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## OmniaLuo, Inc.

### OmniaLuo – Undervalued at \$1.35. Fourth Quarter 2007 Gross Profit up 116% Year-Over-Year as Company Aggressively Expands Store Network in Rapidly Growing Market

#### At a Glance (OTCBB: OLOU)

##### Price & Valuation

Price (04/14/08)	\$1.35
52-Week High/Low	2.15/ 1.10
Market Value (MV)	\$30.8M
Enterprise Value (EV)**	\$26.9M
P/E 2007*	14.3x
P/E 2008e	7.9x
EV/EBITDA 2007*	11.6x
EV/EBITDA 2008e	6.6x

##### Trading Information

Shares Out.	22.8M
Fully Dilutive Shares Out.	28.5M
Float (M)/ (%)	7.3M/ 32.0%
Institutional/ Insider	28.7%/45.8%

##### Financial, 2007

Revenue	\$7.9M
EBITDA*	\$2.3M
EBITDA Margin*	29.4%
Net Income*	\$2.2M
Net Income Margin	27.3%
Assets	\$10.0M
Current Ratio	5.6
Total Debt/Equity	0.0%
No. of Employees	102

##### Financial, 2008e

Revenue	\$14.3M
EBITDA	\$4.1M
EBITDA Margin	28.5%
Net Income	\$3.9M
Net Income Margin	27.2%

\*Excludes one-time expenses related to Company's reorganization and capital raise and non-cash "make good" charges.

\*\*Based on 28.5M fully dilutive shares.

Source: Company, Reuters, Griffen-Rose

#### Profile

OmniaLuo, Inc. ("OmniaLuo" or the "Company"), designs, arranges for the manufacture of, markets, distributes and retails fashionable business casual women's clothing through a network of over 196 retail stores across the People's Republic of China. About 61 of these stores are run by the Company alone or in partnership; the remainder carry the OMNIALUO brand but are run independently by third parties. Led by Cindy Luo, one of China's top fashion designers, the Company's ambition is to carve a distinct and defensible niche in the emerging landscape of China's \$3 billion women's branded apparel retail market. OmniaLuo employs 102 people, and in fiscal 2007 generated \$7.9 million in revenue and \$2.3 million in earnings before interest, tax, depreciation and amortization ("EBITDA") excluding extraordinary items.

#### Summary

- **Company's fourth quarter 2007 (4Q07) revenue and gross profit up 80% and 116% YOY, respectively.** OmniaLuo is successfully growing sales and gross profits by opening new stores. In 2007, Company increased its store count from 61 to 184. In 2008 Company intends to increase its store network by over one-third, to about 250-260 stores. Higher gross profits are supporting greater advertising and marketing investment, which should generate greater awareness of the OmniaLuo brands and drive future sales.
- **Generating high return on equity (ROE).** In its first full year of trading, OmniaLuo generated 41% ROE, comfortably beating other companies in its comparison group, all of which have greater revenues and are longer established. The main reason behind Company's performance was superior profitability.
- **Large, rapidly-growing market.** Company operates in China's \$3 billion women's branded apparel retail market. Apparel retailing in China is growing extremely quickly – sales were up 29% year-over-year (YOY) as of November 2007; sales for 2008 as a whole are expected to be 25% higher than for 2007. Branded women's apparel sales are probably growing even faster.
- **Regional strategy will benefit competitive position.** OmniaLuo's region-by-region expansion strategy will boost its competitive position in a given region as it increases local penetration, because it will be able to streamline logistics and amortize distribution costs over a denser store network.
- **RMB revaluation.** The RMB rose by about 7% against the US dollar in 2007 and its revaluation continues apace. From January 1, 2008 to March 23, 2008 it appreciated 3.5% against the dollar and is on track to appreciate by 14-15% against the dollar for 2008 as a whole. This will boost the dollar value of OmniaLuo's RMB earnings.

#### OmniaLuo EPS (\$), 2007-2008e

	Q1Mar	Q2 Jun	Q3 Sep	Q4 Dec	Full Year
2007 Earnings/basic shares+*	4.71	10.16	15.98	0.03	0.10
2007 Earnings/28.5M shares*	0.01	0.02	0.03	0.02	0.08
2008e Earnings/basic share	0.03	0.03	0.06	0.04	0.16
2008e Earnings/28.5M shares	0.03	0.02	0.05	0.04	0.14

+Weighted average basic shares outstanding related to OmniaLuo's capital raise in 2007. e = expected \*Excludes effect of non-cash expenses

Source: Company, Griffen-Rose.

#### OLOU (OTCBB)

	Rating: Undervalued
Current Price	\$1.35
Recommended Base Case Value (28.5M shares)	\$2.31 <sup>(1)</sup>
Recommended Conservative Value (28.5M shares)	\$1.89 <sup>(2)</sup>
Recommended Aggressive Value (28.5M shares)	\$2.91 <sup>(3)</sup>

DCF/FCFE assumes: (1) 18.5% cost of equity and 14.3x NOPAT terminal multiple; (2) 20% cost of equity and terminal value 20.0% below base case; (3) 15.5% cost of equity and terminal value 20.0% above base case.; (4) 28.5 million shares outstanding

Source: Griffen-Rose.

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## SECTION I.

### 1.0. Thesis

#### 1.1. Compelling Strategy

In fiscal 2007, its first full year of trading, OmniaLuo performed impressively, generating almost \$8 million in revenue and \$2.2 million in "core" earnings, which we define as net income excluding extraordinary costs relating to its reverse merger and recapitalization. OmniaLuo is aiming to establish a franchise in the upper mid-market segment of China's women's apparel market by building a network of branded retail outlets, some operated by the Company alone or in partnership with third parties, others established and run by independent distributors.

The Company's business strategy is attractive because:

1. It targets women's apparel, which is the largest segment of apparel retailing (women's outerwear alone accounts for 36% of apparel retail sales in China).
2. It targets branded women's apparel, which is one of the fastest-growing segments of the apparel industry. Apparel sales in China are growing at over 20% annually, and this rate of growth is projected to continue until at least 2010. Women's apparel, especially branded apparel, is projected to grow faster than the overall apparel sector.
3. It targets mass affluent and upper middle class women, who possess the most potent combination of future buying power and propensity to spend in the urban apparel market. In 2005, the upper middle class and mass affluent class together accounted for 9.9% of the total urban population; however, they represented 26.6% of total urban disposable income. The McKinsey Global Institute Analysis report projected that by 2015, these two groups are likely to account for 26.8% of the population and 44.3% of urban disposable income.

Rising Chinese female consumerism is a potent force in the country's growing domestic consumption.

4. Women's wear is the most fragmented sector in apparel retailing; the top 10 brands account for only 13.4% of sales. The women's garment industry is not yet experiencing major consolidation, although this may soon change.
5. The expanding footprint of OmniaLuo stores and independent distributors is gradually covering major urban centres in all of China's regions. This combination of geographic diversity and increasingly acute penetration of certain regions (such as the provinces of southern China), will give the Company's operations the protection of geographic diversity as well as the benefits of economies of scale in logistics and marketing in its strongholds.
6. It targets shopping malls, department stores and specialty stores as the main distribution channels. In 2005, nearly 80% of garment purchases were made in these venues.
7. In macroeconomic terms, it is a "bet" on the growth of domestic consumption, which in the long run will supersede investment as the principal motor of China's economic expansion.
8. It is sustainable, because it is relatively inexpensive. Most of the Company's existing and planned outlets are run by independent distributors – that is, OmniaLuo is principally a wholesaler rather than a retailer. It is far more cost effective for the Company to expand its wholesale operations than to set up new retail stores itself.
9. It leverages the fame of Ms Cindy Luo, one of China's most celebrated fashion designers.

#### 1.2. Profitability

Although a very young company, Table 1 shows that OmniaLuo is significantly more profitable than many comparable retailers that are far bigger and have longer operating histories. The Company's profitability, rather than its efficiency, is the primary driver of its superior returns to capital. The quality of OmniaLuo's ROE, as compared with ROE generated by several of the companies in the comparable group, is enhanced by OmniaLuo's lack of leverage. The Company's returns to capital will rise even further if it can retain its profitability and improve its inventory turnover as it grows and gains more experience as a retailer and merchandiser.

This will not be easy to do. Companies in the comparable group that have superior inventory turnover rates also have inferior profitability. However, we do not believe that price cutting is a necessary path to greater efficiency. Efficiency

can be altered by factors such as design time, manufacturing and delivery quantities and frequencies, brand communication, and store layout and customer service. These challenges are readily addressable and greatly dwarfed by the potential rewards for successful execution

**Table 1. OmniaLuo's Performance Versus Comparable Companies**

	OmniaLuo	Metrics for 8 Comparable Companies			
		Median	Mean	High	Low
Enterprise value (M)	\$26.9	\$289.1	\$434.4	\$1,500.1	\$88.7
Market cap (M)	\$30.8	\$385.7	\$517.5	\$1,559.3	\$109.7
LTM revenue (M)	\$7.9	\$512.0	\$458.7	\$769.9	\$150.3
<b>Growth</b>					
LTM revenue growth*	79.9%	7.4%	10.1%	28.5%	(4.0%)
NTM revenue growth	81.2%	11.4%	14.6%	32.6%	1.7%
LTM EBITDA margin	29.4%	11.5%	15.1%	30.5%	5.4%
NTM EBITDA margin	28.6%	11.2%	15.3%	31.8%	8.6%
LTM net profit margin	27.4%	5.1%	8.8%	29.3%	(0.4%)
NTM net profit margin	27.3%	6.9%	10.7%	27.1%	2.7%
<b>Efficiency</b>					
Inventory turnover	2.7x	4.1x	5.3x	13.0x	1.1x
Avg days inventory	133	92	119	321	28
Receivables collection period (days)	19	10	22	56	4
Payables payment period (days)	14	35	39	78	17
Cash to cash (days)	138	89	123	290	20
Current ratio	5.6x	2.9x	3.4x	6.6x	1.5x
Total debt/total equity	0.0%	3.0%	19.4%	105.0%	0.0%
<b>Value Creation</b>					
Return on assets	39.3%	7.4%	10.6%	29.2%	3.3%
Return on equity	49.5%	14.4%	16.2%	43.1%	(2.4%)
Return on capital	40.8%	10.7%	13.9%	34.9%	4.6%
<b>Valuation</b>					
P/LTM diluted EPS before extraord. Items	14.2x	16.9x	18.0x	27.9x	9.8x
P/NTM EPS	7.9x	15.2x	15.4x	23.2x	10.0x
P/Tangible book value	3.7x	1.8x	3.5x	11.8x	1.6x
EV/LTM EBITDA	11.6x	5.2x	7.8x	25.4x	2.9x
EV/NTM EBITDA	6.6x	4.4x	7.1x	19.0x	2.8x
EV/Invested capital	3.2x	1.2x	2.8x	11.3x	0.8x

Comparable companies are: Bebe Stores, Inc., Cache Inc., Charlotte Russe Holding, Inc., Christopher & Banks Corp., Dickson Concepts International Ltd., Mothers Work Inc., Ports Design Ltd., and True Religion Apparel Inc.

Source: Griffen-Rose

### 1.3. Working Capital

OmniaLuo's receivables management is among the best in the comparison group (see Tables 1 and 10); however, the Company's inventory cycle is disappointing. As of December 31, 2007, OmniaLuo carried about 133 days worth of inventory, equivalent to about one and a half season's worth. It takes OmniaLuo about 3 months to fulfil orders. This means no fresh orders can be placed by its customers well after a season has begun in response to immediate and unforeseen consumer demand. The Company depends on

the accuracy of its predictions of, rather than its capacity for instant response to, new trends in customer tastes.

The new computerised inventory management system can help OmniaLuo shift inventory from one location to another where demand is greater, but it cannot correct a lack of demand if OmniaLuo's pre-season predictions prove inaccurate. The Company's design and inventory management cycle largely explains its four and a half month cash-to-cash period as of December 2007, a length of time which acts as a significant drag on OmniaLuo's ability to expand, and restrains returns to capital. Two other companies in the comparison group have worse inventory turnover rates and cash-to-cash periods than OmniaLuo, but these are factors that, if addressed, will significantly boost the Company's performance.

### 1.4. Same Store Sales

Although OmniaLuo's 4Q07 revenues rose by almost 80% YOY, they appear to have fallen on a same store sales basis, in our estimate by about 43%. The Company has not reported losing any independent distributors since it began operations, so if distributor churn is zero that is good news. However, unless addressed, falling same store sales growth is likely to trigger distributor churn in the future, and slow down or even reverse the expansion of the OmniaLuo distribution network.

