 1. January 2011)
- IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments (effective from 1. July 2010)
- Annual Improvements 2010 (effective from 1 January 2011)

The Financial Statements have been prepared in accordance with the significant accounting policies set out below and these accounting policies are in accordance with IFRS.

The preparation of the Financial Statements in conformity with IFRS requires the use of judgments, estimates and assumptions that affect the application of accounting policies as disclosed below, reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Financial statements and the reported amounts of revenue and expenses during the financial years. The Company has elected to adopt IAS 1 (Revised 2007) by presenting the 'Statement of comprehensive income' in one statement.

Overall Considerations

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. The financial statements have been prepared using the measurement bases and accounting policies specified by IFRS for each type of asset, liability, income and expense. These are more fully described below.

Presentation of Financial Statements

The financial statements are presented in accordance with IAS 1 Presentation of Financial Statements. The statement of income has been prepared using the function of expense method.

Critical accounting estimates and judgment

Estimates and judgments are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Key sources of estimation uncertainty

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management determines the estimated useful lives of property, plant and equipment consisting of buildings to be 20 years. The carrying amount of the Company's property, plant and equipment as at 31 December 2009 was EUR 2,906,000. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets. Therefore, future depreciation charges could be revised. A 5% difference in the expected useful lives of the property, plant and equipment would not result in a significant change to the Company's net profit for the respective financial years.

Inventories

Inventories are measured at the lower of cost and net realizable value. In estimating net realizable values, management takes into account the most reliable evidence available at the times the estimates are made. The Company's core business is subject to raw material price changes and changes in distributor behavior which may cause selling prices to change rapidly.

Provisions

The respective legislation in the PRC requires the Company to commit itself to remediate any environmental damages which may have been incurred. Management is of the opinion that no environmental damage has been caused by the Company and hence has not provided for this. The Company has made provisions for dismantling costs for the legal obligation to dismantle buildings in respect of future dismantling costs at the time the respective land-use-rights expire. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding item of property, plant and equipment of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the asset. Other than the unwinding discount on the provision, any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding item of property, plant and equipment.

Critical judgment made in applying accounting policies

In the process of applying the Company's accounting policies as described below, management is of the opinion that there are no instances of application of judgments which are expected to have a significant effect on the amounts recognized in the Financial Statements.

Estimation of cost attributable to intangible assets (land use rights) and to property plant and equipment

As part of a real estate transaction the company acquired land use rights and buildings for total consideration of EUR 3,009,000 in 2009. This consideration was not attributed separately to land use rights and to the building in the real estate purchase agreement. Management obtained an estimated amount of the purchase price attributable to the land use rights and to the building from the stated-owned developer who determined the open market value of the land use rights based on similar real estate transactions, assuming existing market conditions remain unchanged.

Impairment of trade receivables

The Company's management assesses the collectability of trade receivables. This estimate is based on the credit history of the Company's distributors and the current market condition.

Management assesses the collectability of trade receivables at the statement of financial position date and makes the provision, if any.

Property, plant and equipment

Property, plant and equipment are recognized at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment comprises the purchase price and any costs directly attributable to bringing the asset to the working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, and the expenditure of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset.

Depreciation on property, plant and equipment is calculated using the straight-line method to write off the cost of property, plant and equipment, less any estimated residual values, over the following estimated useful lives:

Buildings	20 years

The estimated residual values, estimated useful lives, and depreciation method of the property, plant and equipment are reviewed, and adjusted as appropriate, at each statement of financial position date.

The gain or loss on disposal or retirement of an item of property, plant and equipment recognized in the income statement is the difference between the net disposal proceeds and the carrying amount of the relevant asset.

Intangible assets

Intangible assets comprise solely land use rights and are recognized at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to profit or loss, using the straight-line method, so as to write off the cost of land use rights, over the remaining lease term of the land.

The amortisation period and amortisation methods for intangible assets are reviewed and adjusted as appropriate at each statement of financial position date as follows:

Land use rights over the remaining term of land use rights to expiration in December 2055.

Equity Investment in Subsidiary

Equity investment is the investment in the entire share capital of the company's subsidiary, Kinghero (Xiamen) Fashion Co. Ltd., Xiamen City, PRC. Due to the lack of a readily available market or a reliably determinable fair value, this investment is carried at cost, less allowance for impairment if required. The cost of the subsidiary was determined as the nominal value of its share capital as the transaction occurred between parties under common control and the controlling individual. The investment is subject to impairment testing. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Details of the subsidiary held are disclosed in note 9.

Impairment of non-financial assets

Property, plant and equipment and intangible assets are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the cash-generating-unit ("CGU") to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. The difference between the carrying amount and recoverable amount is recognized as an impairment loss in the income statement,.

An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognized for the asset in prior years.

A reversal of impairment loss for an asset other than goodwill is recognized in the income statement, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

Financial assets

Financial assets are recognized on the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are accounted at a trade date, i.e. the date that the Company commits to purchase or sell the asset. When financial assets are recognized initially, they are measured at fair value plus directly attributable transaction costs. De-recognition of financial assets occurs when the contractual right to receive cash flows from the financial assets expire or are transferred and the Company has transferred substantially all risks and rewards of ownership. On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that has been recognized directly in equity is recognized in the income statement.

At each of the statement of financial position dates, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognized.

The Company's financial assets comprise loans and receivables and also the available for sale equity investment in its subsidiary, as described above.

Trade and other receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those maturing later than 12 months after the statement of financial position date. These are presented as non-current assets.

Receivables are measured on initial recognition at fair value plus transaction cost and subsequently carried at amortised cost using the effective interest method. Allowances for impairment are recognized in the income statement when there is objective evidence that the asset is impaired. The allowance recognized is calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition.

There were no net gains or losses on financial assets during the reporting period.

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work-in-progress comprise raw materials, direct labour and other overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

The carrying values of inventories are disclosed under note 11.

Equity reserves

Share capital represents the nominal value of shares that have been issued in the Company. Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued. Any transaction costs associated with the issuing of shares are deducted from the proceeds (net of any related income tax benefits) to the extent that they are incidental costs directly attributable to the equity transaction.

Retained earnings include all current and prior period results as determined in the income statements.

Foreign currency translation differences arising on the translation are included in the translation reserve.

Relevant transactions with owners of the parent are recorded separately within equity.

Financial liabilities

Financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial liabilities are recognized initially at fair value, plus in the case of financial liabilities other than derivatives, directly attributable transaction costs. Subsequent to initial recognition, the Company's financial liabilities are measured at amortised cost using the effective interest method. All interest related charges are recognized as an expense in the income statement. Financial liabilities are derecognized when the obligation for the liabilities is discharged or cancelled or expired. For financial liabilities other than derivatives, gains and losses are recognized in the income statement when the liabilities are derecognized or impaired, and through the amortisation process

The Company's financial liabilities consist of other payables and payables to related parties, arising from contractual liabilities.

There were no net gains or losses on financial liabilities during the reporting period.

Other payables and payables to related parties

Other payables and payables to related parties, arising from contractual liabilities are initially recognized at fair value, and subsequently carried at amortised cost using the effective interest method.

Provisions and contingent liabilities

Provisions are recognized when the Company has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. However, this asset may not exceed the amount of the related provision. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Provisions for environmental protection are recorded if future cash outflows are likely to be necessary to ensure compliance with environmental regulations or to carry out remediation work, such costs can be reliably estimated and no future benefits are expected from such measures. Estimating the future costs of environmental protection and remediation involves many uncertainties, particularly with regard to the status of laws and regulations. Management considers that environmental damage has not been caused by the Company and hence have not provided for environmental protection.

The respective legislation in the PRC requires the Company to commit itself to remediate any environmental damages which may have been incurred may lead to a (constructive) obligation.

The Company has made provisions for dismantling costs for the legal obligation to dismantle buildings on land to which the Company has land use rights in accordance with Management's estimation of the future dismantling costs at the time the respective land-use-rights expire.

Liabilities for dismantling costs are recognized when the Company has an obligation to dismantle and re-move a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that liability can be made. Where an obligation exists due to land-use-rights regulations, this will be on construction and an obligation for decommissioning may also crystallize during the period of operation of a facility through a change in legislation or through a decision to terminate operations.

The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding item of property, plant and equipment of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the asset. Other than the unwinding discount on the provision, any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding item of property, plant and equipment.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized. All provisions and contingent liabilities are reviewed at each reporting date and adjusted to reflect the current best estimate.

Revenue

Revenue is measured at the fair value of the consideration received or receivable and are presented net of goods and services taxes and trade discounts and after eliminating sales within the Company.

The Company sells womenswear via a sole distributor. Revenue from the sale of manufactured products are recognized when the Company has transferred to the distributor the significant risks and rewards of ownership of the goods, which generally coincides with the delivery and acceptance of goods by the distributor; and when the Company can reliably measure the amount of revenue and the cost incurred and to be incurred in respect of the transaction; and it is probable that the collectability of the related receivables is reasonably assured.

Employee benefits - Retirement benefits scheme

Pursuant to the relevant regulations of the PRC government, the Company participates in a local municipal government retirement benefits scheme (the "Scheme"), whereby the subsidiaries located in the PRC are required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries located in the PRC. The only obligation of the Company with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above. Contributions under the Scheme are charged to the income statement as incurred. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions. These plans are considered defined contribution plans. The Company has no legal or constructive obligations to pay further contributions after its payment of the fixed contributions into the national pension schemes. Contributions to national pension schemes are recognized as an expense in the period in which the related service is performed.

Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. Directors and certain managers are considered key management personnel of the Company.

Income tax

Tax expense recognized in profit or loss comprises the sum of current tax and deferred tax not recognized in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period in the respective countries in which the Company is operating.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases.

Deferred tax assets are recognized in respect of losses carried forward for offset against future taxable profits, to the extent that it is expected that the losses can be used to reduce future income tax charges.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

Value-added tax (“VAT”)

In accordance with the Rules for the Implementation of the Provisional Regulations on Value Added Tax of the PRC, Article 28, the company qualifies as a small scale enterprise whose annual turnover is less than RMB800,000 and output VAT tax was less than RMB500,000 and is subject to a reduced tax rate of 3% for the PRC domestic sales. The amount of VAT payable to the tax authority is included as part of “other payables” in the statement of financial position.

Revenue, expenses and assets are recognized net of the amount of VAT except:

(iii) where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

(iv) receivables and payables that are stated with the amount of VAT included.

Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

The Company conducts its business predominately in the PRC and hence its functional currency is the Renminbi (RMB).

The presentation currency of the Company is EUR, being the presentation currency of its future ultimate German domiciled legal parent and holding company, and therefore the financial information has been translated from RMB to EUR at the following rates:

	Period end rates	Average rates
31 December 2009	EUR 1.00 = RMB 9.8328	EUR 1.00 = RMB 9.9305

The average rate for 2009 relates to July 2009 to December 2009 which is the period the Company is in operation.
The results and financial positions of the Company in its functional currency RMB are translated into the presentation currency for the purpose of presentation in the listing prospectus of its ultimate legal parent as follows:

(1) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(2) Income and expenses for each income statement are translated at average exchange rates and

(3) All resulting exchange differences are recognized in the foreign currency translation reserve, a separate component of equity.

(ii) Transactions and balances

Foreign currency transactions are measured and recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rates ruling at the respective statement of financial position dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Related parties

The Company has the following types of related parties:

(i) entities or individuals which directly, or indirectly through one or more intermediaries, (1) control, are controlled by, or are under common control with, the Company; (2) have an interest in the Company that gives them significant influence over the Company;

(ii) the key management personnel of the Company or its parent;

(iii) close members of the family of any individual referred to in (i) or (ii);

Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statements on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognized in the income statements as an integral part of the aggregate net lease payments made.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors of the Company which makes strategic decisions.

The management of the Company bases its decisions on the internal reporting on womenswear, which is the Company's sole business segment.

Segment information is presented in respect of the Company's business segment. In presenting information on the basis of the business segment, segment revenue and segment assets are based on the nature of the products provided by the Company.

The accounting policies the Company uses for segment reporting under IFRS 8 are the same as those used in its financial statements.

Government assistance

Government assistance obtained in the land use rights and property transaction described in notes 7 and 8 is taken into account in determining the carrying amount of these assets. The assistance involved a favourable purchase price, which was subject to subsequent increase should certain conditions not be fulfilled. The conditions are set out in note 7. In June 2010 however these conditions were subsequently waived.

3. REVENUE AND OTHER OPERATING INCOME

The Company's revenue and other operating income are as follows:

Revenue:

	2009 TEUR
Sales of goods	21

Other operating income:

	2009 TEUR
Recharge of staff costs to subsidiary	17

4. COST OF SALES

Cost of sales comprises materials and sub-contractor fees used in the production of the Company's womenswear sold in the period. The production was carried out using the Company's raw materials via an outsourcing agreement with its subsidiary. The following table shows a breakdown of costs of sales for the period under review for each category:

	2009 TEUR
Materials	3
Sub-contractor fees to subsidiary	5
	8

5. OTHER OPERATING, SELLING AND DISTRIBUTION AND ADMINISTRATIVE EXPENSES

The Company's loss before taxation is arrived at after charging:

	2009 TEUR
Operating lease expense	6
Salaries and related cost	23
Others	5
Total other operating, selling and distribution and administrative expenses	34

6. INCOME TAX EXPENSE

	2009 TEUR
Deferred taxation (Note 10)	1

The deferred tax credit was determined as follows:

	2009 TEUR
Loss before taxation	(4)
Deferred tax on losses at tax rate 20%	1

The Company is subject to PRC income tax on profit arising or derived from the tax jurisdiction in which Company operate and domiciled. Business operations set up in the special economic zones by foreign enterprises are subject to a reduced enterprise income tax rate. The deferred tax asset for PRC income tax expected to be saved due to the offset of future taxable income with losses is calculated based on the rate of tax which is expected to apply when future taxable income is offset by losses.

7. PROPERTY, PLANT AND EQUIPMENT

	Buildings TEUR
Cost and Net Book Value	
At 1 January 2009	-
Additions	2,859
Translation adjustment	47
At 31 December 2009	2,906

Buildings held by the Company are located in the PRC. They are recorded at cost less accumulated impairment. Buildings were not depreciated in 2009 as the Company had not yet moved into the buildings. Title to the buildings has not yet passed to the Company, but is expected to pass once certain formalities have been concluded. The Company expects to relocate to the purchased buildings after the inclusion of its shares for trading on the Open Market (Entry Standard) of the Frankfurt Stock Exchange. The additions also include the capitalization of the net present value of a provision for dismantling costs (see note 16).

The aforementioned buildings were acquired from a state owned entity at a beneficial price. This was taken into account in determining their carrying cost. The government assistance rendered was subject to these conditions as follows:

The Company has given an undertaking that within six months of its future ultimate parent company being listed in Germany, production shall commence in the new buildings. Upon commencement of production:

- The Company's annual production level has to achieve more than RMB1,500/m2.
- Capital investment amount has to achieve more than USD200/m2.
- Relevant enterprise income tax to be paid has to achieve more than RMB100/m2.

In the event that the above conditions are not met, the Company has to pay compensation equivalent to 15% of the total purchase price.

In the event that the Company contravenes certain conditions related to continuity of production and type of usage of the buildings, the Seller has the right to unilaterally void the Agreement and demand compensation of 10% of total purchase price. The seller can also purchase the Property back from the Buyer at the Net Book Value. NBV can be calculated at Cost of Purchase X (50 – No of years in use) / 50.

Additionally if the Company defaults on payment of the full purchase price, the Company is obligated to pay compensation to the Seller. However by agreement in June 2010, the compensation penalties mentioned above were waived.

8. INTANGIBLE ASSETS

	Land use rights TEUR
Cost and Net Book Value	
At 1 January 2009	-
Additions	122
Translation adjustment	2
At 31 December 2009	124

Intangible assets relate solely to land use rights acquired for the land located in Hou Xi Zhen, Jimei, Xiamen, Fujian Province, PRC. These expire in December 2055.

The land use rights are recorded at cost less accumulated impairment. Title to the land use rights has not yet passed to the Company, but is expected to pass once certain formalities have been concluded.

Land use rights were not amortized in 2009 as the Company had not yet relocated to the relevant site for which it has acquired the land use rights. The Company expects to relocate to the site in 2010 following the inclusion of its shares for trading on the Open Market (Entry Standard) of the Frankfurt Stock Exchange.

The aforementioned land use rights were acquired from a state owned entity at a beneficial price. This was taken into account in determining their carrying cost. The government assistance rendered is subject to the same conditions as described in note 7.

9. INVESTMENT IN SUBSIDIARY

Name of Company	Country of incorporation/ Principal place of business	Cost of investment 2009 TEUR	Percentage of equity held 2009	Principal activities
Kinghero Xiamen Fashion Co., Ltd	Xiamen, PRC	509	100%	Manufacture, wholesale and retail of garments

The subsidiary was acquired on 8 November 2009. In 2009 its total comprehensive income was EUR 9,963,000 and its equity EUR 20,056,000.

10. DEFERRED TAX ASSETS

	2009 TEUR
Beginning of financial year	-
On losses carried forward (Note 6)	1
End of financial year	1

11. INVENTORIES

	2009 TEUR
Raw materials (cloth)	743
Finished goods	8
Payments on account for inventory	59
	810

The amount of inventories recognized as an expense during the year was EUR 3,000 disclosed under cost of sales.

12. TRADE RECEIVABLES

	2009 TEUR
Trade receivables	2

Trade receivables are non-interest bearing and generally have average credit terms of 90 days.

The aging is as follows:

	2009 TEUR
Within 30 days	2

Trade receivables are denominated in Renminbi.

All trade receivables as well as cash and bank balances in note 14 below are financial assets within the classification loans and receivables. All financial assets classified as loans and receivables are current and non-interest bearing. Management considers the carrying amounts recognized in the statement of financial position to be a reasonable approximation of their fair value due to the short duration. Net gains and losses on loans and receivables amounted to Nil in 2009.

13. RECEIVABLES FROM RELATED PARTIES

	2008 TEUR	2009 TEUR
Called up share capital	840	-

On incorporation in 2004, the called up share capital of the company became due. It was paid in by the shareholders in June 2009.

14. CASH AND BANK BALANCES

	2009 TEUR
Cash at bank	3
Cash on hand	1
	4

The cash at bank bears effective interest rate of 0.36% per annum as at 31 December 2009.

Included in cash and bank balances are currency denominated in Renminbi amounting to EUR4,000 as at 31 December 2009, which are not freely remissible for use by the Company because of currency exchange restrictions.

15. SHARE CAPITAL AND RESERVES

The Company was incorporated in November 2004. Its authorized and registered capital of RMB 8,000,000 (Equivalent of EUR759,000) was called up on incorporation. However, it was only paid up during the financial year ended 31 December 2009. The share capital is held solely by Kinghero Hong Kong Group Holdings Ltd.

Subsequent to the reporting period, the registered and authorized capital of the Company was increased to RMB88,000,000 via a capital contribution of RMB80,000,000 (Equivalent of EUR8,136,000 at 31 December 2009 exchange rates). The registered capital of the Company has been fully paid up. The effective date for the increase in share capital is 2 April 2010.

The share capital is not divided up into individual shares as there is only one shareholder. The shares have voting rights pro rata the proportion of nominal capital owned.

Accumulated losses

The accumulated losses reserve comprises the cumulative net gains and losses recognized in the Company's income statement.

Foreign currency translation reserve

Foreign currency translation reserve represents the foreign currency translation difference arising from the translation of the financial statements from RMB to EUR. As the amount of translation reserve was relatively low, the disclosure of this is an insignificant amount below the minimum round thousand EUR.

16. OTHER PROVISIONS

	2009 TEUR
Dismantling costs	21

Other provisions are considered non current and relate to costs for dismantling buildings and fixtures constructed on land for which the rights of usage have a fixed term. The Company makes full provision for the future cost of dismantling buildings on a discounted basis. The provision for the cost of dismantling the production facilities at the end of the useful live of the land-use-rights pertaining to the land on which they have been built has been estimated using existing technology in PRC, current prices and discounted using a discount rate of 6%. These costs are generally expected to be incurred over the next 45 years. While the provision is based on the best estimate of future costs and the contractually secured useful life of land-use-rights, there is uncertainty regarding both the amount and timing of incurring these costs.

17. OTHER PAYABLES

	2009
	TEUR
Other payables	2,316

Included in other payables are outstanding balances for the purchases of property, plant and equipment amounting to EUR2,315,000 at 31 December 2009, which are financial liabilities, recorded at amortized cost.

All these financial liabilities fall due within one year and due to their short term nature, management considers the carrying amounts at 31 December 2009 to reasonably approximate to their fair values. The amount of net gain/loss on these financial liabilities in the reporting period was EUR Nil.

The carrying amounts of other payables at the statement of financial position dates approximate to their fair value due to the short duration of maturity.

The remaining balance of EUR 1,000 relates to the amount of VAT due as at 31 December 2009 and is not classed as financial liabilities at amortized cost.

18. PAYABLES TO RELATED PARTIES

	2009
	TEUR
Amounts due to directors	526
Amount due to subsidiary	682
	1,208

Amounts due to directors represent advances from Ms. He Xiuming for payments on behalf of the Company and amount due to Mr. Zhang Yu arising from his share transfer in Kinghero (Xiamen) Fashion Co. Ltd., to the Company. The amount due to directors is unsecured, interest-free and repayable on demand.

Amount due to subsidiary is in connection with a payment made on behalf of the Company by the subsidiary for land use rights and property plant and equipment and is non-trade, unsecured, interest-free and expected to be repaid within the next 12 months.

All these financial liabilities fall due within one year and due to their short term nature, management considers the carrying amounts at 31 December 2009 to reasonably approximate to their fair values. The amount of net gain/loss on these financial liabilities in the reporting period was EUR Nil.

19. OPERATING LEASE COMMITMENTS

The Company leases factory and office premises from non-related parties under non-cancellable operating lease agreements. Expense charged in the reporting period under operating lease agreements was EUR 6,000. The leases have varying terms and renewal rights. The major leasing agreement was for business premises and had a commencement date of July 16, 2009 and a termination date of May 10, 2012. A waiver has been obtained for the notice period regarding this lease as the Company intends to move out of its rented premises before the expiration of the leasing contract. The future minimum lease payables under operating leases contracted for at the statement of financial position dates but not recognized as liabilities are as follows:

	2009 **TEUR**
Not later than one year	43
Between one and five years	60
	103

20. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to market risk, concentration risk, credit risk and liquidity risk. The Company's overall risk management strategy seeks to minimize adverse effects from the unpredictability of financial markets on the Company's financial performance.

The board of directors provides guidance for overall risk management as well as policies covering specific areas. Management analyses and formulates measures to manage the Company's exposure to financial risk in accordance with the objectives and underlying principles approved by the board of directors. Generally, the Company employs a conservative strategy regarding its risk management. As the Company's exposures to market risk and financial risk are kept at a minimum level, the Company has not used any derivatives or other financial instruments for hedging purposes. The Company does not hold or issue derivative financial instruments for trading purposes.

(i) Market risk - currency risk

Currency risk arises within entities in the Company when transactions are denominated in foreign currency.