### 1.5. Web Strategy

OmniaLuo has yet to articulate a fully fledged Web strategy. Direct to consumer internet-based retailing is one of the fastest growing trends in retailing, and Shanghai-based PPG is carving out a significant position in this space, albeit expensively. The Web offers retailers a way to communicate more effectively with customers and boost profits by reduce procurement, inventory and other distribution/transaction costs. China has over 220 million Internet users, the world's largest; the rate of China's Internet user growth continues to be extremely high (over 53% in 2007); and about 84% of its population has yet to be brought online. In the light of these factors, we believe the Company will need to include e-commerce in its medium-term business mix.

### 1.6. Challenges Faced by all Apparel Retailers in China

- **Inflation and energy shortages.** Like all retailers, OmniaLuo's distribution and overhead costs are vulnerable to rises in fuel, labor and energy costs, and the energy shortages to which China is prone. Simultaneously, competition may restrict OmniaLuo's ability to pass rising costs fully onto its customers.
- **Counterfeits.** In China, counterfeiting is rife, difficult to monitor and impossible to eliminate through the courts. The greater OmniaLuo's popularity, the higher the risk

that imitation OmniaLuo products will be marketed in China.

- **Competition.** Existing retailers are likely to face increasing competition from some textile and garment manufacturers, traditionally without retail operations, who may seek to bolster profits not merely by supplying domestic retailers, but becoming retailers themselves. Faced with declining manufacturing profits, Fujian Septwolves Group, a large menswear brand manufacturer, has declared its ambition to become the largest garment retailer in China and is altering its operations accordingly. Other companies, such as Lilang and the Fordoo group of companies are also increasing their retail operations

### 1.7. Capital Needs

OmniaLuo indicated in its March 31, 2008 10-K filing that it may need to seek recourse to the capital markets to fund growth beyond 2008. We are curious as to why this should be necessary. There are outstanding warrants to buy shares in the Company that, if exercised, would generate \$8.8 million in additional financing for the firm. We expect that investors will exercise these warrants if OmniaLuo can demonstrate that: (a) it internally generates significant cash flow to support organic growth consistent with the overall sector trend; and (b) additional financing would accelerate growth beyond the trend line supported by internally generated capital.

### 1.8. Perspective

OmniaLuo faces an enormous opportunity in China's apparel retail market. The volume of sales is rising 25% per year. Per capita incomes and female consumerism are rising in China. The Chinese government backs the success of domestic fashion brands and retailers through the activities of agencies such as the China Garment Designers' Association and the China Fashion Designers' Association. Although very young, the Company delivers the highest returns to capital, and is one of the most profitable, of a comparable group of apparel retailers.

We believe that OmniaLuo is set to achieve growth in revenue, core EBITDA and core earnings of about 81%, 76% and 79%, respectively, in 2008. For early stage investors, OLOU is currently highly attractive at 7.9x price/expected 2008 earnings (P/E 2008e) and 6.6x enterprise value/expected 2008 EBITDA (EV/EBITDA 2008e). Applying median valuation metrics of comparable companies, Table 1 suggests that OmniaLuo may be undervalued on a P/E basis and overvalued on an EV/EBITDA basis.

However, given OmniaLuo's high growth trajectory and profitability, we believe that \$2.31, which is 71% higher than OLOU's current price, better expresses the present balance

of performance, opportunity and risk in the stock. \$2.31 is equivalent to 16.9x P/E 2008e and 14.3x P/E 2009e assuming the share count were to rise to 28.5 million following exercise of all warrants outstanding. We believe OmniaLuo can create further upside in its stock by addressing issues such as inventory management and same store sales growth. Success in these areas would significantly accelerate the Company's revenue growth, economize on potential external financing requirements and boost returns to capital.

## 2.0. Recent Performance

### 2.1. Operations

OmniaLuo's revenue for fiscal 2007 (FY07), ended December 31, 2007 was about \$7.9 million, compared with \$1.5 million for the partial year period in 2006. FY07 wholesale revenue from sales to independent distributors was about \$6.0 million, equivalent to 76.5% of total revenue. FY07 revenue from retail sales in Company owned and co-owned stores was \$1.8million, equivalent to 23.5% of total sales revenue.

Overall gross profit for the year ended December 31, 2007 was \$4.3 million, which represented an overall gross profit margin of 53.98%, compared with a gross profit margin of 46.7% for the partial year period in 2006. Gross profit margins in 2007 on sales to independent distributors were 52.1%, while gross profit margins in 2007 on retail sales were 60.0%. Our analysis of the Company's contribution margin, shown in Table 2, shows that OmniaLuo's profits derive largely from wholesaling and retailing in its own stores. The store level payback period is impressive for all but its co-owned stores.

**Table 2. OmniaLuo Contribution Margin\* Analysis**

Store Type	% 2007 Revenue	% 2007 Contrib. Margin	2007 Avg. Contrib. Margin (\$/store)	Avg Setup Cost/ New Store	Payback Period (months)
Co-owned	9.2%	1.3%	2,610	9,600	44
OmniaLuo-owned	14.3%	8.9%	16,956	13,700	10
Independent distributor	76.5%	89.9%	32,370	0	na
All	100.0%	100.0%	26,431		

\* Contribution margin is calculated as sales net of mall management fees and commissions, less cost of goods sold (COGS), and store-level expenses such as salaries, utility costs, rent, partnership commissions, and period leasehold improvement expense.

Source: Griffen-Rose

The Company's overall FY07 general and administrative (G&A) expenses were about \$1.9 million, of which about \$1 million one-off were reverse merger and 2007 private placement expenses. FY07 selling and marketing expenses were about \$1 million (12.4% of sales revenues).

FY07 operating profit excluding reverse acquisition, private placement and related SEC registration costs was \$2.2 million, equivalent to a profit margin of 27.6%. GAAP FY07 operating profit was \$1.2 million (15.5% of total sales revenues), and after \$2.3 in non-cash escrow release expense (representing the market value of shares released from escrow to Ms. Luo reflecting achievement of contractual net income thresholds) plus minor interest income, other income and finance costs, the net loss for the year was \$1.1 million. Excluding the reverse merger private placement, SEC and escrow release expense, net income for the year ended December 31, 2007 would have been \$2.2 million.

## 2.2. Liquidity

As of the end of fiscal 2007, the Company's net cash position was \$3.1 million, compared with \$83,500 as of the prior year period, and its working capital was about \$7.6 million compared with \$451,000 as of December 31, 2006. The Company's private placement raised \$6.2 million net of costs. FY07 net cash used in operating activities was \$2.5 million, largely due to increases in receivables, inventories and deposits of \$1.4 million, \$2.5 million and \$0.9 million, respectively. OmniaLuo spent \$770,000 on property and equipment and plans to invest \$3 million in working capital and \$2 million for store expansions and upgrading information management systems in 2008. The Company believes that it will need additional financing in the future. In our view it may seek such additional funds in the latter part of 2008 or in 2009.

## 2.3. Legal Proceedings; Off-Balance Sheet Arrangements

OmniaLuo is party to no legal proceedings and has no off-balance arrangements at the time of this writing.

## 3.0. Outlook for China's Apparel Retailing Industry

### 3.1. General Economic Conditions

The Economist newspaper projects that China's real GDP growth will slow over the 2008-2012 period but will remain impressive, easing from 11.4% in 2007 to 9.8% in 2008 and further to 9% in 2009, and 8.4% by 2012 as export growth slackens. Domestic demand is expected to strengthen over the period, as consumption is boosted by strong wage growth, offsetting deterioration in the contribution of net exports to growth. Downside risks are posed by the threat of a loss of consumer confidence, although the government has room to increase its spending sharply.

China will probably achieve its first fiscal surplus for decades in 2007, and the government balance is likely to remain in the black in 2008. However, the fiscal balance is forecast to return to a slight deficit in 2009, equivalent to 0.2% of GDP. Despite higher interest rates, consumer price inflation is likely

to remain a persistent challenge for the government in 2008-2012, as labor shortages push up wages and rapid demand growth tests supply constraints, notably in agriculture. Year-on-year consumer price inflation rose from 7.1% in January 2008 to 8.7% in February, an 11-year high, although it slowed slightly in March to 8.3%. The Economist's projections that inflation will be 4.5% in 2008 and 3.9% in 2009 seem overly optimistic at present.

**Table 3. Key Economic Indicators for China**

Key indicators	2007	2008	2009	2010	2011	2012
Real GDP growth	11.4%	9.8%	9.0%	9.0%	8.6%	8.4%
Consumer price inflation	4.8%	4.5%	3.9%	3.7%	3.8%	3.8%
Budget balance (GDP %)	0.1%	0.2%	-0.2%	-0.3%	-0.3%	-0.3%
Current acc. balance (GDP%)	11.6%	10.4%	10.0%	9.8%	8.9%	7.6%
Commercial bank prime interest rate (year-end)	7.6%	8.0%	7.8%	7.6%	7.8%	7.8%
Exchange rate Rmb:US\$	7.61	7.05	6.77	6.5	6.25	6.03

Source: The Economist

The Renminbi (RMB) will most likely continue to be held in a closely managed exchange-rate system, while also being allowed to appreciate gradually against the US dollar. The Economist expects that increasing volatility and sustained appreciation will occur over the 2008-2009 period, with market forces gradually exerting more influence over the exchange rate. The government is expected to ease restrictions on the capital account slowly. In manufactured goods, export competitiveness is likely to be eroded by rising production costs and the renminbi's appreciation.

### 3.2. Textile and Garment Export Growth Beginning to Slow

China removed the RMB: Dollar exchange rate peg in July 2005 and has allowed its currency to appreciate by about 14% since then. This has disadvantaged textile and apparel exporters, who, already facing margin pressure due to rising labor costs, are increasingly reluctant to take low-margin foreign orders for fear of exchange losses. The numbers tell the story. China exported \$171.2 billion worth of textile and garment products in 2007, up 18.9 percent from the previous year. Exports in January-February 2008 were \$25.6 billion, up 9.6% YOY compared with an increase of about 20% in prior year periods. In February 2008, exports actually fell to \$10.3 billion, lower by 32.9% sequentially and 8.5% YOY, largely due to weakening US and European demand and severe winter storms in China. China Chamber of Commerce for Import and Export of Textiles predicts that full-year 2008 export growth will be 15% lower than growth in 2007.

### 3.3. Capacity Switching to Domestic Market

As a result of a more challenging export environment, many low-margin foreign orders have started going to other countries such as India, and Chinese manufacturers have

switched some capacity from export to domestic markets. This increased output is being marketed at aggressively low pricing levels in order to maintain adequate capacity utilization. We expect that further capacity will be switched from export to domestic markets as the RMB continues to appreciate. Given stagnant population growth, we believe that unless capacity is cut the pricing environment for textile and apparel products in China is likely to remain soft for years to come.

### 3.4. Rising Domestic Demand

Aggressive pricing is stimulating domestic demand. Additional factors supporting demand are principally rising affluence (see Table 4), consumerism, urbanization and continuing population growth. China's population growth is low in percentage terms but large in absolute terms. It grew by about 7 million in 2006 and, we estimate, by 12.5 million in 2007, equivalent to 0.5% and 0.9% growth, respectively. Near term factors constraining demand are principally rising food and energy prices and interest rate increases designed to curb inflation (the central bank raised interest rates six times in 2007). Long term factors include fears about the lack of public health and retirement safety-nets. The bullish factors have the upper hand over the bearish, resulting in rapid apparel volume sales growth coupled with flat to negative retail price trends. There are of course variations and exceptions to this general country-wide picture depending on factors such as location, raw materials and brand.