The Company has no significant concentration of currency risk. The Company operates predominantly in the PRC and transacts in Renminbi. Hence the management considers that the Company would not be materially affected by risk concerning transactions involving currency exchange.

(ii) Market risk - interest rate risk

The Company has no significant interest-bearing assets.

The Company monitors the interest rates and ensures favorable rates are obtained from the deposits with financial institutions.

(iii) Concentration risk

Concentration risk arises from the sales to the Company's authorized distributors. In view of the nature of the industry and the Company's sales strategy which is the selling of their products to consumers through the authorized distributors, the management does not consider the risk to be significant. The Company's policy is to monitor the business development of the authorized distributors and to continuously source for suitable distributors who are able to promote the brand and expand the existing distribution network. The company currently only has one distributor, as it is in the initial phase of its operation. Management expects that the Company will gain more distributors and so expect that the concentration risk will reduce.

(iv) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty fails to meet its contractual obligations. Credit risk of the Company arises primarily from the Company's trade receivables.
The Company's exposure to credit risks is restricted by credit limits that are subject to approval. The Company typically allows the existing distributor credit terms of up to 3 months. In deciding whether credit shall be extended, the Company will take into consideration factors such as the relationship with the distributor, its payment history and credit worthiness. In relation to new
distributors, the sales and marketing department will prepare credit proposals for approval.

The Company performs on-going credit evaluation of its distributors' financial position. At the date of financial position, company has only one distributor.

As the Company does not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the statement of financial position.

The Company's major classes of financial assets are bank deposits, trade and other receivables.

There is no impairment loss recognized in the income statements as no receivables are past due date.

(v) Liquidity risk

The Company is in the initial phase of its operations and dependent on its shareholder for financing. The capital increase effective in 2010 is expected to strengthen the liquidity of the Company.

21. RELATED PARTY DISCLOSURES

An entity or individual is considered a related party of the Company for the purposes of the financial statements if: (i) it possesses the ability, directly or indirectly, to control or exercise significant influence over the operating and financial decision of the Company or vice versa; or (ii) it is subject to common control or common significant influence.

Related party information

a) Entities or individuals with significant influence over the Company or under common control or which the Company itself controls.

- Mr. Zhang Yu; controlling shareholder of Kinghero AG and Kinghero Group Holding Co. Ltd.
- Kinghero Group Holding Co., Ltd., sole shareholder of Xiamen Michelle Fashion Co. Ltd. and a company incorporated and jointly owned by Zhang Yu; place of registration: Hong Kong, PRC;
- Kinghero Fashion (Xiamen) Co., Ltd., a company incorporated and existing in PRC and solely owned by Michelle;
- Kinghero AG, a company controlled by Zhang Yu; place of registration: Munich, Germany, the future ultimate parent company

b) Key management /directors of the Company and close family members

- Mr. Zhang, Yu, business man
- Ms. He Xiuming; business woman
- Mr. Zhang Zhaosong; business man
- Ms. Zhang Weimin; close family member

Transactions and amounts due from/to related parties

In addition to the balances disclosed elsewhere in the Financial Statements, the Company had the following transactions with related parties at agreed terms:

	2008 TEUR	2009 TEUR
Shareholders		
Called up share capital	840	-
Subsidiary		
Payment on behalf by subsidiary - Deposit on buildings	-	693
Payment on behalf of subsidiary - Rental and utilities	-	16
Subcontractor fees charged by subsidiary	-	5
Staff cost recovered from subsidiary	-	17

On September 30, 2009 the Company entered into a human resources co-operation agreement with its subsidiary. According to this agreement the Company allowed its subsidiary to use 56 of its employees for production work. According to this agreement the subsidiary refunded the compensation for these employees to the Company (staff cost recovered from subsidiary). However, as foreseen in the agreement, the Company continued to pay for the Social Security contributions pertaining to the employees loaned back to its subsidiary.

c) **Key management/Directors of the Company:**

Mr. Zhang Yu, business man

Mr. Zhang Zhaosong, business man

Ms. He Xiuming, business woman

The key management/directors received no remuneration in 2009.

The amounts due to the subsidiary and to directors are disclosed under note 18.

In addition Mr. Zhang Yu sold his shares in Kinghero (Xiamen) Fashion Co. Ltd. to the Company for the nominal value of the shares.

22. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to support the Company's stability and growth so as to maximize shareholders' returns and stakeholders' benefits.

Having had no business activities before 2009, the Company is still developing its capital structure. A capital structure which does not make use of debt financing and seeks to establish a equity ratio of 50% or above is considered to be advisable and achievable by the Company's management, providing the Company with a stable basis for achieving its business objectives. A cash capital increase initiated in 2009, which took effect only in 2010, increased capital reserves of the company by RMB 80,000,000 (EUR8.1 million at 31 December 2009 exchange rates) in 2010 and this is expected to help fund planned future business expansion as well as establish the desired capital structure. The Company actively and regularly reviews its capital structure by taking into consideration the future capital requirements of the Company, capital efficiency, prevailing and projected profitability, projected operating cash flows, projected expenditures and projected strategic investment opportunities. As part of managing the capital structure, the Company may adjust the amount of dividend payment, obtain new borrowings or sell assets to reduce borrowings.

23. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of the financial assets and financial liabilities with a maturity of less than one year are assumed to approximate their fair values.

The Company does not anticipate that the carrying amounts recorded at statement of financial position date would be significantly different from the values that would eventually be received or settled.

24. SEGMENTAL REPORTING

As the Company only sells women's wear under the Michelle brand, management currently considers the Company women's wear business to be its sole operating segment. This operating segment is monitored and strategic decisions are made on the basis of the segmental gross margin.

	Womens wear **TEUR**
Revenue	21
Cost of sales	(8)
Gross profit	13
Segment assets	4,356

The Company's revenues from external distributors are within the PRC, hence a further geographical analysis is not meaningful. During 2009, the Company's revenues depended on a single distributor.

The totals presented for the Company's operating segments can be derived directly from the Company's key financial figures for sales, cost of sales and total assets as presented in the financial statements without reconciliation.

25. EMPLOYEE BENEFITS

	2009
Average number of employees of the Company	58
Management and administration	7
Sales	3
Production	48
	58

The aggregate payroll costs of these employees were as follows:

	2009
Wages and salaries	23
Recharge of staff costs to a subsidiary	(17)
	6

Retirement Benefit Plans

The eligible employees of the Company, who are citizens of the PRC, are members of a state-managed retirement benefit scheme operated by the local government. The Company is required to contribute a certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Company with respect to the retirement benefit scheme is to make the specified contributions. The amount of the retirement benefit scheme contributions amounted to EUR Nil for the Company's initial period of operations in 2009.

Payroll costs amounting to EUR 17,000 were recharged to a subsidiary under a Human Resources Co-operation Agreement dated 30 September 2009 ("Agreement"), whereby Michelle arranged 56 employees to work for Kinghero.

26. COMMITMENTS AND CONTINGENCIES

26.1. Commitments

As at 31 December 2009, the Company did not have any material commitments.

26.2. Contingent liabilities

Social insurance back payments

According to PRC law, in particular, Chinese regulations for social insurance and housing funds, the Company is required to make contributions for the social insurance and for the housing funds to its employees. The Company has in the past not paid the full amount which should have been paid in respect of these contributions, but considers the risk for additional payments for prior periods to be not probable. As at reporting date, the Company believes that such a claim for additional payments would not exceed TEUR 4. As at 2 April 2010, Mr. Zhang Yu has undertaken an agreement with the Company according to which he would reimburse the Company for any losses incurred for such additional social insurance and housing funds payments.

Trademark claims

The Company uses the trademark Michelle ”米雪儿” (Pinyin: “Mi Xue Er”). There are currently two other unrelated companies which both own a trademark named ”米雪儿” (Pinyin: “Mi Xue Er”) whose wording and pronunciation is similar to the trademark for which the Company’s subsidiary Kinghero Xiamen has applied for registration. Although the above two similar trademarks are word trademarks only and not a combined word / logo mark as applied for by the Company’s subsidiary, it cannot be excluded that any third party will initiate legal actions to revoke the application for trademark registration or such third party raises a claim for tort against the trademark "金米雪儿" or claims because of unfair competition against the company name of Michelle (Chinese Character: 米雪儿). These claims could result in future liabilities of the Company, its subsidiary or its parent company. Management has not been able to estimate the potential amount of any claim.

27. SUBSEQUENT EVENTS

Other than the events disclosed in Note 7 (subsequent waiver of compensation penalties), Note 15 (subsequent capital increase) and Note 26.2 (undertaking by Mr. Zhang Yu) and the fact that the Company became part of the KINGHERO AG Group, no other item, transaction or event of a material or unusual nature has arisen in the interval between 31 December 2009 and the date of the report from the independent auditor.

4.6 Audit Opinion

To KINGHERO AG, Munich

We have audited the financial statements converted from RMB (Chinese currency) to Euro comprising the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the cashflow statement and the notes to the financial statements B for the financial year ended December 31, 2009 of Xiamen Michelle Fashion Co., Ltd., Xiamen, People=s Republic of China. The preparation of the financial statements in accordance with the International Financial Reporting Standards (IFRS), as endorsed for application in the EU and as set forth in the notes to the financial statements, is primarily the responsibility of the management of the Company and, in view of the intended listing, also the responsibility of the board of management of KINGHERO AG, Munich. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit of the annual financial statements in accordance with § [Article] 317 HGB [`Handelsgesetzbuch@: `German Commercial Code@] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with IFRS, as endorsed for application in the EU, are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit, the financial statements comply, as set forth in the notes to the financial statements, with IFRS, as endorsed for application in the EU, and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with these requirements.

Hamburg, June 18, 2010

Grant Thornton GmbH
Wirtschaftsprüfungsgesellschaft
(German certified audit firm)

Graf von Kanitz
Wirtschaftsprüfer
(German certified auditor)

Robinson
Wirtschaftsprüfer
(German certified auditor)

5. CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2010 OF XIAMEN MICHELLE FASHION CO., LTD.

5.1 Condensed Interim Statement of Comprehensive Income

	Three months ended 31 March 2010	Three months ended 31 March 2009
	TEUR	TEUR
Revenue	**23**	-
Cost of sales	**(7)**	-
Gross profit	**16**	-
Other income	**15**	-
Other operating expenses	**(14)**	
Selling and distribution expenses	**(3)**	-
Administrative expenses	**(11)**	-
Profit before taxation	**3**	-
Income tax expense	**(1)**	-
Net profit	**2**	-
Other Comprehensive Income: Currency translation differences arising from consolidation	**59**	-
Total Comprehensive Income	**61**	-
Profit attributable to: owners of the parent	**2**	-
Total Comprehensive income attributable to: owners to the parent:	**61**	-

Xiamen Michelle Fashion Co. Ltd., Xiamen, PRC (hereafter "Company") was incorporated in October 2004 and commenced trading only in July 2009 with a sole distributor. The company relies currently on the production facilities of its subsidiary Kinghero Fashion (Xiamen Co. Ltd.) in order to produce womenswear for sale to this distributor and operates from rented business premises. As no trading took place before July 2009, and the movement in the foreign currency translation reserve was insignificant, comparative statement of comprehensive income figures for the first thee months ended 31 March 2009 are nil. The Company is in the initial phases of its operations and the figures presented above are consequentially of very limited use in indicating its future earnings.

The comparability is affected by movements in the relative value of the functional currency (RMB) compared to the presentational currency (EUR).

5.2 Condensed Interim Statement of Financial Position

	31 March 2010 TEUR	31 December 2009 TEUR
Assets		
Non-current		
Property, plant and equipment	**3,117**	2,906
Intangible assets	**133**	124
Investment in subsidiary	**545**	509
Deferred tax assets	**1**	1
	3,796	3,540
Current		
Inventories	**867**	810
Trade receivables	**6**	2
Cash and bank balances	**8,733**	4
	9,606	816
Total assets	**13,402**	4,356
Equity and Liabilities		
Capital and Reserves		
Share capital	**9,487**	759
Foreign currency translation reserve	**114**	55
Retained earnings/ (Accumulated losses)	**-(1)**	(3)
	9,600	811
Non-current liabilities		
Other provisions	**22**	21
Current liabilities		
Other payables	**2,494**	2,316
Payables to related parties	**1,286**	1,208
Total current liabilities	**3,780**	3,524
Total equity and liabilities	**13,402**	4,356

The comparability is affected by movements in the relative value of the functional currency (RMB) compared to the presentational currency (EUR).

5.3 Condensed Interim Statement of Changes in Equity

	Share capital TEUR	Translation reserve TEUR	Retained earnings TEUR	Total Equity TEUR
Balance at 1 January 2009	759	81	-	840
Total comprehensive income	-	-*	-	-*
Balance at 31 March 2009	**759**	**81**	**-**	**840**
Total comprehensive income	-	(26)	(3)	(29)
Balance at 31 December 2009	**759**	**55**	**(3)**	**811**
Capital increase	8,728	-	-	8,728
Total comprehensive income	-	59	2	61
Balance at 31 March 2010	**9,487**	**114**	**-1**	**9,600**

The comparability is affected by movements in the relative value of the functional currency (RMB) compared to the presentational currency (EUR).

5.4 Condensed Interim Statement of Cash Flows

	Three months ended 31 March 2010	Three months ended 31 March 2009
	TEUR	**TEUR**
Cash flows from operating activities		
Profit before taxation and working capital changes	**3**	-
Decrease in inventories	**2**	-
Increase in trade receivables	**(4)**	
Increase in payables	**7**	-
Net cash generated from operating activities	**8**	-
Cash flows from financing activities		
Decrease in payables to related parties	**(7)**	-
Proceeds from shares issued	**8,728**	-
Net cash generated from financing activities	**8,721**	-
Net increase in cash and bank balances	**8,729**	-
Cash and bank balances at beginning of the period	**4**	-
Cash and bank balances at end of the period	**8,733**	-

The comparability is affected by movements in the relative value of the functional currency (RMB) compared to the presentational currency (EUR).

5.5 Selected notes to the condensed interim financial statements of the Xiamen Michelle Fashion Co., Ltd.

1. NATURE OF OPERATIONS

The principal activity of the Company is wholesale of women wear. The principal place of business of the Company is located at Sunban South Road 88th, North District of Jimei, Xiamen, Fujian Province, the People's Republic of China (the "PRC").

The Company sells its products via a sole distributor located in the PRC. The company is in its initial stage of operations and intends to expand its sales network.

The Company was incorporated in October 2004 but commenced trading only in July 2009. Hence there is no material historical financial data available for the Company prior to 2009. For this reason comparatives for the period from 1 January 2009 to 31 March 2009 are not disclosed.

The immediate holding company is Kinghero Group Holdings Limited, which is incorporated in Hong Kong. The ultimate parent company is Kinghero AG, which is incorporated in Munich, Germany. The Company became part of the Kinghero AG group on March 31, 2010, the effective date of the transfer of the shares in Kinghero Group Holdings Limited into Kinghero AG.

2. GENERAL INFORMATION AND STATEMENT OF COMPLIANCE WITH IFRS

These condensed interim financial statements of the Company are prepared for the three months period ended 31 March 2010 with comparatives. They have been prepared for the purpose of inclusion in the listing prospectus of the Company's ultimate parent, Kinghero AG.

The condensed interim financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) and its interpretations of the International Financial Reporting Interpretations Committee (IFRIC) for interim financial information effective within the European Union. Accordingly, these condensed interim financial statements do not include all of the information required in annual financial statements by IFRS.

The condensed interim financial statements have been reviewed. In the opinion of the Company's Board of Management, the condensed interim financial statements include all adjustments of a normal and recurring nature considered necessary for a fair presentation of results for interim periods. Results of the period ended 31 March 2010 are not necessarily indicative for future results. These interim financial statements have been prepared in conformity with IAS 34 "Interim Financial Reporting". This requires the Board of Management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The accounting principles and practices as applied in the condensed interim financial statements correspond to those pertaining to the most recent annual financial statements. A detailed description of the accounting policies is published in the notes to the financial statements of the Company's financial statements as of December 31, 2009.

The condensed interim financial statements of the Company have been rounded to the nearest thousand Euro. Amounts are stated in thousands of Euros (kEUR) except where otherwise indicated.

The condensed interim financial statements of the Company for the period from January 1 to March 31, 2010 are expected to be authorized for issue in accordance with a resolution of the Board of Management in September 2010. Until authorization they can be amended..

3. SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ESTIMATES

These condensed interim financial statements have been prepared using accounting policies specified by those IFRSs that are in effect at the end of the reporting period (31 March 2010). The accounting policies have been applied consistently throughout the Group for the purpose of preparation of these condensed interim financial statements, except for the adoption of

- Amendments to IAS 32 (effective 1 February 2010) – Financial instruments: Presentation
- Amendments to IFRS 1 (effective 1 January 2010, not yet adopted by the European Union) - Additional Exemptions for First-time Adopters

The adoption of the amendments does not have any material effect on the Company's financial statements.

The following new or revised standards, interpretations and amendments to published standards were approved, but will not be applicable for the Company for the first quarter in 2010 and were not adopted early in these condensed interim financial statements:

- IFRS 9 (effective from 1 January 2013, not yet adopted by the European Union) – Financial instruments
- Revised IAS 24 (effective from 1 January 2011, not yet adopted by the European Union) – Related party transactions
- Amendments to IFRIC 14 (effective 1 January 2011, not yet adopted by the European Union) – Prepayments of a minimum funding requirement
- IFRIC 19 (effective 1 July 2010, not yet adopted by the European Union) – Extinguishing financial liabilities with equity instruments
- Amendment to IFRS 1 (effective 1 July 2010, not yet adopted by the European Union) - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
- Annual Improvements 2010 (effective 1 January 2011, not yet adopted by the European Union)

Management does not expect the standards to have a material effect on the Company's financial statements.

There have been no changes in estimates compared to the financial statements of the Company for the year ended 31 December 2009.

4. CURRENCY TRANSLATION

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

The Company conducts its business predominately in the PRC and hence its functional currency is the Renminbi (RMB).

The presentation currency of the Company is EUR, being the presentation currency of its future ultimate German domiciled legal parent and holding company, and therefore the financial information has been translated from RMB to EUR at the following rates:

	Period end rates	Average rates
31 March 2010	EUR 1.00 = RMB 9.1659	EUR 1.00 = RMB 9.4393
31 December 2009	EUR 1.00 = RMB 9.8328	EUR 1.00 = RMB 9.9305
31 March 2009	EUR 1.00 = RMB 9.0171	EUR 1.00 = RMB 8.9174

5. SIGNIFICANT EVENTS AND TRANSACTIONS

The registered and authorized capital of the Company was increased to RMB 88,000,000 via a capital contribution of RMB 80,000,000 (Equivalent of EUR8,728,000 at 31 March 2010 exchange rates). The registered capital of the Company has been fully paid up. The effective date for the increase in share capital is 2 April 2010.

Effective 31 March 2010 the entire share capital of Kinghero Group Holdings Limited was transferred to Kinghero AG in preparation for the listing of Kinghero AG. Hence the Company became part of the Kinghero AG group on 31 March 2010.

6. SEGMENT REPORTING

As the Company only sells womenswear, management currently considers the Company's womenswear business to be its sole operating segment. This operating segment is monitored and strategic decisions are made on the basis of the segmental gross margin.

The accounting policies the Group uses for segment reporting under IFRS 8 are the same as those used in its financial statements for the year ended 31 December 2009.

The segment information provided to the management for the reportable segments for the financial period from 1 January 2010 to 31 March 2010 is as follows:

	Womens-wear TEUR
Revenue	23
Cost of sales	(7)
Gross profit	16
Segment assets	13,402

During the first three months of 2010, the Company's revenues depended on a single distributor. The Company's revenues from its sole external distributor are within the PRC, hence a further geographical analysis is not meaningful. The Company had no business transactions in the first three months of 2009, hence no segmental reporting is produced for that period.

The totals presented for the Company's operating segments can be derived directly from the Company's key financial figures for sales, cost of sales and total assets as presented in the financial statements without reconciliation.

7. ANALYSIS OF SELECTED ITEMS OF THE CONDENSED INTERIM FINANCIAL STATEMENTS

Xiamen Michelle Fashion Co. Ltd., Xiamen, PRC (hereafter "Company") was incorporated in October 2004 and commenced trading only in July 2009 with one sole distributor. The company relies currently on the production facilities of its subsidiary Kinghero Fashion (Xiamen Co. Ltd.) in order to produce womenswear for sale to its sole distributor and operates from rented business premises. As no trading took place before July 2009, statement of comprehensive income comparatives for the first three months of 2009 are consequentially nil. Due to the initial stage of operations, items of revenue and expense for the first three months of 2010 can only be of limited use in estimating future earnings.

The increase in registered capital during the period is disclosed in Note 5 above.

8. COMMITMENTS AND CONTINGENCIES

Between the financial statements of the Company for the year ended 31 December 2009 and the accounting period of the interim financial statements as at 31 March 2010, no material changes in commitments and contingencies have occurred.

9. RELATED PARTY DISCLOSURES – SIGNIFICANT RELATED PARTY TRANSACTIONS

An entity or individual is considered a related party of the Company for the purposes of the financial statements if: (i) it possesses the ability, directly or indirectly, to control or exercise significant influence over the operating and financial decision of the Company or vice versa; or (ii) it is subject to common control or common significant influence.

Related party information
a) Entities or individuals with significant influence over the Company or under common control or which the Company itself controls.

- Mr. Zhang Yu; controlling shareholder of Kinghero AG and Kinghero Group Holding Co. Ltd.
- Kinghero Group Holdings Ltd., sole shareholder of Xiamen Michelle Fashion Co. Ltd. and a company incorporated and jointly owned by Zhang Yu; place of registration: Hong Kong, PRC;
- Kinghero Fashion (Xiamen) Co. Ltd., sole subsidiary of the Company;
- Kinghero AG, a company controlled by Zhang Yu; place of registration: Munich, Germany, the ultimate parent company

	Three months ended 31 March 2010 TEUR	Three months ended 31 March 2009 TEUR
Subsidiary		
Payment on behalf of subsidiary - Rental and utilities	10	-
Subcontractor fees charged by subsidiary	4	-
Staff cost recovered from subsidiary	14	-

In addition the Company had payables to its subsidiary of TEUR 711 (December 31, 2009 TEUR 682) and to key management of TEUR 575 (December 31, 2009 TEUR 526).

On September 30, 2009 the Company entered into a human resources co-operation agreement with its subsidiary. According to this agreement the Company allows its subsidiary to use 56 of its employees for production work. According to this agreement the subsidiary refunds the compensation for these employees to the Company (staff cost recovered from subsidiary). However, as foreseen in the agreement, the Company continues to pay for the Social Security contributions pertaining to the employees loaned back to its subsidiary.

In September 2009 the Company's subsidiary made a payment of TEUR 693 on behalf of the Company relating to a purchase of real estate for the Company. The Company has refunded this amount to its subsidiary on 9 April 2010.

b) Key management/directors of the Company and close family members

- Mr. Zhang, Yu, business man
- Ms. He Xiuming; business woman
- Mr. Zhang Zhaosong; business man
- Ms. Zhang Weimin; close family member

No remuneration was paid to the key management/directors for the first three months of 2010.