Table 4. GDP per Head (RMB) Growth Rate in China

Year	Annual Growth
1997	8.6%
1998	-0.3%
1999	18.6%
2000	9.8%
2001	9.7%
2002	9.0%
2003	12.2%
2004	17.0%
2005	13.8%
2006	13.5%

Source: China National Bureau of Statistics

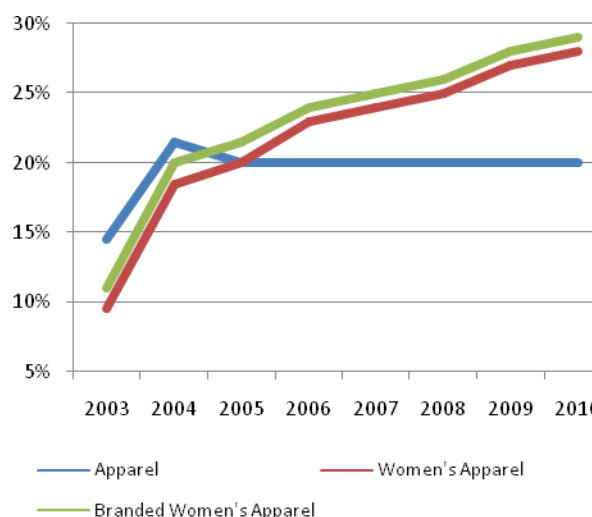
### 3.5. Apparel Retail Price Inflation Contained, Sales Volumes Rising

China's inflation is largely concentrated in food and energy; there are deflationary pressures in other sectors of the economy such as apparel retail. The apparel price component of the January 2008 consumer price index fell 1.9% YOY. The price of foodstuff, non-foodstuff, consumable and services expanded 18.2%, 1.5%, 8.5% and 2.6%, respectively. The weakness in apparel prices also reflects the growing number of companies that are turning from exports

to the domestic market. Chinese retailing revenue growth is being driven by volume growth not price. Apparel retailing is a prime example of this trend. The CGIR 2005 report forecasted that the apparel industry would continue to grow at about 20% annually over the 2006-2010 period, and the women's apparel market would outpace overall apparel industry growth, as shown in Figure 1; branded women's apparel was projected to grow even faster than general women's apparel.

The reality may be exceeding the expectation. According to Globecot, a leading supplier of news, analysis and market research for the global fiber and textile industries, apparel retail sales in China are expanding at a record breaking pace, with November 2007 sales up 29% YOY. Total 2007 apparel retail sales in China are expected to be 25% higher than 2006 levels. This increase has been driven wholly by rising volume and, if sustained, would mean a doubling of sales volumes every 37 months. This explains the appeal of China's retail industry and demonstrates that a successful volume-driven apparel retail marketing strategy needs to maximize return on capital by increasing inventory turnover rather than seek to raise profit margins by raising sales price.

Figure 1. Actual and Projected Annual Growth Rates of Apparel Sales



	2003	2004	2005	2006	2007	2008	2009	2010
Apparel	15%	22%	20%	20%	20%	20%	20%	20%
Women's Apparel	10%	19%	20%	23%	24%	25%	27%	28%
Branded Women's Apparel	11%	20%	22%	24%	25%	26%	28%	29%

Source: Chinese Garment Industry report 2005-2006

### 3.6. Chinese Female Consumerism is Rising

Chinese women have enjoyed much progress and benefits in the past two decades as China's economy and society have

liberalized. The economic status of the modern Chinese woman has been greatly influenced by the rapidly changing environment she lives in and is exposed to, her education background, and the commercial opportunities that are available to her.

Modern China has placed great emphasis in according equality between genders through its governmental policies. Consequently, the last five decades have seen rapid development in the fabric of Chinese society and the metamorphosis of China's female consumer as women have had the privilege to take great strides forward in the political arena, in the economy, in society and at home. Education has always proved to be an important equalizer and a key factor in the progression of all societies. More and more Chinese women are receiving higher education and embarking on a professional career path, especially amongst the younger generation. The impact of these academic opportunities is especially visible in China's key urban cities where women have been able to secure well-paying jobs and advance up the career ladder with their skills and qualifications. It is highly likely that the growth of female consumption will be driven by these urban women who have the greatest choices and economic liberty and have gained the most in terms of social and financial independence. The State has also made efforts to put in place many laws and provisions to ensure equal employment opportunities and the equitable sharing of economic resources to ensure that women can participate in China's economic development while improving their social and financial status.

Many Chinese working women today are living a consumption lifestyle, choosing to spend today and putting off savings for the future; 65% of female consumers spend 60% or more of their monthly wages. A poll by human resource portal cjol.com found that the more a woman earns and the higher her corporate position, the less likely she is to save. Conversely, women who earn less and hold lower positions have better saving habits. Hence, spending power is higher the more one earns.

The potential spending power of Chinese female women is estimated to be enormous in the next decade. According to estimates from MasterCard, the total purchasing power of younger women living on their own or in married households with no children is likely to rise from US\$180 billion in 2005 to US\$260 billion in 2015. Elderly women living in "empty nester" households, where their children have grown and left home, are expected to have purchasing power of US\$150 billion in 2015, up from US\$100 billion in 2005. For women in elderly single households where they live alone, their spending power is likely to rise from US\$50 billion in 2005 to US\$115 billion in 2015, more than double in a decade. These are very significant levels of purchasing power and businesses can do well to cater to this segment of consumers.

China's luxury market is the third largest and among the fastest growing in the world, spurred by the voracious appetite of Chinese urban women for luxury goods. The influx of luxury brand names into the domestic retail marketplace have contributed to the rise of this consumption niche. These high-street brand names can be found not only in major locations like Shanghai and Beijing but also in second-tier cities such as Shenyang, Tianjin, Harbin and Qingdao. With China's second tier cities' populations averaging about five million each, many luxury companies have been expanding into these markets to reach consumers there.

Store locations, often a significant challenge in Tier 1 cities, are also easier to pin down in such cities. The presence of high-street luxury brands in China has not only provided an avenue for consumers to spend their RMB, but is also serving to educate and spur consumers to aspire for more. According to the authors of "The Cult of the Luxury Brand: Inside Asia's Love Affair with Luxury", China's consumers are currently at the show-off stage where luxury goods are used to define wealth. While Western consumers are moving towards more subtly branded goods, Chinese prefer "bling and shine". This relates closely to the Asian concept where "face" and status merit a lot of worth in society and is often seen as means to advance further.

Consumers, especially from the '80s generation, are increasingly willing to spend a substantial amount of their wages on such purchases. Even consumers who bring in monthly salaries of RMB 3,000 to RMB 4,000 are willing to spend on luxury goods as they have high confidence in the booming economy and their earning potential. These shoppers are seen to be more sophisticated than the generation before and are willing to buy into an 'image' to reflect their growing social status. This segment is expected to be regular luxury consumers as they reach their 30s and beyond. Besides traditional shop fronts, luxury retailers are gradually moving down a new shopping channel for luxury products, e-tailing, to appeal to modern technology savvy consumers. This has great potential to extend the Company's reach into every home with Internet access. Galleria, one of the world's leading luxury product retailers, has recently opened its virtual doors to the Chinese luxury market with the launch of its very user-friendly e-store. It has even provided a guarantee on the authenticity of its goods to allay concerns regarding counterfeits.

## 4.0. Value Perspective

### 4.1. Assumptions

Given OmniaLuo's short operating history, the purpose of this discussion is to gain a rough assessment of value inherent in the current trading price given a set of reasonable

assumptions about how the company may develop. The key assumptions upon which perspective is built are set out in Table 11.

**Store expansion.** Assuming OmniaLuo's store expansion proceeds as planned, we project 250-260 stores and 315-325 stores by the end of December 2008 and 2009, respectively. We've assumed an 8% annual inflation rate in the set up costs of retail stores in China's Tiers 1, 2 and 3 urban centers.

**Apparel volume sales per store.** We have assumed no increase in sales per store over the forecast period.

**Apparel sales prices.** We have assumed that the prêt à porter apparel market in China will be highly competitive and apparel retail prices will remain flat during the forecast period.

**Apparel COGS inflation.** We believe that in the near term, producer price inflation in China's apparel industry will remain subdued because transportation cost increases are likely to be offset by excess capacity in domestic textile production aggravated by slowing exports as the twin effects of weaker US demand and a strengthening RMB hit China's exporters. However in the medium term producer price inflation may pick up if:

- (a) Power shortages begin to affect textile/garment supply, or textile/garment manufacturers are forced to install their own/seek private sources of supply
- (b) China's government weakens price controls on energy supply
- (c) Textile/garment manufacturers are unable to contain rising wage demands triggered particularly by rising food prices.

Accordingly we have assumed no COGS inflation for FY08, 2.5% COGS inflation for FY09 and FY10.

**Company wage and general cost inflation.** We've assumed 6% inflation during FY08 and 5% annual during FY09-FY10 in OmniaLuo's wage bill and general store-level expenses. As noted, China's inflation rate is currently 8.3% and the government has raised interest in order to reduce this rate. We think these measures at their present level are unlikely to be significantly effective in FY08 given continuing food price inflation, which was 21% in the three months from January to March 2008.

**Cost structure.** We estimate that over 90% of OmniaLuo's core operating costs are variable or semi-variable. Operating leverage will be relatively low as the Company grows (that is, operating profit margin will not readily expand with revenue growth). We believe that a tipping point will come when the Company can decelerate sales and marketing expense

growth without harming revenue growth because it will be sufficiently well established in its key regional markets; this would boost OmniaLuo's profitability. However we believe that during the FY08-FY10 OmniaLuo will need to incur substantial marketing costs to build a greater presence in the Southern, and particularly Eastern and Western regions, and we have assumed that advertising and marketing (A&M) costs in 2008 will be about double 2007 levels. We project that, generally throughout the forecast period, A&M will average about 13.5% of revenues compared with 12.4% of revenues during fiscal 2007.

**Profits.** We project \$3.9 million and \$5.0 million in earnings before interest and tax (EBIT) in FY08 and FY09, respectively. We expect the Company to generate \$3.9 million in GAAP after tax profit in FY08 and \$4.6 million in FY09.

**Taxes.** As a domestic "manufacturer" OmniaLuo will remain eligible for tax exemptions and reductions resulting in a corporate tax rate of 0% in FY08 and 7.5% in FY09-FY11. From FY12 onward, the Company's tax rate will revert to the 15% rate enjoyed by businesses located in the Shenzhen Special Economic Zone.

**Working capital.** The Company's working capital management will improve. OmniaLuo's average net working capital, excluding excess cash and adjusting for receivables paid shortly after December 31, 2007, will decline gradually from 69% FY07 sales to about 45% of FY10 sales. OmniaLuo's cash needs will be driven principally by working capital and marketing requirements. Capital expenditure and therefore depreciation will not be major factors in the company's growth.

**Share count.** OmniaLuo's outstanding share count will expand to the fully diluted 28.5 million maximum as warrants are exercised over the next 18 to 36 months, generating the Company up to about \$8.8 million in proceeds for working capital.

**Terminal value.** Terminal value multiples of fiscal 2009 net operating profit after tax (NOPAT) will be 14.3x, slightly below the 15.2x median forward P/E multiple for the group of comparable companies. We believe that, given OmniaLuo's superior growth trend compared with the other companies in the group, this provides a conservative basis for assessing OLOU's value.

The 14.3x terminal value multiple is also consistent with varying combinations of unlevered cost of capital and NOPAT perpetual growth assumptions at the forecast horizon, that are highlighted in Table 13. The terminal value accounts for 72% of the value of the stock, and is highly sensitive to growth and discount rate assumptions.

**Unlevered equity discount rates of free cash flows ranging from 13.5% to 24%.** Our central scenario assumes unlevered discount rates of about 18.5% from the perspective of an investor in March 2008 concerned about the relatively small size of the company and the state of U.S. equity markets. As Table 12 shows, the discount rate is derived from applying the capital asset pricing model (CAPM). We make the simplifying assumption that there will be no material changes in the inputs required by the model (risk free rate, beta and market premium) over the FY08-FY10 period.

#### 4.2. Valuation

These broad assumptions, which ignore debt tax shield benefits, support a base case argument that OLOU would be reasonably priced at \$2.31, 71% above the current \$1.35 price. If we flex the critical assumptions underlying the scenario to 20% cost of equity and terminal value 20% below the base case projection, we arrive at a valuation of \$1.89 share, which is 46% above the current price. Conversely, if we use more aggressive assumptions of 15.5% cost of equity and terminal value 20% above the base case, we arrive at a valuation of \$2.91 per share, which is 116% above the current price (see Table 13). Again, neither the more conservative nor aggressive perspectives factor in the debt tax shield upside.

Since our base case scenario assumes that OmniaLuo's profit growth will come largely from increasing store numbers rather than margin expansion, rising sales per store, or improved operating efficiencies, a paradigm shift in our perspective on OLUO would be triggered by:

- (a) Evidence that the Company is successfully implementing its new pricing strategy and expanding operating margins by raising average sales prices to 6x-8x production cost;
- (b) Significant improvements in the Company's inventory turnover without sacrificing profitability;
- (c) Significantly rising sales per store.