10. EVENTS AFTER THE REPORTING DATE

Except for the matters referred to in Note 5, no other adjusting or significant non-adjusting events have occurred between the reporting date and the date of authorisation.

5.6 Review Report

To Kinghero AG, Munich

We have reviewed the condensed interim financial statements – comprising the condensed statement of comprehensive income, the condensed statement of financial position, the condensed statement of changes in equity, the condensed statement of cash flows and selected explanatory notes – of Xiamen Michelle Fashion Co., Ltd for the period from 1 January 2010 to 31 March 2010. The preparation of the condensed interim financial statements in accordance with those IFRS applicable to interim financial reporting as adopted by the EU is the responsibility of the Company's management. Our responsibility is to issue a report on the condensed interim financial statements based on our review.

We conducted our review of the condensed interim financial statements in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review such that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim financial statements have not been prepared, in material aspects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the level of assurance attainable by means of an audit of the financial statements. Since, in accordance with our engagement, we have not performed an audit of the financial statements, we cannot issue an audit opinion.

Based on our review, no matters have come to our attention that cause us to believe that the condensed interim financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial statements as adopted by the EU.

Hamburg, 18 June 2010

Grant Thornton GmbH
Wirtschaftsprüfungsgesellschaft

Friedrich Graf von Kanitz
Wirtschaftsprüfer

Timothy Robinson
Wirtschaftsprüfer

6. KINGHERO AG FINANCIAL STATEMENTS FOR THE SHORT FINANCIAL YEAR FROM 16 APRIL TO 31 DECEMBER 2009

6.1 Balance Sheet as at 31 December 2009

Assets	31.12.2009 EUR	16.04.2009 EUR
Current Assets		
I. Receivables and other assets		
Other assets	80,000.00	0.00
II. Cash and bank balances	37,867.66	50,000.00
	117,867.66	50,000.00
	117,867.66	50,000.00

Equity and liabilities			31.12.2009 EUR	16.04.2009 EUR
A. Equity				
I. Share capital			50,000.00	50,000.00
II. Capital reserve			30,000.00	0.00
III. Loss carried forward			-63,805.34	0.00
			16,194.66	50,000.00
B. Accruals				
Other accruals			61,402.00	0.00
C. Liabilities				
1. Accounts payable			271.00	0.00
- thereof due within one year	EUR	271.00		
2. Other liabilities			40,000.00	0.00
- thereof due within one year	EUR	40,000.00		
			117,867.66	50,000.00

6.2 Income Statement for the short financial year from 16 April to 31 December 2009

	16.4.-31.12.2009 EUR
1. Other operating expenses	**-63,805,34**
2. Operating results	**-63,805,34**
3. Loss for the period	**-63,805,34**
4. Reserves brought forward	**0.00**
5. Loss carried forward	**-63,805,34**

6.3 Notes to the financial statement for the short financial year from 16 April to 31 December 2009

1. GENERAL

The company was incorporated on 16 April 2009. The short financial year began on 16 April 2009 and ends on 31 December 2009. As this is the first financial year of the company, the income statement has no comparatives. The opening balance sheet of 16 April 2009 is used as the comparison for the year end balance sheet.

The company is classified as a small entity in accordance with section 267 paragraph 1 of the German Commercial Code (HGB) as at December 31, 2009. The company has partially taken advantage of exemptions accorded by sections 274a, 288 HGB.

The format and disclosure of balance sheet items are in accordance with the regulations for capital entities (section 266 HGB).

The income statement is prepared in accordance with the total cost method pursuant section 275 paragraph 2 HGB.

2. ACCOUNTING AND VALUATION METHODS

In valuing the assets and liabilities of the company, it has been assumed that the company is a going concern. Assets and liabilities are valued individually.

Other assets are disclosed at nominal value.

Bank balances are disclosed at nominal value.

The **share capital** equates to the share capital of the company as stated in its Articles and as registered in the trade registry and is fully paid up.

Other accruals are stated at the amount necessary according to reasonable commercial assessment in order to cover all imminent losses and uncertain liabilities.

Liabilities are stated at repayment value.

3. NOTES TO THE BALANCE SHEET

The **share capital** amounts to EUR 50.000,00 and is divided into 50.000 non-par value bearer shares.

To strengthen equity and finance initial costs the shareholder contributed EUR 30.000,00 into the capital reserve.

4. OTHER NOTES

Directors and members of the supervisory board are as follows:

Directors:

from 16 April until 13 August 2009:

Mrs. Steffi Brettschneider, attorney, Bad Honnef

from 13 August 2009:

Mr. Yu Zhang, business man, Xiamen City, Peoples Republic of China
(Chairman)
Mr. Oliver Kuan, business man, Shanghai, Peoples Republic of China
(Vice Chairman)
Mrs. Xiuming He, business woman, Xiamen City, Peoples Republic of China

Supervisory Board:

from 16 April until 13 August 2009:

Mrs. Marion Geldmeier, attorney, Bonn;
(Chairman)
Mr. Rolf Völker, attorney, Bonn;
(Vice Chairman)
Mr. Andreas Koglin, attorney, Bonn;

from 14 August 2009:

Mr. Marcus Wenzel, business man, Bonn;

(Chairman)

Dr. Christoph Dylla, attorney, Gudow;

(Vice Chairman)

Mr. Tao Ling, attorney, Xiamen City, Peoples Republic of China, (until 10 February 2010)

Mr. Chen Xiaofeng, attorney, Xiamen City, Peoples Republic of China, (from 10 February 2010)

Concluding statement from report on transactions with controlling entity and related parties

The directors of KINGHERO AG have provided the supervisory board with a report on transactions with controlling entity and related parties in accordance with section 312 paragraph 1 of the German Stock Corporation Act, which concludes with the following statement:

"Our company received adequate consideration for each transaction reported on. No measures were taken or were not taken by or in the interest of the controlling entity to the disadvantage of the company."

Loss carried forward

The directors propose to carry forward the loss of the short financial period.

Munich, 19 February 2010

KINGHERO AG, Munich

- Directors -

Yu Zhang	Oliver Kuan	Xiuming He

6.4 Audit Opinion

To KINGHERO AG, Munich

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system of the KINGHERO AG, Munich, for the short financial year from April 16 to December 31, 2009. The maintenance of the books and records and the preparation of the annual financial statements in accordance with German commercial law and supplementary provisions of the articles of incorporation are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB (Handelsgesetzbuch - German Commercial Code) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and supplementary provisions of the articles of incorporation and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting.

Hamburg, February 24, 2010

Grant Thornton GmbH
Wirtschaftsprüfungsgesellschaft
(German certified audit firm)

Graf von Kanitz Wirtschaftsprüfer (German certified auditor)	Robinson Wirtschaftsprüfer (German certified auditor)

6.5 Statement of Changes in Equity for the short financial year from 16 April to 31 December 2009

	Share capital	Capital reserve	Result	Equity
	EUR	EUR	EUR	EUR
As at 16.04.2009	50,000.00			**50,000.00**
Payment into capital reserve		30,000.00		**30,000.00**
Loss for the period			-63,805.34	**-63,805.34**
As at 31.12.2009	**50,000.00**	**30,000.00**	**-63,805.34**	**16,194.66**

6.6 Statement of Cash Flows for the short financial year from 16 April to 31 December 2009

	16.04.2009- 31.12.2009 KEUR
Result for the period	-64
Increase in accruals	62
Increase in other assets	-80
Increase in accounts payable and other liabilities	40
Cash flow from operating activities	**-42**
Cash flow from investing activities	**0**
Payments from the shareholder	30
Cash flow from financing activities	**30**
Movement in net funds	-12
Net funds at the beginning of the period	50
Net funds at the end of the financial year	**38**
Composition of net funds at the end of the period	
Cash and bank balances	**38**

6.7 Auditor's Report on Statement of Changes in Equity and Statement of Cash Flows

To KINGHERO AG, Munich

We have audited the statement of changes in equity and the statement of cash flows for the short financial year from 16 April to 31 December 2009 derived by the company from the financial statements for the short financial year from 16 April to 31 December 2009 and the underlying accounting records. The statement of changes in equity and the statement of cash flows are supplementary to the financial statements of the company for the short financial year from 16 April to 31 December 2009, which have been prepared in accordance with the German Commercial Code ("*Handelsgesetzbuch*").

The preparation of the statement of changes in equity and the statement of cash flows for the short financial year from 16 April to 31 December 2009 in accordance with the German Commercial Code is the responsibility of the Company's management.

Our responsibility is to issue an opinion on the basis of the audit performed by us as to whether the statement of changes in equity and the statement of cash flows for the short financial year from 16 April to 31 December 2009 have been properly derived from the financial statements for the short financial year from 16 April to 31 December 2009 and the underlying accounting records, in accordance with the German Commercial Code. The audit of the underlying financial statements and accounting records does not form part of our engagement.

We planned and performed our audit under consideration of the IDW Audit Guideline: The audit of additional components of financial statements (IDW PH 9.960.2) such that material errors in the derivation of the statement of changes in equity and the statement of cash flows from the financial statements and the underlying accounting records are detected with adequate certainty.
In our opinion, on the basis of the knowledge gained in the performance of our audit, the statement of changes in equity and the statement of cash flows for the short financial year from 16 April to 31 December 2009 have been properly derived from the financial statements for the short financial year from 16 April to 31 December 2009 and the underlying accounting records in accordance with the requirements of the German Commercial Code.

Hamburg, 18 June 2010

Grant Thornton GmbH
Wirtschaftsprüfungsgesellschaft

Friedrich Graf von Kanitz Wirtschaftsprüfer	Timothy Robinson Wirtschaftsprüfer

7. KINGHERO AG INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2010

7.1 Balance Sheet as of 31 March 2010

Assets	31.03.2010 EUR	31.12.2009 EUR
A. **Fixed Assets**		
Financial assets		
Shares in subsidiary	29.000.000,00	0,00
B. **Current Assets**		
I. Receivables and other assets		
Other assets	95.500,00	80.000,00
II. Cash and bank balances	24.754,73	37.867,66
C. **Prepaid expenses**	595,00	0,00
	29.120.849,73	117.867,66

Equity and liabilities			31.03.2010 EUR	31.12.2009 EUR
A. **Equity**				
I. Share capital			5.050.000,00	50.000,00
II. Capital reserve			24.030.000,00	30.000,00
III. Accumulated deficit loss brought forward			-63.805,34	0,00
IV. Loss for the period			-144.774,02	-63.805,34
			28.871.420,64	16.194,66
B. **Accruals**				
Other accruals			80.212,00	61.402,00
C. **Liabilities**				
1. Accounts payable			44.217,09	271,00
- thereof due within one year	EUR	44.217,09		
(31.12.2009:	EUR	271,00)		
2. Other liabilities			125.000,00	40.000,00
- thereof due within one year	EUR	125.000,00		
(31.12.2009	EUR	40000,00)		
			29.120.849,73	117.867,66

7.2 Income Statement for the three months period ended 31 March 2010

		01.01.-31.03.2010 EUR	16.04.-31.12.2009 EUR
1.	Other operating expenses	144,774.02	63,805.34
2.	Operating result	-144,774.02	-63,805.34
3.	Loss for the period	-144,774.02	-63,805.34

7.3 Notes to the interim financial statements for the three months period ended 31 March 2010

1. GENERAL

The company is classified as a small entity in accordance with section 267 paragraph 1 of the German Commercial Code (HGB) as at December 31, 2009. The company has partially taken advantage of exemptions accorded by sections 274a, 288 HGB.

The format and disclosure of balance sheet items are in accordance with the regulations for capital entities (section 266 HGB)

The income statement is prepared in accordance with the total cost method pursuant section 275 paragraph 2 HGB.

These interim financial statements have been prepared solely for the purpose of inclusion in the prospectus for public offering of shares in the company, which is intended to be made in July 2010.

2. ACCOUNTING AND VALUATION METHODS

In valuing the assets and liabilities of the company, it has been assumed that the company is a going concern. Assets and liabilities are valued individually

Financial assets are stated at acquisition costs and, if permanently impaired in value, at the lower carrying value.

Other assets are disclosed at nominal value.

Bank balances are disclosed at nominal value.

The **share capital** equates to the share capital of the capital of the company as stated in its Articles and as registered in the trade registry and is fully paid up.

Other accruals are stated at the amount necessary according to reasonable commercial assessment in order to cover all imminent losses and uncertain liabilities.

Liabilities are stated at repayment value.

3. NOTES TO THE BALANCE SHEET

Equity

The **share capital** amounts to EUR 5,050,000.00 and is divided into 5,050,000 non-par value bearer shares.

Share capital developed as follows during the interim period.

In March 2010 the company issues 5,000,000 new non-par value bearer shares in exchange for the contribution of all shares in Kinghero Group Holdings Limited, Hong Kong. The increase in capital was entered in the trade registry on March 12, 2010 and hence became effective on that date. The transfer of shares in Kinghero Group Holdings Limited, Hong Kong was legally effective on March 31, 2010.

As the value of the shares transferred was determined by an independent valuation report to be EUR 29,000,000.00, the difference of EUR 24,000,000.00 to the nominal amount of share capital issued has been recorded under capital reserves. These developed as follows:

Capital reserves at 31.12.2009	EUR 30,000.00
Increase due to value of contribution	EUR 24,000,000.00
Capital reserves at 31.03.10	EUR 24,030,000.00

In June 2010 a further capital increase for cash consideration was made in the amount of EUR 200,000.00.

Following appropriate resolution of extraordinary general meeting of March 9, 2010 and pursuant to section 5 of the Articles of Association, the directors - with the consent of the supervisory board - are authorised to increase the capital of the company by up to EUR 2,525,000.00 by way of issuance of up to 2,525,000 new bearer shares in exchange for contributions in cash or in kind (authorised capital) in the period until March 8, 2015. The directors are authorised to exclude the pre-emptive rights of shareholders with permission of the supervisory board in certain cases.

The authorised capital as at March 31, 2010 amounts to EUR 2,525,000.00.

In 2010 capital increases were not resolved from this authorised capital.

4. OTHER NOTES

Shares in subsidiary:

KINGHERO AG holds a 100 % interest in Kinghero Group Holdings Limited, Hong Kong. This investment is reflected in the consolidated financial statements.
Kinghero Group Holdings Limited's equity amounts to TEUR 19.272 as of December 31, 2009. The income for the year 2009 is TEUR 9.381.

Directors and members of the supervisory board are as follows:

Directors:

Mr. Zhang Yu, business man, Xiamen City, Peoples Republic of China
(Chairman)
Mr. Oliver Kuan, business man, Shanghai, Peoples Republic of China
(Vice Chairman) (until May 31, 2010)
Mrs. Xiuming He, business women, Xiamen City, Peoples Republic of China
Mrs. Zhao-Moll Xiaoping, investment banker, Munich, Germany (since May 31,2010)

Supervisory Board:

- Mr. Marcus Wenzel, business man, Bonn;
(Chairman)
- Dr. Christoph Dylla, attorney, Gudow;
(Vice Chairman)
- Mr. Tao Ling, attorney Xiamen City, Peoples Republic of China, (until February 10, 2010)
- Mr. Chen Xiaofeng, attorney, Xiamen City, Peoples Republic China, (from February 10, 2010)

Loss carried forward

The directors propose to carry forward the loss of the interim financial period.

Munich, June 18, 2010

KINGHERO AG, Munich

- Directors -

Zhang Yu	He Xiuming	Moll Xiaoping

7.4 Review Report

To Kinghero AG, Munich

We have reviewed the interim financial statements – comprising the income statement, balance sheet and explanatory notes – of Kinghero AG, Munich, for the period from 1 January 2010 to 31 March 2010. The preparation of the interim financial statements in accordance with the German Commercial Code ("Handelsgesetzbuch") is the responsibility of the Company's management. Our responsibility is to issue a report on the interim financial statements based on our review.

We conducted our review of the interim financial statements in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review such that we can preclude through critical evaluation, with a certain level of assurance, that the interim financial statements have not been prepared, in material aspects, in accordance with the German Commercial Code. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the level of assurance attainable by means of an audit of the financial statements. Since, in accordance with our engagement, we have not performed an audit of the financial statements, we cannot issue an audit opinion.

Based on our review, no matters have come to our attention that cause us to believe that the interim financial statements have not been prepared, in material respects, in accordance with the German Commercial Code.

Hamburg, 18 June 2010

Grant Thornton GmbH
Wirtschaftsprüfungsgesellschaft

Friedrich Graf von Kanitz Wirtschaftsprüfer	Timothy Robinson Wirtschaftsprüfer

8. CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2010 OF KINGHERO AG

8.1 Condensed Interim Consolidated Statement of Financial Position

	31 March 2010
	TEUR
Assets	
Non-current	
Property, plant and equipment	**9,057**
Intangible assets	**359**
Deferred tax assets	**48**
	9,464
Current	
Inventories	**4,050**
Trade and other receivables	**11,609**
Deferred IPO costs	**148**
Cash and bank balances	**20,337**
	36,144
Total assets	**45,608**
Equity and Liabilities	
Capital and Reserves	
Share capital	**5,050**
Capital reserve	**4,081**
Statutory reserve	**243**
Foreign currency translation reserve	**1,507**
Retained earnings	**22,509**
	33,390
Non current liabilities	
Other provisions	**61**
Current liabilities	
Corporate income tax payable	**1,065**
Trade and other payables	**10,300**
Related party payables	**792**
	12,157
Total equity and liabilities	**45,608**

The comparability is affected by movements in the relative value of the functional currency (RMB) compared to the presentational currency (EUR).

8.2 Selected notes to the condensed interim consolidated financial statements of Kinghero AG, Munich

1. NATURE OF OPERATIONS

The principal activity of the Group is manufacture, wholesale and retail of menswear and womenswear. The principal place of business of the Group is located at Sunban South Road 88th, North District of Jimei, Xiamen, Fujian Province, the People's Republic of China (the “PRC”).

The Group sells its products via a network of distributors located in the PRC.

2. GENERAL INFORMATION AND STATEMENT OF COMPLIANCE WITH IFRS

KINGHERO Group was formed on 31 March 2010 when the transfer of the entire share capital in Kinghero Group Holdings Limited, Hong Kong into Kinghero AG, Munich, Germany took legal effect. Hence the KINGHERO Group has no historical financial data. The operating business of KINGHERO Group was and is carried out by Kinghero Fashion (Xiamen) Co. Ltd. (“Kinghero Xiamen”) and Xiamen Michelle Fashion Co., Ltd. (“Michelle”).

As the formation of the Group had legal effect on 31 March 2010, the first consolidated financial data of KINGHERO Group is derived from the consolidated statement of financial position prepared in accordance with IFRS, as endorsed for application in the EU, as at 31 March 2010. As this date is the initial moment of the legal existence of KINGHERO Group, there is consequently no consolidated statement of comprehensive income, consolidated statement of changes in equity or consolidated statement of cash flow and hence the Group has only presented a consolidated statement of financial position as at 31 March 2010. These condensed interim financial statements of the Group, comprising solely this consolidated statement of financial position and notes to the condensed interim financial statements are prepared as at 31 March 2010. There are no comparatives, as 31 March 2010 is the initial date of the Group coming into legal existence. These condensed interim consolidated financial statements have been prepared for the purpose of inclusion in the listing prospectus of Kinghero AG.

The condensed consolidated interim financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB) and its interpretations of the International Financial Reporting Interpretations Committee (IFRIC) for interim financial information effective within the European Union. Accordingly, these condensed interim financial statements do not include all of the information required in annual financial statements by IFRS.

The condensed interim financial statements have been reviewed. In the opinion of the Group’s Board of Management, the condensed interim financial statements include all adjustments of a normal and recurring nature considered necessary for a fair presentation of results for interim periods.

The preparation of interim financial statements in conformity with IAS 34 “Interim Financial Reporting” requires the Board of Management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The condensed consolidated interim financial statements have been rounded to the nearest thousand Euro. Amounts are stated in thousands of Euros (kEUR) except where otherwise indicated.

The condensed consolidated interim financial statements of the Company for the period from January 1 to March 31, 2010 are expected to be authorized for issue in accordance with a resolution of the Board of Management in September 2010. Until authorization they can be amended.

The accounting principles and practices as applied in the condensed consolidated interim financial statements are as follows:

Overall Considerations

The significant accounting policies that have been used in the preparation of these condensed interim consolidated financial statements are summarized below. The condensed interim consolidated financial statements have been prepared using the measurement bases and accounting policies specified by IFRS for each type of asset, liability, income and expense. These are more fully described below.

Presentation of Financial Statements

The condensed interim consolidated financial statements are presented in accordance with IAS 1 Presentation of Financial Statements.

Critical accounting estimates and judgment

Estimates and judgments are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Key sources of estimation uncertainty

Income taxes

The Group has exposure to income tax arising from its operations in the PRC. Significant judgment is required in determining the provision for income taxes. There are also claims for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for expected tax issues based on estimates of whether additional taxes will be due. When the final tax outcome of these matters is different from the amounts that were initially recognized, such differences will impact the income tax expense and deferred tax provisions in the period in which such determination is made.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management determines the estimated useful lives of property, plant and equipment to be within 5 to 20 years.. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets. Therefore, future depreciation charges could be revised. A 5% difference in the expected useful lives of the property, plant and equipment would not result in a significant change to the Group's net profit for the respective financial years.

Inventories

Inventories are measured at the lower of cost and net realizable value. In estimating net realizable values, management takes into account the most reliable evidence available at the times the estimates are made. The Group's core business is subject to raw material price changes and changes in customer behavior which may cause selling prices to change rapidly.

Provisions

The respective legislation in the PRC requires the Group to commit itself to remediate any environmental damages which may have been incurred. Management is of the opinion that no environmental damage has been caused by the Group and hence has not provided for this. The Group has made a provision for the legal obligation to dismantle buildings on land for which the Group has land use rights in respect of future dismantling costs at the time the respective land-use-rights expire. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding additional amount of property, plant and equipment of equivalent value to the provision is also created. This is subsequently depreciated as part of the asset. Other than the unwinding discount on the provision, any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding amount of property, plant and equipment.

Critical judgment made in applying accounting policies

In the process of applying the Group's accounting policies as described below, management is of the opinion that there are no instances of application of judgments which are expected to have a significant effect on the amounts recognized in the Financial Statements

Estimation of cost attributable to intangible assets (land use rights) and to property plant and equipment.

As part of a real estate transaction the Group acquired land use rights and buildings in 2009. The consideration was not attributed separately to land use rights and to the buildings in the real estate purchase agreement. Management has obtained an estimated amount of the purchase price attributable to the land use rights and to the buildings from the stated-owned developer who determined the open market value of the land use rights based on similar real estate transactions, assuming existing market conditions remain unchanged.

Impairment of trade receivables

The Group's management assesses the collectability of trade receivables. This estimate is based on the credit history of the Group's distributors and the current market condition. Management assesses the collectability of trade receivables at the statement of financial position date and makes the provision, if any.

Property, plant and equipment

Property, plant and equipment are recognised at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment comprises the purchase price and any costs directly attributable to bringing the asset to the working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally recognised in profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, and the expenditure of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset.