Table 5. OmniaLuo, Inc. – Summary of Key Metrics

I. EV Calculation (in millions, except per share data)		III. PF Income Statement Summary			IV. Working Capital Mgmt & Liquidity		
Analysis Price, March 2008	\$2.31	Revenues	2007	\$7.9	Trade Receivables (days)	MRQ	19
Current Price	\$1.35		2008e	\$14.3	Inventory Held (days)	MRQ	58
TTM High	\$2.15		2009e	\$18.6	Trade Payables (days)	MRQ	14
TTM Low	\$1.10	EBIT*	2007	\$2.2	Current Ratio	MRQ	5.6x
Basic Shares Outstanding (Common)	22.8		2008e	\$3.9	Times Interest Earned	MRQ	36.7x
Market Value (Common)	\$30.8		2009e	\$5.0	Long Term Debt/Equity	MRQ	0.0%
Stock Equiv. Conv. Pref & Options Out.	-	EBITDA*	2007	\$2.3	NWC/Revenue	MRQx4	69.0%
Market Value (Warrants/Options)	\$7.7		2008e	\$4.1			
Adjusted Market Value	\$38.5		2009e	\$5.2			
Less: Cash	\$3.9	EBITDA*-Capex	2007	\$1.5	<b>V. Value Creation Statistics*</b>		
Plus: Debt & Other Loans	\$-		2008e	\$3.9	Return on Equity:	2007	27.4%
Plus: Minority Interest	\$-		2009e	\$5.0		2008e	33.2%
Adjusted Enterprise Value	\$34.6	Net Income*	2007	\$2.2		2009e	24.4%
Enterprise Value	\$26.9		2008e	\$3.9	Return on Assets:	2007	21.6%
		Net Income (Common)*	2007	\$2.2		2008e	28.5%
			2008e	\$3.9		2009e	21.5%
			2009e	\$4.6	Return on Invested Capital:	2007	31.1%
		Basic Earnings per Share (cents)*	2007	9.8		2008e	34.8%
			2008e	16.4		2009e	27.5%
			2009e	17.9			
		EBIT* Margin	2007	27.8%	<b>VI. Valuation Information</b>		
			2008e	27.3%	P/E:	P/2007Earnings	14.3x
			2009e	26.8%		P/2008eEarnings*	7.9x
		EBITDA* Margin	2007	29.4%		P/2009eEarnings	6.7x
			2008e	28.6%	BV:	P/Book	3.7x
			2009e	28.0%		AdjP/BookValue+ConvPref	4.6x
		EBITDA*-Capex Margin	2007	19.2%	EV:	EV/IC	3.2x
			2008e	27.4%		EV/Assets	2.7x
			2009e	27.0%		EV/2008eEBIT	6.9x
		Net Income* Margin	2007	27.4%		EV/2009eEBIT	5.4x
			2008e	27.3%		EV/2008eEBITDA	6.6x
			2009e	24.8%		EV/2009eEBITDA	5.2x
Net Liquidation Value	\$7.6						
Net Asset Value	\$7.6						
Net Working Capital	\$7.6						
Net Debt	\$(3.9)						
Dividend Per Common Share	-						

\*2007 calculation excludes one-time expenses related to Company's reorganization and capital raise and non-cash "make good" charges.

Source: Griffen-Rose.

Table 6. OmniaLuo, Inc. – Income Statement (\$'000 except EPS data)

	2006	1Q07	2Q07	3Q07	4Q07	2007	1Q08	2Q08	3Q08	4Q08	2008E	1Q09	2Q09	3Q09	4Q09	2009E	2010E
Total sales	1,480	902	1,641	2,670	2,662	7,876	3,083	3,215	4,248	3,729	14,275	4,035	4,296	5,521	4,746	18,599	22,923
Cost of sales	788	389	707	1,357	1,172	3,624	1,507	1,664	1,797	1,671	6,638	2,040	2,291	2,405	2,190	8,925	11,323
Gross profit	692	513	934	1,313	1,491	4,251	1,576	1,551	2,451	2,058	7,637	1,995	2,005	3,117	2,556	9,673	11,600
GPM	46.7%	56.9%	56.9%	49.2%	56.0%	54.0%	51.1%	48.3%	57.7%	55.2%	53.5%	49.4%	46.7%	56.4%	53.9%	52.0%	50.6%
Depreciation	0	22	22	37	48	130	42	44	46	49	181	51	53	55	58	216	252
Selling & distribution	94	93	169	259	458	979	415	433	572	502	1,921	543	578	743	639	2,503	3,085
R&D	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Administrative	114	158	473	359	934	1,924	372	382	462	422	1,638	445	465	560	500	1,970	2,302
Operating Profits	484	240	270	658	51	1,218	747	692	1,372	1,086	3,897	956	909	1,759	1,360	4,985	5,961
OPM	32.7%	26.6%	16.4%	24.6%	1.9%	15.5%	24.2%	21.5%	32.3%	29.1%	27.3%	23.7%	21.2%	31.9%	28.7%	26.8%	26.0%
Other income (expense)	0	8	8	6	(2,302)	(2,281)	0	0	0	0	0	0	0	0	0	0	0
Interest expense (income)	(1)	4	4	5	20	33	0	0	0	0	0	0	0	0	0	0	0
Pre-tax income	485	243	273	659	(2,271)	(1,095)	747	692	1,372	1,086	3,897	956	909	1,759	1,360	4,985	5,961
Income taxes	78	0	0	0	0	0	0	0	0	0	0	72	68	132	102	374	447
Net income	407	243	273	659	(2,271)	(1,095)	747	692	1,372	1,086	3,897	884	841	1,627	1,258	4,611	5,514
NIM	27.5%	27.0%	16.6%	24.7%	(85.3%)	(13.9%)	24.2%	21.5%	32.3%	29.1%	27.3%	21.9%	19.6%	29.5%	26.5%	24.8%	24.1%
EPS (basic)	813.4	486.6	546.4	1,318.6	(9.9)	(5.0)	3.2	2.9	5.7	4.4	16.4	3.5	3.3	6.3	4.8	17.9	20.0
EPS (diluted)*	1.4	0.9	1.0	2.3	(8.0)	(3.8)	2.6	2.4	4.8	3.8	13.7	3.1	2.9	5.7	4.4	16.2	19.3
Basic shares outstanding (M)*	0.1	0.1	0.1	0.1	22.8	22.0	23.1	23.6	24.0	24.5	23.8	25.0	25.5	25.9	26.4	25.7	27.6
Dilutive shares outstanding (M)	28.5	28.5	28.5	28.5	28.5	28.5	28.5	28.5	28.5	28.5	28.5	28.5	28.5	28.5	28.5	28.5	28.5

Source: Company, Griffen-Rose.

Table 7. OmniaLuo, Inc. – Pro Forma Normalized Income Statement (\$'000)

	2006	1Q07	2Q07	3Q07	4Q07	2007	1Q08	2Q08	3Q08	4Q08	2008E	1Q09	2Q09	3Q09	4Q09	2009E	2010E
Revenue	1,480	902	1,641	2,670	2,662	7,876	3,083	3,215	4,248	3,729	14,275	4,035	4,296	5,521	4,746	18,599	22,923
GM	692	513	934	1,313	1,491	4,251	1,576	1,551	2,451	2,058	7,637	1,995	2,005	3,117	2,556	9,673	11,600
Core EBIT	484	240	512	804	633	2,189	747	692	1,372	1,086	3,897	956	909	1,759	1,360	4,985	5,961
D&A	0	22	22	37	48	130	43	45	47	50	185	52	54	56	59	220	257
Core EBITDA	484	262	535	841	681	2,318	790	737	1,419	1,136	4,081	1,008	963	1,815	1,419	5,205	6,218
CAPEX	15	506	0	0	265	770	39	42	52	43	176	40	44	56	41	181	194
Core EBITDA - CAPEX	469	(244)	535	841	416	1,548	751	695	1,366	1,093	3,906	968	919	1,759	1,378	5,024	6,024
Interest expense (income)	(1)	4	4	5	20	33	0	0	0	0	0	0	0	0	0	0	0
PF Normalized Core EBT	485	236	508	799	613	2,155	747	692	1,372	1,086	3,897	956	909	1,759	1,360	4,985	5,961
PF Tax	0	0	0	0	0	0	0	0	0	0	0	72	68	132	102	374	447
<b>PF NI</b>	<b>485</b>	<b>236</b>	<b>508</b>	<b>799</b>	<b>613</b>	<b>2,155</b>	<b>747</b>	<b>692</b>	<b>1,372</b>	<b>1,086</b>	<b>3,897</b>	<b>884</b>	<b>841</b>	<b>1,627</b>	<b>1,258</b>	<b>4,611</b>	<b>5,514</b>
PF NI to Common	485	236	508	799	613	2,155	747	692	1,372	1,086	3,897	884	841	1,627	1,258	4,611	5,514
PF Diluted Common Shares							28.54	28.54	28.54	28.54	28.54	28.54	28.54	28.54	28.54	28.54	28.54
PF diluted EPS (cents)							2.6	2.4	4.8	3.8	13.7	3.1	2.9	5.7	4.4	16.2	19.3
% Rev Change						432.3%	241.9%	95.9%	59.1%	40.1%	81.2%	30.9%	33.6%	30.0%	27.3%	30.3%	23.2%
% Core EBIT Change						352.0%	211.6%	35.2%	70.7%	71.6%	78.0%	28.1%	31.4%	28.3%	25.2%	27.9%	19.6%
% PF NPM Change						344.6%	217.0%	36.3%	71.7%	77.2%	80.8%	18.5%	21.5%	18.6%	15.8%	18.3%	19.6%
% PF EPS Change						nc	nc	nc	nc	nc	nc	18.5%	21.5%	18.6%	15.8%	18.3%	19.6%

Source: Griffen-Rose.

Table 8. OmniaLuo, Inc. – GAAP &amp; Pro Forma Normalized Margin Analysis

	2006	1Q07	2Q07	3Q07	4Q07	2007	1Q08	2Q08	3Q08	4Q08	2008E	1Q09	2Q09	3Q09	4Q09	2009E	2010E
<b>GAAP Margins</b>																	
COGS	53.3%	43.1%	43.1%	50.8%	44.0%	46.0%	48.9%	51.7%	42.3%	44.8%	46.5%	50.6%	53.3%	43.6%	46.1%	48.0%	49.4%
GM	46.7%	56.9%	56.9%	49.2%	56.0%	54.0%	51.1%	48.3%	57.7%	55.2%	53.5%	49.4%	46.7%	56.4%	53.9%	52.0%	50.6%
D&A	0.0%	2.5%	1.4%	1.4%	1.8%	1.6%	1.4%	1.4%	1.1%	1.3%	1.3%	1.3%	1.3%	1.0%	1.2%	1.2%	1.1%
S&D	6.3%	10.3%	10.3%	9.7%	17.2%	12.4%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%
R&D	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Admin	7.7%	17.5%	28.8%	13.4%	35.1%	24.4%	12.1%	11.9%	10.9%	11.3%	11.5%	11.0%	10.8%	10.1%	10.5%	10.6%	10.0%
SG&A	14.0%	27.8%	39.1%	23.2%	52.3%	36.9%	25.5%	25.3%	24.3%	24.8%	24.9%	24.5%	24.3%	23.6%	24.0%	24.1%	23.5%
EBIT	32.7%	26.6%	16.4%	24.6%	1.9%	15.5%	24.2%	21.5%	32.3%	29.1%	27.3%	23.7%	21.2%	31.9%	28.7%	26.8%	26.0%
NI	27.5%	27.0%	16.6%	24.7%	(85.3%)	(13.9%)	24.2%	21.5%	32.3%	29.1%	27.3%	21.9%	19.6%	29.5%	26.5%	24.8%	24.1%
<b>Pro-Forma Normalized Margins</b>																	
COGS	53.3%	43.1%	43.1%	50.8%	44.0%	46.0%	48.9%	51.7%	42.3%	44.8%	46.5%	50.6%	53.3%	43.6%	46.1%	48.0%	49.4%
GM	46.7%	56.9%	56.9%	49.2%	56.0%	54.0%	51.1%	48.3%	57.7%	55.2%	53.5%	49.4%	46.7%	56.4%	53.9%	52.0%	50.6%
D&A	0.0%	2.5%	1.4%	1.4%	1.8%	1.6%	1.4%	1.4%	1.1%	1.3%	1.3%	1.3%	1.3%	1.0%	1.2%	1.2%	1.1%
S&D	6.3%	10.3%	10.3%	9.7%	17.2%	12.4%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%
R&D	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Admin	7.7%	17.5%	28.8%	13.4%	35.1%	24.4%	12.1%	11.9%	10.9%	11.3%	11.5%	11.0%	10.8%	10.1%	10.5%	10.6%	10.0%
SG&A	14.0%	27.8%	39.1%	23.2%	52.3%	36.9%	25.5%	25.3%	24.3%	24.8%	24.9%	24.5%	24.3%	23.6%	24.0%	24.1%	23.5%
EBIT	32.7%	26.6%	31.2%	30.1%	23.8%	27.8%	24.2%	21.5%	32.3%	29.1%	27.3%	23.7%	21.2%	31.9%	28.7%	26.8%	26.0%
EBITDA	32.7%	29.1%	32.6%	31.5%	25.6%	29.4%	25.6%	22.9%	33.4%	30.5%	28.6%	25.0%	22.4%	32.9%	29.9%	28.0%	27.1%
EBITDA-Capex	31.7%	(27.0%)	32.6%	31.5%	15.6%	19.7%	24.4%	21.6%	32.2%	29.3%	27.4%	24.0%	21.4%	31.9%	29.0%	27.0%	26.3%
NI	32.8%	26.1%	31.0%	29.9%	23.0%	27.4%	24.2%	21.5%	32.3%	29.1%	27.3%	21.9%	19.6%	29.5%	26.5%	24.8%	24.1%
<b>Multiples</b>																	
EV/Revenue	18.2x	11.3x	6.7x	4.0x	3.4x	3.4x	2.7x	2.3x	2.0x	1.9x	1.9x	1.8x	1.7x	1.5x	1.4x	1.4x	1.2x
EV/PF EBIT	55.6x	37.2x	21.8x	13.2x	12.3x	12.3x	10.0x	9.4x	7.8x	6.9x	6.9x	6.6x	6.2x	5.7x	5.4x	5.4x	4.5x
EV/PF EBITDA	55.6x	36.1x	21.0x	12.7x	11.6x	11.6x	9.5x	8.8x	7.4x	6.6x	6.6x	6.3x	6.0x	5.5x	5.2x	5.2x	4.3x
EV/PF EBITDA - Capex	57.5x	119.6x	35.5x	16.8x	17.4x	17.4x	10.6x	10.0x	8.3x	6.9x	6.9x	6.5x	6.2x	5.7x	5.4x	5.4x	4.5x
MV/PF NI	63.6x	42.8x	25.1x	15.2x	14.3x	14.3x	11.6x	10.8x	9.0x	7.9x	7.9x	7.6x	7.4x	6.9x	6.7x	6.7x	5.6x
<b>PF Tax Rate</b>																	
PF Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%