Advance payments for property, plant and equipment acquired are recognised as an asset when payment for the property, plant and equipment has been made in advance of the final delivery of the property, plant and equipment.

Depreciation on property, plant and equipment is calculated using the straight-line method to write off the cost of property, plant and equipment, less any estimated residual values, over the following estimated useful lives:

Buildings	20 years
Plant and machinery	10 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	10 years

The estimated residual values, estimated useful lives, and depreciation method of the property, plant and equipment are reviewed, and adjusted as appropriate, at each statement of financial position date.

Property, plant and equipment (continued)

The gain or loss on disposal or retirement of an item of property, plant and equipment recognised in profit or loss is the difference between the net disposal proceeds and the carrying amount of the relevant asset.

Intangible assets

Intangible assets are recognised at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged to profit or loss, using the straight-line method, so as to write off the cost of land use rights, over the remaining lease term of the land.

The amortisation period and amortisation methods for intangible assets are reviewed and adjusted as appropriate at each statement of financial position date as follows:

Land use rights over the remaining term of land use rights to expiration in December 2055.

Impairment of non-financial assets

Property, plant and equipment are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the cash-generating-unit ("CGU") to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The difference between the carrying amount and recoverable amount is recognised as an impairment loss, unless the asset is carried at revalued amount, in which case, such impairment loss is treated as a revaluation decrease.

An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of impairment loss for an asset other than goodwill is recognised in profit or loss, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

Financial assets

The financial assets of the Group are categorized as loans and receivables. The Group does not have any other financial assets. The Group's loans and receivables comprise trade and other receivables, cash and cash equivalents and restricted cash in the statement of financial position.

Regular purchases and sales of financial assets are accounted for at trade date.

The loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally via the provision of goods and services to distributors (e.g. trade receivables), but also incorporate other types of contractual monetary assets. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue if any, and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognized when there is objective evidence that the Group will be unable to collect all of the amounts due under the terms of receivables, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivables. For trade receivables, which are reported net of impairment provisions, such provisions are recorded in a separate allowance account with the loss being recognized within administration expense in profit or loss. On confirmation that the trade receivables will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Gains on loans and receivables are primarily from interest and are determined on the effective interest method. Losses are primarily from impairment and are determined by management analysis of the ageing of loans and receivables based on experience of default risk and history.

Trade and other receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, as all mature within 12 months after the statement of financial position date.

Receivables are measured on initial recognition at fair value plus transaction cost and subsequently carried at amortised cost using the effective interest method. Allowances for impairment are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition.

Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work-in-progress comprise raw materials, direct labour and other overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Equity reserves and dividend payments

Share capital represents the nominal value of shares that have been issued in the Group.

Share capital is determined using the nominal value of shares that have been issued.

Retained earnings include all current and prior period results as determined in the statement of comprehensive income.

Foreign currency translation differences arising on the translation are included in the translation reserve.

Dividend distributions payable to equity shareholders are included in 'other liabilities' when the dividends have been approved in a general meeting prior to the reporting date.

In accordance with the relevant laws and regulations of PRC, the subsidiaries of the Group established in PRC are required to transfer 10% of its annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve. When the balance of such reserve reaches 50% of the subsidiary's share capital, any further transfer of its annual statutory net profit is optional. Such reserve may be used to offset accumulated losses or to increase the registered capital of the subsidiaries subject to the approval of the relevant authorities. However, except for offsetting prior years' losses, such statutory reserve must be maintained at a minimum of 25% of the share capital after such usage. The statutory reserves are not available for dividend distribution to the shareholders.

Relevant transactions with owners of the parent are recorded separately within equity.

Financial liabilities

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument. Financial liabilities are recognised initially at fair value, plus in the case of financial liabilities other than derivatives, directly attributable transaction costs. Subsequent to initial recognition, all financial liabilities are measured at amortised cost using the effective interest method, except for derivatives, which are measured at fair value. All interest related charges are recognised as an expense in profit or loss.

Financial liabilities are derecognised when the obligation for the liabilities is discharged or cancelled or expired. For financial liabilities other than derivatives, gains and losses are recognised in profit or loss when the liabilities are derecognised or impaired, and through the amortisation process.

The Group's financial liabilities include trade and other payables, related party payables and borrowings.

Trade and other payables and related party payables

Trade and other payables and related party payables are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest method.

Provisions and contingent liabilities

Provisions are recognized when the Group has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognized for future operating losses. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. However, this asset may not exceed the amount of the related provision. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Provisions for environmental protection are recorded if future cash outflows are likely to be necessary to ensure compliance with environmental regulations or to carry out remediation work, such costs can be reliably estimated and no future benefits are expected from such measures. Estimating the future costs of environmental protection and remediation involves many uncertainties, particularly with regard to the status of laws and regulations. Management considers that environmental damage has not been caused by the Group and hence has not provided for environmental protection.

The respective legislation in the PRC requires the Group to commit itself to remediate any environmental damages which may have been incurred may lead to a (constructive) obligation.

Liabilities for dismantling costs are recognized when the Group has an obligation to dismantle and remove a facility or an item of plant and to restore the site on which it is located, and when a reasonable estimate of that liability can be made. Where an obligation exists due to land-use-rights regulations, this will be on construction and an obligation for decommissioning may also crystallize during the period of operation of a facility through a change in legislation or through a decision to terminate operations.

The Group has made provisions for dismantling costs for the legal obligation to dismantle buildings on land to which the Group has land use rights in accordance with Management's estimation of the future dismantling costs at the time the respective land-use-rights expire.

The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding item of property, plant and equipment of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the asset. Other than the unwinding discount on the provision, any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding item of property, plant and equipment.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized. All provisions and contingent liabilities are reviewed at each reporting date and adjusted to reflect the current best estimate.

Revenue and other income

Revenue is measured at the fair value of the consideration received or receivable and presented net of goods and services taxes and trade discounts.

The Group sells menswear and womenswear via distributors. Revenue from the sale of manufactured products are recognised when the Group has transferred to the distributors the significant risks and rewards of ownership of the goods, which generally coincides with the delivery and acceptance of goods by the distributor; and when the Group can reliably measure the amount of revenue and the cost incurred and to be incurred in respect of the transaction; and it is probable that the collectability of the related receivables is reasonably assured.

Rental income from operating leases is recognised on a straight-line basis over the lease term.

Interest income

Interest income is recognised as it accrues, using the effective interest method.

Employee benefits - Retirement benefits scheme

Pursuant to the relevant regulations of the PRC government, the Group participates in a local municipal government retirement benefits scheme (the "Scheme"), whereby the subsidiaries located in the PRC are required to contribute a certain percentage of the basic salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries located in the PRC. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above. Contributions under the Scheme are charged to the profit or loss as incurred. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions. These plans are considered defined contribution plans. The Group has no legal or constructive obligations to pay further contributions after its payment of the fixed contributions into the national pension schemes. Contributions to national pension schemes are recognized as an expense in the period in which the related service is performed.

Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. Directors and certain managers are considered key management personnel of the Group.

Income tax

Tax expense recognised in profit or loss comprises the sum of current and deferred tax not directly recognized in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period in the respective countries in which the Group is operating.

Value-added tax ("VAT")

The Group's sale of goods in the PRC are subject to VAT at the applicable tax rate of 17% for the PRC domestic sales. Input VAT on purchases can be deducted from output VAT. The net amount of VAT recoverable from, or payable to, the tax authority is included as part of "other receivables" or "other payables" in the statement of financial position.

Revenue, expenses and assets are recognised net of the amount of VAT except:

(i) where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

(ii) receivables and payables that are stated with the amount of VAT included.

Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

The Group conducts its business predominately in the PRC and hence its functional currency is the Renminbi (RMB).

The presentation currency of the Group is €, being the presentation currency of its German domiciled legal parent and holding company, and therefore the financial information has been translated from RMB to € at the following rates:

Period end rate

31 March 2010 € 1.00 = RMB 9.1659

Foreign currencies (continued)

The results and financial positions of the Group in its functional currency RMB are translated into the presentation currency for the purpose of presentation in the listing prospectus of its legal parent as follows:

(1) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(2) Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(3) All resulting exchange differences are recognised in the foreign currency translation reserve, a separate component of equity.

(ii) Transactions and balances

Foreign currency transactions are measured and recorded in the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rates ruling at the respective statement of financial position dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Related parties

The Group has the following types of related parties:

(i) entities or individuals which directly, or indirectly through one or more intermediaries, (1) control, or are under common control with the Group; (2) have an interest in the Group that gives them significant influence over the Group;

(ii) the key management personnel of the Group

(iii) close members of the family of any individual referred to in (i) or (ii);

Leases

(a) Lessee

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the profit or loss on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets.

(b) Lessor

Leases of machinery where the Group retains substantially all risks and rewards incidental to ownership are classified as operating leases. Rental income from operating leases (net any incentives given to the business) is recognised in profit or loss in a straight-line basis over the lease term.

Segment reporting

As the Group is only presenting a consolidated statement of financial position as at 31 March 2010, the Group does not present segment data in these notes, as this primarily relates to sales and cost of sales of the Group’s two segments, menswear and womenswear. Segmental analysis for the first three months of 2010 is included within the financial statements of the Group’s two operating companies, Kinghero Xiamen Ltd. and Michelle.

Development activities

The Group develops new collections of menswear and womenswear. This includes research into current trends and the development of the designs for the production of the current seasons’ collections. Costs of each current seasonal range of menswear and womenswear are expensed when incurred, as the benefits to the Group tend to be linked to the short term nature of fashion trends and so are not expected to be of benefit for substantially longer than one accounting period.

Government assistance

Government assistance obtained in the land use rights and property transaction is taken into account in determining the carrying amount of these assets. The assistance involved a favourable purchase price, which was subject to subsequent increase should certain conditions not be fulfilled. In June 2010 however, the compensation penalty which would lead to the subsequent increase in purchase price was waived.

3. BASIS OF CONSOLIDATION

The Group was formed on 31 March 2010 when the transfer of the entire share capital in Kinghero Group Holdings Limited, Hong Kong into Kinghero AG, Munich, Germany took legal effect.

At the time of this transaction, Kinghero AG was essentially a shell company, without its own business. The purpose of the transaction was to enable the operating group of Kinghero Group Holdings Ltd., Hong Kong to obtain a listing on the Entry Standard segment of the German Stock Exchange. Hence this transaction has been accounted for similarly to a reverse acquisition, without the recognition of goodwill.

Kinghero Group Holdings Limited, Hong Kong forms the operating sub group and is itself the sole shareholder of Michelle which in turn is the sole shareholder of Kinghero Xiamen. On 14 July 2009, Kinghero Group Holdings Limited ("Kinghero HK") entered into a share purchase agreement to purchase all of the shares in Michelle. On 8 November 2009, Michelle entered into a share purchase agreement to purchase all of the shares in Kinghero Xiamen. These transactions did not represent business combinations as defined in IFRS 3 'Business Combinations', but are deemed to be transactions under common control, as there was one ultimate controlling party involved. There is no guidance elsewhere in IFRS which covers the accounting for such transactions under common control. In the absence of an international standard or interpretation that specifically applies to such a transaction, paragraphs 10 to 12 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' set out the approach to be followed. This requires, inter alia, that where IFRS does not include guidance for a particular issue, the Directors may also consider the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards.

4. SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ESTIMATES

These condensed interim consolidated financial statements have been prepared using accounting policies specified by those IFRSs that are in effect at the end of the reporting period (31 March 2010). The condensed interim financial statements have been prepared in accordance with the accounting policies adopted in the financial statements of the Group's principal operating companies for the year ended 31 December 2009. The accounting policies have been applied consistently throughout the Group for the purpose of preparation of these condensed interim financial statements.