Source: Company, Griffen-Rose

Table 9. OmniaLuo, Inc. – Ratio Analysis

Ratio Analysis	2006	1Q07	2Q07	3Q07	4Q07	2007	1Q08	2Q08	3Q08	4Q08	2008E	1Q09	2Q09	3Q09	4Q09	2009E	2010E
<b>Trend (YoY)</b>																	
Revenue Growth	nc				79.9%	432.3%	241.9%	95.9%	59.1%	40.1%	81.2%	30.9%	33.6%	30.0%	27.3%	30.3%	23.2%
COGS Growth	nc				48.7%	359.9%	287.4%	135.4%	32.4%	42.6%	83.1%	35.4%	37.7%	33.8%	31.1%	34.5%	26.9%
Gross Profit Growth	nc				115.6%	514.7%	207.3%	66.0%	86.6%	38.1%	79.6%	26.6%	29.3%	27.2%	24.2%	26.7%	19.9%
SG&A Growth	nc				594.5%	1363.0%	203.6%	29.2%	64.7%	(32.5%)	23.3%	25.3%	27.6%	25.8%	23.0%	25.4%	20.3%
Operating Profit Growth	nc				(89.5%)	151.6%	211.6%	156.8%	108.4%	2032.5%	219.9%	28.1%	31.4%	28.3%	25.2%	27.9%	19.6%
Adjusted Earnings Growth	nc	nc	nc	nc	(93.0%)	196.2%	206.8%	153.4%	108.0%	3699.7%	223.5%	18.5%	21.5%	18.6%	15.8%	18.3%	19.6%
Adjusted EBITDA Growth	nc	nc	nc	nc	(80.0%)	182.3%	192.6%	145.9%	102.4%	1075.0%	198.5%	27.6%	30.6%	28.0%	24.9%	27.5%	19.5%
<b>Balance Sheet</b>																	
Assets	\$1.15	\$1.63	\$1.60	\$4.46	\$9.98	\$9.98	\$11.79	\$13.39	\$15.73	\$17.39	\$17.39	\$19.14	\$20.88	\$23.42	\$25.55	\$25.55	\$34.63
Liabilities	\$0.69	\$0.69	\$0.69	\$2.02	\$1.66	\$1.66	\$1.99	\$2.16	\$2.40	\$2.23	\$2.23	\$2.37	\$2.53	\$2.71	\$2.85	\$2.85	\$3.48
Equity	\$0.47	\$0.94	\$0.92	\$2.44	\$8.32	\$8.32	\$9.80	\$11.22	\$13.33	\$15.15	\$15.15	\$16.77	\$18.35	\$20.71	\$22.70	\$22.70	\$31.16
<b>Value Creation***</b>																	
Return on assets (ROA)	70.4%	79.8%	115.2%	71.0%	21.6%	21.6%	25.4%	28.4%	28.1%	28.5%	28.5%	26.1%	24.4%	22.7%	21.5%	21.5%	18.3%
Return on common equity (ROE)**	174.2%	138.1%	201.7%	162.9%	27.4%	27.4%	31.8%	35.0%	37.2%	33.2%	33.2%	30.4%	28.3%	26.1%	24.4%	24.4%	20.5%
Return on capital employed (ROCE)	174.0%	138.8%	203.4%	130.6%	37.4%	37.4%	46.8%	53.9%	56.3%	54.5%	54.5%	53.4%	51.9%	51.3%	52.4%	52.4%	54.4%
Return on invested capital (ROIC)	207.5%	160.2%	230.3%	143.6%	31.1%	31.1%	35.1%	38.3%	38.6%	34.8%	34.8%	32.4%	30.6%	28.9%	27.5%	27.5%	23.1%
<b>Efficiency</b>																	
Inventory turnover	46.6	69.5	111.3	2.9	2.7	2.7	3.4	3.8	2.3	2.2	2.2	2.3	2.3	2.3	2.4	2.4	2.5
Trade receivables collection (days)	9.2	5.7	3.4	18.8	19.3	19.3	19.2	19.2	27.8	28.2	28.2	30.6	31.9	33.0	33.8	33.8	36.4
Trade payables settlement (days)	0.0	0.0	0.0	16.8	14.2	14.2	14.4	14.7	23.8	22.7	22.7	24.5	25.7	25.9	26.2	26.2	26.8
Days sales in cash	20.6	8.4	4.6	4.4	133.7	180.7	144.1	165.6	161.8	214.9	224.6	230.9	245.7	225.5	297.7	303.9	368.6
Purchase/sales	53.3%	46.9%	43.1%	132.8%	58.3%	79.1%	54.5%	57.9%	47.8%	49.8%	52.0%	54.9%	57.9%	47.8%	50.0%	52.2%	52.3%
<b>Capital structure</b>																	
Total debt/assets	0.0%				0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Long term debt/equity	0.0%				0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total debt/equity	0.0%				0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Interest-paying debt/total liabilities	0.0%				0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Liquidity</b>																	
Current ratio	1.66				5.56	5.56	5.55	5.85	6.25	7.46	7.46	7.78	7.98	8.40	8.73	8.73	9.79
Quick ratio	1.61				4.00	4.00	4.16	4.48	4.92	5.95	5.95	6.27	6.49	6.92	7.26	7.26	8.39

Source: Griffen-Rose

Table 10. OmniaLuo, Inc. – Selected Industry Group Performance and Valuation Metrics

	OmniaLuo	OmniaLuo Rank (#/9)	Median	Mean	High	Low	Bebe Stores	Cache	Charlotte Russe	Christopher & Banks	Dickson Concepts	Mothers Work	Ports Design	TrueReligion Apparel
<b>Ticker</b>	<b>OLOU</b>						<b>BEBE</b>	<b>CACH</b>	<b>CHIC</b>	<b>CBK</b>	<b>SEHK:113</b>	<b>MWRK</b>	<b>SEHK:589</b>	<b>TRLG</b>
LTM as of	<b>12/31/07</b>						1/5/08	12/29/07	12/29/07	3/1/08	9/30/07	12/31/07	12/31/07	9/30/07
Enterprise value (M)	<b>\$26.9</b>		<b>\$289.1</b>	\$434.4	\$1,500.1	\$88.7	\$523.8	\$88.7	\$277.7	\$300.5	\$244.0	\$192.2	\$1,500.1	\$348.5
Market cap (M)	<b>\$30.8</b>		<b>\$385.7</b>	\$517.5	\$1,559.3	\$109.7	\$889.1	\$132.9	\$392.4	\$379.0	\$284.7	\$109.7	\$1,559.3	\$393.1
LTM revenue (M)	<b>\$7.9</b>		<b>\$512.0</b>	\$458.7	\$769.9	\$150.3	\$681.5	\$274.5	\$769.9	\$575.8	\$448.2	\$575.8	\$193.8	\$150.3
<b>Growth</b>														
LTM revenue growth*	<b>79.9%</b>	1	<b>7.4%</b>	10.1%	28.5%	(4.0%)	6.7%	(1.6%)	8.1%	5.2%	26.1%	(4.0%)	28.5%	11.6%
NTM revenue growth	<b>81.2%</b>	1	<b>11.4%</b>	14.6%	32.6%	1.7%	9.2%	2.5%	13.7%	1.7%	na	na	28.1%	32.6%
LTM EBITDA margin	<b>29.4%</b>	2	<b>11.5%</b>	15.1%	30.5%	5.4%	16.7%	7.4%	12.2%	9.6%	10.8%	5.4%	30.5%	28.5%
NTM EBITDA margin	<b>28.6%</b>	2	<b>11.2%</b>	15.3%	31.8%	8.6%	15.8%	8.6%	11.2%	9.3%	na	na	31.8%	na
LTM net profit margin	<b>27.4%</b>	2	<b>5.1%</b>	8.8%	29.3%	(0.4%)	10.5%	2.4%	4.7%	3.0%	5.4%	(0.4%)	29.3%	15.5%
NTM net profit margin	<b>27.3%</b>	1	<b>6.9%</b>	10.7%	27.1%	2.7%	9.2%	2.7%	4.5%	3.7%	na	na	27.1%	17.1%
<b>Efficiency</b>														
Inventory turnover	<b>2.7x</b>	7	<b>4.1x</b>	5.3x	13.0x	1.1x	7.8x	3.4x	13.0x	7.4x	1.8x	3.0x	1.1x	4.7x
Avg days inventory	<b>133</b>	7	<b>92</b>	119	321	28	47	107	28	49	206	121	321	77
Receivables coll. (days)	<b>19</b>	5	<b>10</b>	22	56	4	5	4	na	na	14	6	47	56
Payables paym. (days)	<b>14</b>		<b>35</b>	39	78	17	31	38	23	17	42	28	78	54
Cash to cash (days)	<b>138</b>	5	<b>89</b>	123	290	20	20	73	na	na	178	99	290	79
Current ratio	<b>5.6</b>	2	<b>2.9</b>	3.4	6.6	1.5	6.6	3.1	2.9	2.8	1.5	2.1	2.7	5.4
Total debt/total equity	<b>0.0%</b>	1	<b>3.0%</b>	19.4%	105.0%	0.0%	0.0%	5.9%	0.0%	0.0%	17.6%	105.0%	26.7%	0.0%
<b>Value Creation</b>														
Return on assets	<b>39.3%</b>	1	<b>7.4%</b>	10.6%	29.2%	3.3%	9.9%	3.3%	8.3%	6.5%	5.8%	3.4%	18.8%	29.2%
Return on equity	<b>49.5%</b>	1	<b>14.4%</b>	16.2%	43.1%	(2.4%)	15.2%	6.0%	14.8%	7.6%	14.0%	(2.4%)	43.1%	31.7%
Return on capital	<b>40.8%</b>	1	<b>10.7%</b>	13.9%	34.9%	4.6%	12.3%	4.6%	13.9%	9.1%	8.6%	5.0%	22.5%	34.9%
<b>Valuation</b>														
P/LTM diluted EPS before extraord. Items	<b>14.2x</b>		<b>16.9x</b>	18.0x	27.9x	9.8x	13.1x	24.7x	11.0x	22.6x	9.8x	nm	27.9x	16.9x
P/NTM EPS	<b>7.9x</b>		<b>15.2x</b>	15.4x	23.2x	10.0x	12.9x	17.4x	10.0x	17.4x	nm	nm	23.2x	11.5x
P/Tangible book value	<b>3.7x</b>		<b>1.8x</b>	3.5x	11.8x	1.6x	1.9x	1.6x	1.7x	1.7x	1.7x	2.9x	11.8x	4.6x
EV/LTM EBITDA	<b>11.6x</b>		<b>5.2x</b>	7.8x	25.4x	2.9x	4.6x	4.4x	2.9x	5.4x	5.0x	6.2x	25.4x	8.1x
EV/NTM EBITDA	<b>6.6x</b>		<b>4.4x</b>	7.1x	19.0x	2.8x	4.4x	3.7x	2.8x	5.5x	nm	nm	19.0x	nm
EV/Invested capital	<b>3.2x</b>		<b>1.2x</b>	2.8x	11.3x	0.8x	1.1x	0.8x	1.1x	1.4x	1.4x	1.1x	11.3x	4.1x
5-yr Beta	<b>na</b>		<b>1.72</b>	7.00	46.67	0.22	2.14	1.57	0.22	0.75	2.28	0.52	1.87	46.67

Source: Company Filings, Griffen-Rose

Table 11. OmniaLuo, Inc. – Summary of Growth Scenario Assumptions

<b>Income Statement</b>	<b>FY07</b>	<b>1Q08</b>	<b>2Q08</b>	<b>3Q08</b>	<b>4Q08</b>	<b>FY08</b>	<b>1Q09</b>	<b>2Q09</b>	<b>3Q09</b>	<b>4Q09</b>	<b>FY09</b>	<b>1Q10</b>	<b>2Q10</b>	<b>3Q10</b>	<b>4Q10</b>	<b>FY10</b>	<b>FY11</b>
Net sales	7,876	3,083	3,215	4,248	3,729	14,275	4,035	4,296	5,521	4,746	18,599	4,988	5,377	6,795	5,763	22,923	27,247
Core Operating Profit (EBIT)	1,218	747	692	1,372	1,086	3,897	956	909	1,759	1,360	4,985	1,139	1,096	2,117	1,609	5,961	7,085
Pro Forma Net Operating Profit After Tax	1,218	747	692	1,372	1,086	3,897	884	841	1,627	1,258	4,611	1,054	1,013	1,958	1,488	5,514	6,554
<b>Balance Sheet</b>	<b>FY07</b>	<b>1Q08</b>	<b>2Q08</b>	<b>3Q08</b>	<b>4Q08</b>	<b>FY08</b>	<b>1Q09</b>	<b>2Q09</b>	<b>3Q09</b>	<b>4Q09</b>	<b>FY09</b>	<b>1Q10</b>	<b>2Q10</b>	<b>3Q10</b>	<b>4Q10</b>	<b>FY10</b>	<b>FY11</b>
Excess Cash	2,159	3,309	4,153	5,612	7,022	7,022	8,159	9,311	11,139	13,226	13,226	14,616	15,963	18,076	20,377	20,377	25,051
Cash & Near Cash	1,741	1,558	1,682	1,917	1,762	1,762	2,053	2,258	2,508	2,257	2,257	2,566	2,855	3,119	2,769	2,769	3,292
Trade Receivables	757	981	1,150	1,324	1,451	1,451	1,568	1,702	1,859	1,992	1,992	2,121	2,267	2,436	2,581	2,581	3,068
Other Current	1,995	2,447	2,714	2,950	3,045	3,045	3,096	3,153	3,223	3,224	3,224	3,193	3,164	3,286	3,438	3,438	4,087
Inventory	2,603	2,776	2,973	3,206	3,391	3,391	3,565	3,762	3,994	4,179	4,179	4,331	4,504	4,712	4,857	4,857	5,773
Net PPE	725	720	717	722	715	715	703	694	693	675	675	657	642	636	612	612	574
<b>Total Assets</b>	<b>9,980</b>	<b>11,791</b>	<b>13,390</b>	<b>15,732</b>	<b>17,386</b>	<b>17,386</b>	<b>19,144</b>	<b>20,879</b>	<b>23,417</b>	<b>25,554</b>	<b>25,554</b>	<b>27,484</b>	<b>29,394</b>	<b>32,265</b>	<b>34,634</b>	<b>34,634</b>	<b>41,844</b>
Trade Payables	281	374	457	501	545	545	589	641	691	733	733	779	833	885	930	930	1,106
Accrued Liabilities	1,369	1,620	1,708	1,899	1,688	1,688	1,783	1,890	2,015	2,116	2,116	2,211	2,318	2,444	2,545	2,545	3,025
Loans from Shareholders	14	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Equity	8,316	9,797	11,225	13,332	15,153	15,153	16,773	18,349	20,711	22,705	22,705	24,494	26,242	28,936	31,159	31,159	37,713
<b>Total Liabilities &amp; Equity</b>	<b>9,980</b>	<b>11,791</b>	<b>13,390</b>	<b>15,732</b>	<b>17,386</b>	<b>17,386</b>	<b>19,144</b>	<b>20,879</b>	<b>23,417</b>	<b>25,554</b>	<b>25,554</b>	<b>27,484</b>	<b>29,394</b>	<b>32,265</b>	<b>34,634</b>	<b>34,634</b>	<b>41,844</b>

Source: Griffen-Rose

Table 12. OmniaLuo, Inc. – Discounted Cash Flows to Equity\*

FCF	FY07	1Q08	2Q08	3Q08	4Q08	FY08	1Q09	2Q09	3Q09	4Q09	FY09	FY10	FY11
NOPAT		747	692	1,372	1,086	3,897	884	841	1,627	1,258	4,611	5,514	6,554
+DEPRECIATION		43	45	47	50	185	52	54	56	59	220	257	305
-INCREASE IN WC		(5,768)	(587)	(643)	(419)	(7,416)	(495)	(434)	(534)	76	(1,387)	(1,367)	(1,918)
-CAPEX		(39)	(42)	(52)	(43)	(176)	(40)	(44)	(56)	(41)	(181)	(194)	(266)
+DEFERRED TAXES		0	0	0	0	0	0	0	0	0	0	0	0
-CASH PREFERRED DIVIDENDS													
<b>FCF</b>		<b>(5,017)</b>	<b>109</b>	<b>724</b>	<b>674</b>	<b>(3,510)</b>	<b>402</b>	<b>416</b>	<b>1,093</b>	<b>1,352</b>	<b>3,263</b>	<b>4,210</b>	<b>4,674</b>
FY12 NOPAT													7,481
NOPAT Multiple (r=14.0%, g=7.0%)													14.3x
Terminal Value													94,029
Excess Cash Less NOP						3,125					5,490	9,373	3,633
Present Values of FCF, Excess Cash & TV						<b>(325)</b>					<b>6,232</b>	<b>8,161</b>	<b>51,881</b>
FY08-FY11 Cost of Equity	18.5%												
Equity Present Value	65,949												
Total Fully Diluted Shares, '000	28,545												
Value/Share	<b>\$2.31</b>												
<b>Unlevered Cost of Capital</b>													
<b>Bond Yield Plus Risk Premium:</b>													
10-year US Treasury	3.5%												
Country risk premium - China*	5.8%												
Small stock premium	4.6%												
Unlevered Cost of Capital	<b>14.0%</b>												
<b>CAPM approach:</b>													
10-year US Treasury	3.5%												
Unlevered Beta (Bebe Stores)	2.14												
Market risk premium	7.0%												
<b>Cost of equity (kE)</b>	<b>18.5%</b>												

Source: Griffen-Rose

Table 13. OmniaLuo, Inc. – Valuation Stresses

Implied Present Value of Free Cash Flow per Share Stresses										
Price/Share (28.5M shares)			FY08-FY11 Cost of Equity							
Current Price		\$1.35	14.0%	15.5%	17.0%	18.5%	20.0%	21.5%	23.0%	24.5%
Terminal Value Adjustment	-40%	8.6x	1.89	1.80	1.72	1.64	1.57	1.50	1.44	1.38
	-30%	10.0x	2.08	1.99	1.89	1.81	1.73	1.65	1.58	1.51
	-20%	11.5x	2.28	2.17	2.07	1.98	1.89	1.80	1.73	1.65
	-10%	12.9x	2.47	2.36	2.25	2.14	2.05	1.96	1.87	1.79
	-	14.3x	2.67	2.54	2.42	2.31	2.21	2.11	2.01	1.93
	+10%	15.8x	2.86	2.73	2.60	2.48	2.36	2.26	2.16	2.06
	+20%	17.2x	3.06	2.91	2.77	2.64	2.52	2.41	2.30	2.20
	+30%	18.7x	3.25	3.10	2.95	2.81	2.68	2.56	2.44	2.34
	+40%	20.1x	3.45	3.28	3.12	2.98	2.84	2.71	2.59	2.47
	+50%	21.5x	3.64	3.47	3.30	3.15	3.00	2.86	2.73	2.61

Terminal Value Multiple			Horizon Cost of Equity							
NOPAT Growth Rate at the Horizon			11.0%	12.0%	13.0%	14.0%	15.0%	16.0%	17.0%	18.0%
NOPAT Growth Rate at the Horizon	5.0%	16.8x	14.3x	12.5x	11.1x	0.0x	9.1x	8.4x	7.7x	
	5.5%	18.3x	15.5x	13.4x	11.8x	10.6x	9.6x	8.7x	8.0x	
	6.0%	20.1x	16.8x	14.3x	12.5x	11.1x	10.0x	9.1x	8.4x	
	6.5%	22.4x	18.3x	15.5x	13.4x	11.8x	10.6x	9.6x	8.7x	
	7.0%	25.2x	20.1x	16.8x	14.3x	12.5x	11.1x	10.0x	9.1x	
	7.5%	28.8x	22.4x	18.3x	15.5x	13.4x	11.8x	10.6x	9.6x	
	8.0%	33.7x	25.2x	20.1x	16.8x	14.3x	12.5x	11.1x	10.0x	
	8.5%	40.5x	28.8x	22.4x	18.3x	15.5x	13.4x	11.8x	10.6x	
	9.0%	50.8x	33.7x	25.2x	20.1x	16.8x	14.3x	12.5x	11.1x	
	9.5%	68.0x	40.5x	28.8x	22.4x	18.3x	15.5x	13.4x	11.8x	
10.0%	103.1x	50.8x	33.7x	25.2x	20.1x	16.8x	14.3x	12.5x		

Source: Griffen-Rose

Figure 2: Growth of China's Retail Sector

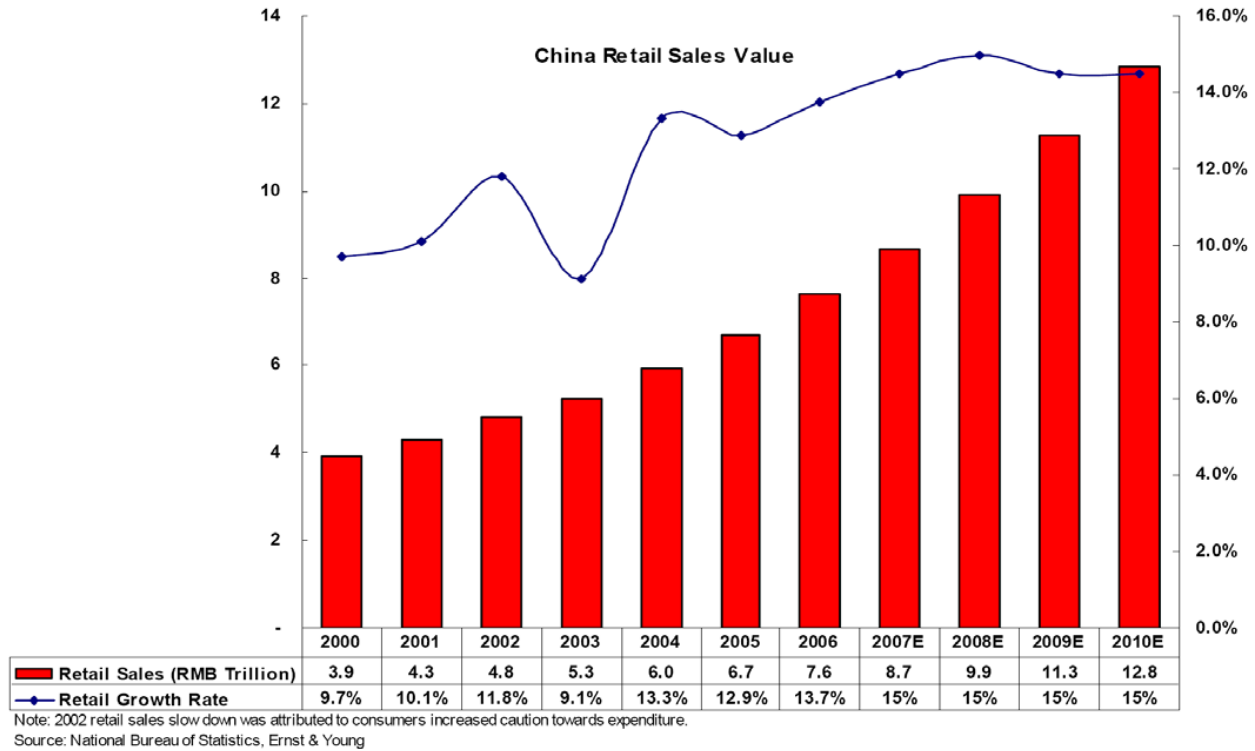


Table 14: Chinese Women's Apparel Market - Consumer Segments by Income

Price Category	Garment Price Range	Customer's Social Status	Customer's Social Class	Customer's Annual Income	Customer's Household Annual Income
Low	< \$37	Blue-Collar	Poor	< \$1,500	< \$3,125
Lower middle	\$37-\$75	Blue-White Collar	Lower Middle Class	\$1,500-\$2,500	\$3,125-\$5,000
Middle	\$75-\$125	White-collar	Upper Middle Class	\$2,500 - \$7,500	\$5,000-\$12,500
Upper middle	\$125-\$188	Pink-collar	Mass Affluent	\$7,500-\$22,500	\$12,500-\$25,000
High	\$188-\$375	Golden-collar I	Global Affluent	\$22,500-\$30,000	\$25,000-\$50,000
Luxury	> \$375	Golden-collar II	Wealthy	>\$30,000	> \$50,000