The following new or revised standards, interpretations and amendments to published standards were approved, but will not be applicable for the Group as at the first quarter end 2010 and were not adopted early in these condensed interim consolidated financial statements:

- IFRS 9 (effective from 1 January 2013, not yet adopted by the European Union) – Financial instruments

- Revised IAS 24 (effective from 1 January 2011, not yet adopted by the European Union) – Related party transactions
- Amendments to IAS 32 (effective 1 February 2010) – Financial instruments: Presentation
- Amendments to IFRIC 14 (effective 1 January 2011, not yet adopted by the European Union) – Prepayments of a minimum funding requirement
- IFRIC 19 (effective 1 July 2010, not yet adopted by the European Union) – Extinguishing financial liabilities with equity instruments
- Amendments to IFRS 1 (effective 1 January 2010, not yet adopted by the European Union) - Additional Exemptions for First-time Adopters
- Amendment to IFRS 1 (effective 1 July 2010, not yet adopted by the European Union) - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
- Annual Improvements 2010 (effective 1 January 2011, not yet adopted by the European Union)

Management does not expect the standards to have a material effect on the Group's financial statements.

5. CURRENCY TRANSLATION

Items included in the condensed interim financial statements are measured using the currency of the primary economic environment in which the Group operates (the "functional currency").

The Group conducts its business predominately in the PRC and hence its functional currency is the Renminbi (RMB).

The presentation currency of the Group is €, being the presentation currency of its German domiciled legal parent and holding company, and therefore the financial information has been translated from RMB to € at the following rates:

	Period end rates
31 March 2010	€ 1.00 = RMB 9.1659

6. SIGNIFICANT EVENTS AND TRANSACTIONS

The Group came into legal existence on March 31, 2010 as the transfer of the entire share capital of Kinghero Group Holdings Limited to Kinghero AG in preparation for the listing of Kinghero AG became effective on that date.

7. ANALYSIS OF SELECT ITEMS OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Non current assets of the Group mainly comprise buildings and land use rights which the company purchased in 2009. This real estate represents the new key operating location of the Group in Xiamen city, PRC. The Group expects to relocate to this site post the Entry Standard listing. The Group has not yet formally obtained legal title to the real estate, however its Chinese lawyers have advised management that obtaining title should only be a matter of concluding certain legal formalities.

Current assets and liabilities form a relatively significant proportion of the opening statement of financial position due to an increased level of sales in the Chinese operating companies in the first three months of 2010. Bank balances also make up a significant proportion of the opening statement of financial position due to a cash capital increase in the operating Chinese entities during the first quarter of 2010.

8. COMMITMENTS AND CONTINGENCIES

The material commitments and contingencies of the Group are as presented in the financial statements of Kinghero Xiamen for the years ended 31 December 2007, 2008 and 2009. Between the financial statements of Kinghero Xiamen for the year ended 31 December 2009 and the accounting period of the interim consolidated financial statements as at 31 March 2010, no material changes in commitments and contingencies have occurred.

9. RELATED PARTY DISCLOSURES – SIGNIFICANT RELATED PARTY TRANSACTIONS

An entity or individual is considered a related party of the Group for the purposes of the financial statements if: (i) it possesses the ability, directly or indirectly, to control or exercise significant influence over the operating and financial decision of the Group or vice versa; or (ii) it is subject to common control or common significant influence.

Related party information

a) Entities/individuals with common control or significant influence over the Group.

- Mr. Zhang Yu; controlling shareholder of Kinghero AG and Kinghero Group Holding Co. Ltd.

b) Key management/directors of the Group and close family members

- Mr. Zhang, Yu,
- Ms. He Xiuming;
- Mr. Zhang Zhaosong;
- Ms. Zhang Weimin; (close family)

Related party balances and transactions are disclosed in the following table.

	Three months ended 31 March 2010
Related party payables	
To Mr. Zhang Yu	768
Ms. He Xiuming	23
Ms. Zhang Weimin	1
Key management personnel compensation	
- salaries and related cost	8
- retirement scheme contribution	1

Included in “salaries and related cost” are director’s remuneration amounting to EUR9,000 (2009: 8,000) for the financial period ended 31 March 2010.

10. EVENTS AFTER THE REPORTING DATE

In May 2010, the share capital of the Group's German parent was increased by € 200.000,00 in the context of a cash capital increase.

The Group expects to issue its prospectus for its listing on the Entry Standard of the German Stock Exchange in July 2010.

8.3 Review Report

To Kinghero AG, Munich

We have reviewed the condensed interim consolidated financial statements – comprising the condensed consolidated statement of financial position[1] and selected explanatory notes – of Kinghero AG, Munich, as at 31 March 2010. The preparation of the condensed interim consolidated financial statements in accordance with those IFRS applicable to interim financial reporting as adopted by the EU is the responsibility of the Company's management. Our responsibility is to issue a report on the condensed interim consolidated financial statements based on our review.

We conducted our review of the condensed interim consolidated financial statements in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review such that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim consolidated financial statements have not been prepared, in material aspects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the level of assurance attainable by means of an audit of the financial statements. Since, in accordance with our engagement, we have not performed an audit of the financial statements, we cannot issue an audit opinion.

Based on our review, no matters have come to our attention that cause us to believe that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial statements as adopted by the EU.

Hamburg, 18 June 2010

Grant Thornton GmbH
Wirtschaftsprüfungsgesellschaft

Friedrich Graf von Kanitz Wirtschaftsprüfer	Timothy Robinson Wirtschaftsprüfer

[1] *As the group first came into existence on 31 March 2010, the inclusion of a condensed statement of comprehensive income, a condensed statement of changes in equity and a condensed statement of cash flows for the interim period is not possible.*

23. GLOSSARY

ACCA	Association of Chartered Certified Accountants
AIC	State Administration for Industry and Commerce
AktG	German Stock Corporation Act (*Aktiengesetz*)
Angebot	Has the meaning ascribed to it in Section 2.5
BaFin	German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*)
BankM	BankM – representative office of biw Bank für Investments und Wertpapier AG.
BGB	German Civil Code (*Bürgerliches Gesetzbuch*)
CEO	Chief Executive Officer
COO	Chief Operational Officer
Circular No.59	Circular on Several Issues Concerning the Enterprise Income Tax Treatment of Enterprise Re-organization
CIS	Corporate Identity Strategy
CIT	Corporate Income Tax
Code	German Corporate Governance Code in its current version of 26 May 2010
Company / Gesellschaft	KINGHERO AG
CSRC	China Securities and Regulatory Commissions
Designated Distributors	network of designated distributors for the sales activities of KINGHERO Group

DPMA	The German Patent and Trademark Office (Deutsches Patent- und Markenamt)
EBIT	Earnings before Interest and Tax
EBITDA	Earnings before Interest, Tax, Depreciation and Amortization
EEA	European Economic Area
EIT	Enterprise Income Tax
EIT Law	The PRC law on Enterprise Income Tax
EStG	German Income Tax Act (*Einkommensteuergesetz*)
Existing Shareholders / Altaktionäre	Mr. ZHANG Yu, Mr. TU Ho Hsuan, Mr. CHIN Kai, Mr. WONG Chit Fu, Mr. CHONG Yue Fung and Mr. LEE Chih Wen
Existing Shares / Bestehende Aktien	5,250,000 existing no par value ordinary bearer shares in the capital of the Company (current share capital as at the date of this Prospectus)
F&E	Forschung und Entwicklung
FIE	Foreign-invested enterprises
FMA	Austrian Financial Supervisory Authority (*Österreichische Finanzmarktaufsicht*)
GDP	Gross domestic product
Grant Thornton	Grant Thornton GmbH Wirtschaftsprüfungsgesellschaft, Domstrasse 15, 20095 Hamburg, Germany
Greenshoe Option	The option granted by Mr. ZHANG Yu to the Lead Manager to purchase up to 270,000 no par value ordinary bearer shares at the offer price less any agreed upon commission
Greenshoe Shares /	up to 270,000 existing ordinary bearer shares in the capital of

Greenshoe Aktien	the Company from the holdings of Mr. ZHANG Yu
HGB	German Commercial Code (*Handelsgesetzbuch*)
HKD	Hong Kong Dollar
HK Investors	Mr. TU Ho Hsuan, Mr. CHIN Kai, Mr. WONG Chit Fu, Mr. CHONG Yue Fung and Mr. LEE Chih Wen
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
Indemnified Person	BankM and each of its directors, officers, partners and employees, any affiliate and each person who may be deemed to control BankM
IP	Intellectual Property
ISIN	International Securities Identification Number
Issued Shares/ Ausgegebene Aktien	Existing Shares together with the New Shares
KINGHERO Group / KINGHERO Konzern	KINGHERO AG collectively with its direct and indirect subsidiaries
Kinghero HK	Kinghero Group Holdings Limited
Kinghero Xiamen	Kinghero Fashion (Xiamen) Co. Ltd.
Lead Managers	BankM – representative office of biw Bank für Investments und Wertpapiere AG, Mainzer Landstraße 61, 60329 Frankfurt, Germany and Silvia Quandt & Cie AG, Grüneburgweg 18, 60322 Frankfurt, Germany
M&A Provisions	Provisions on the Acquisition of Domestic Enterprises by Foreign Investors
Michelle	Xiamen Michelle Fashion Co., Ltd.

MOFCOM	The PRC Ministry of Commerce
New Shares / **Neue Aktien**	Up to 1,800,000 new ordinary bearer shares in the capital of the Company from the capital increase against cash contributions pursuant to a resolution of the extraordinary shareholder's meeting (*außerordentliche Hauptversammlung*) expected to be held on or around 4 August 2010
NPC	National People´s Congress
OEM	Original Equipment Manufacturer
Offer	Has the meaning ascribed to it in Section 1.5
Placement	Has the meaning ascribed to it in Section 1.5
Placement Shares / **Platzierungsaktien**	New Shares together with the Greenshoe Shares
Platzierung	Has the meaning ascribed to it in Section 2.5
PRC / **VR China**	People's Republic of China
PRC GAAP	Generally accepted accounting principles in the PRC
Prospectus	The securities prospectus dated 22. July 2010 of KINGHERO AG
R&D	Research and development
RMB	Renminbi
SAFE	The PRC State Administration of Foreign Exchange
SAFE Notice No.142	Notice on the Relevant Operating Issues concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-funded Enterprises
SAFE Notice No.75	Notice on Relevant Issues Concerning Foreign Exchange

	Administration for Domestic Residents to Engage in Financing and in Return Investment via Overseas Special Purpose Companies
SAFE Notice No.78	Operating Rules on the Foreign Exchange Administration of the Involvement of Domestic Individuals in the Employee Stock Ownership Plans and Share Option Schemes of Overseas Listed Companies
SAIC	State Administration for Industry and Commerce
SDRC	State Development and Reform Commission
Seller	Xiamen Jimei State-owned Asset Investment Co., Ltd.
Selling Shareholder / Abgebender Aktionär	Mr. ZHANG Yu
SIPO	The PRC State Intellectual Property Office
SPV	Special Purpose Vehicle
Sqm	Square meters
store POP	Point of purchase advertising
TEUR	Thousand Euro
TRE	Tax Resident Enterprise
TRIPS	Agreement on Trade Related Aspects of Intellectual Property Rights
Underwriting Agreement	Agreement between the Company and BankM to be executed at a date before the end of the placement period
VAT	Value Added Tax
WHT	Withholding Tax

WpPG	German Securities Prospectus Act (*Wertpapierpropektgesetz*)
WTO	World Trade Organisation
XETRA	Electronic trading system of the Frankfurt Stock Exchange

24. SIGNATURES

KINGHERO AG
signed by Mr. ZHANG Yu
Chairman of the Management Board and CEO
(*Vorstandsvorsitzender*)