Source: National Bureau of Statistics of China; McKinsey Global Institute Analysis 2006

**SECTION II****5.0. Company****5.1. Business**

OmniaLuo is both a consumer goods and service company. As a consumer goods company, it designs, arranges for the manufacture of, and markets fashionable business casual women's clothing under the brand names "OMNIALO" and "OMNIALUO" through a network of 196 retail stores across the People's Republic of China ("China"). The Company offers a complete line of business casual women's wear, including bottoms, tops, and outerwear, as well as accessories.

As a service company it oversees a network of OmniaLuo-branded shops that exclusively retail its products. The network was essentially laid down by the Company's COO during his tenure at Green's Apparel from 1997 to 2003, and has since been reorganized. As of March 2008, we estimate that there are 196 shops in the network, of which:

- 135 are operated by independent third parties ("independent stores"), who buy from the Company on a wholesale basis;
- 34 operated by OmniaLuo together with a third party ("co-owned stores"); and
- 27 are operated by OmniaLuo alone ("company owned stores").

OmniaLuo does not currently: market own-branded perfumes, cosmetics, menswear or household fashions; market third party branded product through its retail network; supply products under private label arrangement to other merchandisers; license the use of its brand name to third parties.

**5.2. Company Evolution****5.2.1. Green's Apparel**

In 1996, Ms. Luo created the "OMNIALO" brand and founded Shenzhen Green's Apparel Co., Ltd. ("Green's Apparel") in Shenzhen, China. Green's Apparel manufactured women's clothing and owned the OMNIALO trademark, which was registered with the Chinese National Trademark Bureau in both Chinese and English in 1997. Ms. Luo owned 95% of Green's Apparel's equity.

**5.2.2. Oumeng**

In March 2003, Ms. Luo established the Shenzhen Oumeng Industrial Co., Ltd. ("Oumeng"). Ms. Luo owned 50% of Oumeng's equity and controlled the company. Oumeng is the successor business to Green's Apparel. In 2003 Oumeng acquired the OMNIALO trademark, bought Green's

Apparel's inventory, and was substituted for Green's Apparel in contracts with suppliers, manufacturers and independent distributors. Green's Apparel stopped trading in 2003. Ms. Luo also applied for the registration of the trademark "OMNIALUO" in March 2005.

By the end of August 2006, OMNIALUO brand apparel, under the management of Oumeng, was being distributed through 100 retail stores in China. In addition to marketing and selling OMNIALO and OMNIALUO branded apparel, Oumeng also sold other clothing and products, including electronics, kitchenware and hardware.

Ms. Luo wished to refocus on the women's business apparel business and in April 2007 Ms. Luo and her sister Ms. Xiaoyin Luo transferred their ownership of Oumeng to their mother, Ms. Yuhua Sun, and to Ms. Yujuan Sun, an unrelated party. Ms. Luo resigned from her CEO position at Oumeng and formed OmniaLuo BVI and its Shenzhen operating subsidiary Oriental Fashion, in August and September 2006, respectively. Oriental Fashion is focused purely on creating and marketing women's apparel, and all rights held in the OMNIALO trademark have been transferred from Oumeng to Oriental Fashion. The registration of the OMNIALUO trademark was effective in December 2007 and is now owned by Oriental Fashion.

**5.3. Apparel Production and Marketing****5.3.1. Design**

OmniaLuo's design team is led by Ms. Luo and consists of 10 designers, many of whom have been working with Ms. Luo for several years and are highly trained. On average each of OmniaLuo's designers attends over 10 training sessions per year and regularly visits Hong Kong and other major cities in China to observe the latest fashion trends and understand local tastes. Training sessions include attendance at workshops and seminars run by leading design instructors such as Mr. Weiming Ma, Vice Chair of the Hong Kong SAR Fashion Design Association, Mr. Dazhi Deng, a Hong Kong designer and Mr. Yutao Wang, a Chinese designer.

**5.3.2. Reputation**

Ms. Luo is one of China's most prominent designers. Ms. Luo and the OmniaLuo brands have been featured frequently in leading magazines such as Harper's Bazaar, L' Official, Marie Claire, Vogue, Jessica and Cosmopolitan. Ms. Luo has been interviewed by leading domestic and international media companies such as China Central Television ("CCTV"), the largest TV network in China, Hong Kong Phoenix TV, French Fashion TV, Italian Orbit TV, Vogue UK and the Washington Daily.

Ms. Luo's designs have been worn by several Chinese celebrities and socialites such as Ms. Ziyi Zhang, who

starred in movies such as *Memoirs of a Geisha*, *House of Flying Daggers* and *Hero*, and Ms. Bingbing Fan, who has been ranked by *Forbes* as the “seventh most famous person in China”. As Table 15 shows, Ms. Luo, her team members and the OMNIALUO brand have won many awards, including the China Fashion Designers’ Association (CFDA) “China’s Best Women’s Wear Design” prize from 2002-2006.

**Table 15. Selection of Awards won by Ms. Luo, other Company design Professionals and the OMNIALUO Brand**

Awards to Ms. Luo	
2006	Golden Peak Award in Beijing’s Fashion Show. Golden Peak is viewed as the most prestigious award in the Chinese fashion industry. Each year this award is given by the CFDA to one single designer in recognition of his/her overall outstanding achievements in the fashion design industry. Only “The Best Women’s Wear Designer” recipients in the preceding years are qualified to be nominated for the Golden Peak Award.
2005	Lycra in Style Designer Award, awarded by Happer’s Bazaar
2005	The Best Women’s Wear Designer awarded by CFDA
2005	One of the Top 10 Young Designers in China, awarded by CFDA
2004	The Best Women’ Wear Designer awarded by CFDA
2004	The Outstanding Designer in Asia trophy awarded by Moet & Chandon
2003	The NAUTICA Originality Foundation Platinum Prize, awarded by Nautica (Ms. Luo was selected from a pool of over 1,000 Chinese designers).
2003	Invited to Fashion China Seminar held in Paris Louvre Museum. (Ms. Luo was one of only six Chinese designers invited to present a China-focused fashion show at the Louvre).
2002	One of the Top Ten Fashion Designers in CHINA, awarded by CFDA
2002	#1 among Top Ten Designers, awarded by CFDA
Awards to the OMNIALUO Brand	
2006	China Best Women’s Wear Design, awarded by CFDA
2005	China Best Women’s Wear Design, awarded by CFDA
2004	China Best Women’s Wear Design, awarded by CFDA
2003	China Best Women’s Wear Design, awarded by CFDA
2002	China Best Women’s Wear Design, awarded by CFDA
Awards to Other Company Design Professionals	
2003	Mr. Chao Li was designated the senior fashion designer by CFDA
2006	Ms. Yi Zhou was awarded one of the top ten designers in Guangdong Province by CFDA

Source: Company

### 5.3.3. Products

OmniaLuo markets business casual women’s wear including skirts, trousers, tops and outerwear as well as accessories, which is suitable for both business and casual environments. Many items contain intricate and delicate craftwork, and the designs generally aim to make the wearer look slim. The

clothing is usually made of tating and knitwear, which are soft, comfortable fabrics that allow the skin to “breathe”.

### 5.3.4. Pricing

The recommended price level of OmniaLuo’s products range between \$40 and \$320 per item; most of the items are priced between \$62 and \$150. Given per capita income levels in China, such prices fall within the middle/upper middle price range of local retail apparel. The CFDA’s China Garment Industry Report, released in 2006 forecasts that the middle/upper middle apparel segment will be the fastest growing of all apparel price segments over the 2006-2010 period, with an annual growth rate exceeding 25%.

On average, OmniaLuo’s products sell for three to four times production cost. The Company plans to implement a new product positioning and pricing strategy that aims to increase average sale prices to six to eight times production cost. This will have to be done carefully in order to avoid triggering sharply lower sales volumes and lower revenues. Although urban incomes are rising in China, housing prices and food prices are also rising, and price competition in apparel retailing remains fierce.

### 5.4. Wholesale and Retail Distribution

As Table 16 shows, OmniaLuo’s penetration in the Southern region is greater than in any other. The Company plans to strengthen its Southern regional base and expand further into particularly the Eastern and Central regions, and the Northern region around Beijing. An expansion strategy with a regional focus makes sense given the regional nature of China’s apparel distribution and consumer markets.

**Table 16. Distribution of OmniaLuo’s Stores by Region**

Tier	Owned & Co-Owned	Independent	Total	% of Total
Eastern	4	12	16	10.1%
Southern	32	42	74	46.5%
Central	8	27	35	22.0%
Western	0	12	12	7.5%
Northern	14	33	47	29.6%
Total	58	101	159	100.0%
Typical Location	Mall, street	Street		

Source: Company

#### 5.4.1. Independent Distributor Stores

OmniaLuo wholesales its products to independent stores at 35-40% of the nominal retail price. The buyer pays 30% of the order value when it places the order and pays the balance once shipment is ready but before shipment is sent; this minimizes OmniaLuo’s inventory risk exposure. OmniaLuo invests no funds in the setup of independent stores and can therefore expand their number more cost

efficiently than co-owned and Company-owned stores. As Table 2 shows, we estimate that these stores account for about 90% of the Company's contribution margin before corporate level overhead expenses. The planned increase in these stores is therefore critical to the Company's future success. In fiscal 2007 only one independent distributor, called Hubei Province Tian Men Fashion Factory, represented more than 10% of OmniaLuo's total sales; that distributor accounted for 12% of OmniaLuo's revenue. No customer contributed 10% or more to the Company's consolidated revenue in 2006.

**5.4.2. Company Owned Stores**

OmniaLuo manages the daily operations of its company-owned stores, and pays all operating expenses. Where these stores are located in shopping malls OmniaLuo pays about 20% of sales in mall management fees and recognizes the balance as revenue. Shopping mall locations are important. According to the China Garment Industry Report ("CGIR") issued by the China Fashion Designers' Association (CFDA), in 2005, shopping malls and department stores represented over 55% of apparel sales in urban cities in China. OmniaLuo decorates its company-owned stores opulently, particularly its flagship store in Shenzhen, as a means of brand marketing. These stores offer the Company's complete product lines and are used to monitor market trends and the attractiveness of OmniaLuo apparel with consumers.

**5.4.3. Co-owned Stores**

Co-owned stores are owned jointly by OmniaLuo and a third party partner. OmniaLuo and its partner split the relevant store set up costs and revenue net of shopping mall dues 70:30, respectively, and operating expenses 50:50, respectively. OmniaLuo manages the daily operations and owns the inventory in these stores and bears full inventory risk. We believe the risk/reward profile of co-owned stores is the weakest of the three channels, and these stores are likely to become proportionately less significant in OmniaLuo's future channel mix.

Periodically, OmniaLuo runs outlet sales in major malls to dispose of excessive inventory at the end of each season. The Company is also in discussion with a nationwide outlet store chain to dispose of excessive inventory through 20 of that chain's stores in Tier 4 and 5 locations. Clothes disposed of through the outlet channel are usually marked down heavily on the nominal retail price and OmniaLuo aims to break even or earn a small profit on sales through this channel.

**5.5. Seasonality**

Fashion retailing is seasonal. OmniaLuo's lowest and highest proportion of revenues and operating income is

generated in first and fourth quarter of each year, respectively. This affects working capital patterns and cash needs are generally highest in the third quarter due to inventory build for the fourth quarter.

**5.6 Growth Strategy**

The backbone of OmniaLuo's growth strategy is to increase the number of independent distributor stores in Tier 1-3 cities in targeted regions. These stores require minimal application of company-level human and capital resources to bring on stream. OmniaLuo also plans to broaden its apparel portfolio by introduce a line of clothing that will appeal to 35-45 year old women in 2009.

**Table 17. Existing and Planned Store Expansion**

Store Type	As of 12/31/06	As of 3/31/07	As of 12/31/07	As of 12/31/08e
OmniaLuo-owned	0	12	26	32
Co-owned	0	1	32	38
Independent distributors	61	92	126	182
Total	61	105	184	252

Source: Company

**Table 18. China's Urban Female Consumer Categories**

Type	Age Range	Take Home Salary	Purchasing Power Equivalent of a US Household*	Typical Occupations	Required Brand & Product Positioning
"White" collar	25-35	\$2,500-\$7,500	\$8,000-\$24,000	Junior/middle administrative positions (e.g. secretaries, office administrators, IT staff, accounting staff, junior salespeople)	Mid-market
"Pink" collar	25-35	\$7,500-\$22,500	\$24,000-\$72,000	Finance, consulting, legal service, senior administrators in government agencies	Superior
"Golden" collar	35+	\$22,500+	\$72,000+	Executives/business owners	Luxury

\*Source: National Bureau of Statistics of China; McKinsey Global Institute Analysis 2006

**5.6.1. Growth Supported with Advertising and Public Relations**

OmniaLuo expects to generate and sustain interest from potential independent distributors as well as customers mainly through print advertising, hoardings and displays, and public relations campaigns. The Company launched a \$600,000 advertising campaign in October 2007 that is still continuing, and features Ms. Luo and the OmniaLuo brands

in major fashion magazines in China such as Vogue, Harper's Bazaar, and Cosmopolitan.

### 5.7. Customers

OmniaLuo is targeting "White" and "Pink" collar urban females, as described in Table 18. According to a study in Women's Wear Daily (March 22, 2005), 25-35 year old urban females in China spend over 20% of their disposable income on clothing compared to the national average of 8% to 10%.

### 5.8. Product Design and Raw Materials Procurement

OmniaLuo introduces four collections at trade events each, one for each season. The Company introduces its (i) spring collection in November, (ii) summer collection in March, (iii) fall collection in May, and (iv) winter collection in August.

The Company typically receives 80% of its orders from independent distributors during the trade events, although this proportion may fall as it increasingly markets to distributors that may not attend the relevant events. It takes OmniaLuo about 50-60 days to plan, design and create a sample garment. Raw material and ready-made garment procurement agreements with suppliers take about week to negotiate, after which the inventory clock starts ticking. It takes 20 to 30 days to receive the purchased raw materials. Tinting and knitwear raw materials are delivered to independent manufacturers for manufacturing into garments. Purchased garments (usually made of wool or leather) that are semi-finished or require additional embellishments are forwarded to other independent manufactures for further working.

### 5.9. Outsourced Manufacturing

OmniaLuo has no manufacturing facilities and does not plan to have any in the future. The company buys raw materials, accessories and semi-finished/finished clothes made to an OmniaLuo or third party design. Raw materials and semi-finished products are sourced from over 50 vendors, and finished products from 15 manufacturers in Guangdong Province, not far from the Company's Shenzhen headquarters. Once purchased, OmniaLuo owns the relevant inventory whether it is with a raw material vendor, contract manufacturer or in transit to the Company's warehouse or a retail outlet. In fiscal 2007 one contract manufacturer, Yinhu Apparel Co., Ltd., ("Yinhu") produced about 20% of the Company's manufactured garments by value. The remaining 80% were produced by the other 14 independent manufacturers.

In order to retain flexibility in its supply arrangements, OmniaLuo has no long-term supply agreements in place with vendors or contractors. However the Company reports excellent relationships with its suppliers and receives

preferential treatment from Yinhu because OmniaLuo's orders account for over 90% of Yinhu's production capacity. Yinhu was 80% owned by Ms. Luo until January 2007, at which time she transferred her entire interest in that company to unrelated third parties.

### 5.10. Quality Control

OmniaLuo's two quality control personnel randomly inspect garments in production and visit all contractor facilities at least three times a week. Three other inspectors check garments received in the Company's warehouse.

### 5.11. Information Management

In February 2008, OmniaLuo finished implementing a new information management system designed to streamline purchasing and help the Company monitor production and track inventory on a real time basis. OmniaLuo expects the system to reduce purchasing and storage costs. The system will also boost the Company's inventory management by allowing it to identify and shift slow moving items or excess inventory at one location to another where demand is greater. The effect of this will be to reduce lost revenues from inventory shortages and inventory aging.

### 5.12. Inventory

It takes OmniaLuo about 3 months to fulfil orders. Orders from independent distributors are non-cancellable and require a 30% down payment when the order is placed, and full payment is due before delivery. After placing an order, the retailer can change up to 10% of the order value once only.

### 5.13. Intellectual Property

The Company has two trademarks, OMNIALO and OMNIALUO. The OMNIALO brand is currently dormant and all items are marketed under "OMNIALUO".

### 5.14. Leases

OmniaLuo owns no real estate. It rents: about 11,100 square feet of office and showroom space in Shenzhen, China, under a lease expiring in 2011; 3,000 square feet of office space in Shanghai under a lease expiring in October 2013; and leases a 6,500 square foot warehouse in Shenzhen. All the Company's owned and co-owned stores are leased.

### 5.15. Directors and Principal Executives

#### 5.15.1. Executives

The Company's principal executives are Ms. Cindy Luo, Chairwoman and CEO, Mr. Juneng Yang, Chief Operating Officer and Ms Xiomei Liu, Chief Financial Officer.

**Table 19. OmniaLuo's Principal Directors and Executives**

Name	Age	Title
Cindy Luo	37	Chairperson and Chief Executive Officer
Junneng Yang	41	Chief Operating Officer
Xiaomei Liu	39	Chief Financial Officer
Xiaoyin Luo	43	Director
Wenbin Fang	40	Director
Charles C. Mo	56	Director
Qing Huang	42	Independent Director
Fei Lou	41	Independent Director
Tianhong Yu	41	Independent Director

Source: Company

**Ms. Cindy Luo, Chairperson and CEO**

Ms. Luo is the founder, Chairwoman and Chief Executive Officer and chief designer of OmniaLuo. Before founding Oriental Fashion, OmniaLuo's predecessor, Ms. Luo was Chairwoman and Chief Executive Officer of Oumeng (2003 - 2007) and Chairwoman and Chief Executive Officer of Green's Apparel (1996 - 2003). Ms. Luo has been active in the fashion design and retail business for over 10 years. She created the OMNIALUO brand in 1996. Ms. Luo has won prestigious honors as a fashion designer nationally and internationally and received broad media coverage in China, Hong Kong, Paris and Italy. Ms. Cindy Luo earned a Bachelor of Arts degree in International Finance from Shenzhen University in 1991.

**Mr. Junneng Yang, Chief Operating Officer**

Mr. Junneng Yang was previously vice president of Green's Apparel from 1997 to 2003, during which he built up the OMNIALUO distribution network from 2 shops in Shenzhen to over 150 shops nationally. From 2003 to 2006, Mr. Yang served as a professional consultant for over 20 fashion brands. From 2005 to 2006, he also served as the Chief Executive Officer of Down Jacket Fashion Corp based in Shenzhen. In January 2007, Mr. Yang rejoined Oriental Fashion as its Chief Operating Officer. Mr. Yang brings over 15 years of experience in marketing and brand management in the fashion industry.

**Ms. Xiaomei Liu, Chief Financial Officer**

Ms. Xiaomei has been working as a financial advisor to companies and institutions in China for the past eight years, including four years with Beijing SEEC investments. She worked in the Investment Banking Division of Lehman Brothers in New York and Hong Kong, during which she gained experience in a variety of equity, debt, and merger and acquisition transactions. Ms. Liu has an MBA from Wharton Business School of the University of Pennsylvania and a BA from Finance Institute of China.

**5.15.2. Board of Directors**

The seven person board includes three independent directors. Apart from Ms. Cindy Luo, all directors have served since January 28, 2008.

**Ms. Xiaoyin Luo, Director**

Ms. Luo serves as Director & General Manager of Hutchison Harbour Ring China, a subsidiary of Hutchison Whampoa Limited (HWL). Ms. Xiaoyin Luo has over 14 years of service to HWL. Her main responsibilities are commercial property investment, development, operation, and management. Some of her projects include The Center, Westgate Mall, Harbour Ring Plaza and Huangpu Center in Shanghai, Metropolitan Plaza in Chongqing, and Pacific Plaza in Qingdao. Since Hutchison Harbor is the exclusive licensing agent of Warner Brothers Consumer Product Division (WBCP) in China, Ms. Xiaoyin Luo is in charge of the product license and retail license business development for Warner Bros. Studio Store Shanghai Flagship operation management, retail network and distribution channel construction, and sub-licensee development. Ms. Xiaoyin Luo holds the degree of Master of Economics and holds an EMBA from China Europe International Business School.

**Mr. Charles Mo, Director**

Mr. Mo is a Certified Public Accountant with twenty-seven years of experience in public and corporate accounting and finance. Mr. Mo has held his CPA license since 1980. Mr. Mo has served in his current position as the General Manager of Charles Mo & Co. since June of 2005... From October of 1999 to May of 2005, Mr. Mo served as Chief Operating Officer and Chief Financial Officer of Coca-Cola Shanghai. His duties included finance, logistics, production, and general management. From December of 1998 to September of 1999, Mr. Mo served as Finance Director of Fisher Rosemount Shanghai. From August 1996 to September 1999, he also served as Chief Financial Officer of Nike China, and his responsibilities included overseeing finance, human resources, and logistics. From January 1995 to August 1996, Mr. Mo served as Controller for Polaroid China. From August 1982 to December 1994, Mr. Mo served as Finance and Audit Manager for Wang Laboratories. From 1978 to 1982, Mr. Mo served as an Accountant and Auditor for Ernst & Young and Thomas Allen, CPA. Mr. Mo received a Bachelor of Arts degree with a Business Administration major in 1974 from HK Baptist College. Mr. Mo received an MBA in accounting in 1976 from California State University-Fullerton. Mr. Mo has been the Vice Chairman of AMCHAM Shanghai since 2006, and was re-elected in November 2007. Mr. Mo has served on the Board of Governors of AMCHAM Shanghai since 2005 and will continue to do so during 2008. Mr. Mo was the Treasurer for AMCHAM Shanghai in 2005. He is a director of Benda Pharmaceutical, Inc. (OTC BB: BPMA).

**Mr. Wenbin Fang, Director**

Mr. Fang has served as General Manager in Shen Zhen Meng Sa Di Ka Trading Company since 2003. From 2000 to 2002, Mr. Fang worked for ARTLEVA, an Italian company, where he was focused on exportation of household goods and clothing products from China (including Taiwan) to Italy, France and Germany. From 1998 to 2000, he worked for MAX, where he was focused on exportation of household goods and clothing products from China (including Hong Kong) to Italy and France. From 1993 to 1997, he served as business manager for east Asia area (including China) of R.P.R. Clothing Machine Manufactory, an Italian Company. He earned his Bachelor Degree in Industrial Design in Shangdong Design and Art College. He then spent a year (1992-1993) in the Department of Industrial Design of Italy National Design and Act College.

**Mr. Qing Huang, Independent Director**

Mr. Huang is engaged in private equity financing activities in China as an investor and advisor. He is currently a general partner of Mingly China Growth Fund, L.P. a private equity fund focused on investing in growth companies in China. Mr. Huang has participated in a large number of international financing transactions by Chinese and non-Chinese companies, including private placement and public offerings of corporate equity and debt. Mr. Huang worked as a lawyer and adviser in the United States, Hong Kong and Shanghai and was associated with international law firms Shearman & Sterling and Linklaters in Hong Kong and Brown & Wood LLP in New York. Mr. Huang graduated from Columbia University School of Law with a J.D. degree, from University of Chicago with a Master's degree in Political Science and from Beijing University with a Bachelor Degree in English and American literatures. He is a member of the New York State Bar Association.

**Mr. Fei Luo, Independent Director**

Mr. Fei Luo has served as a director of IER Venture Capital Co., Ltd., a venture capital firm in China, since 2000. He founded Beida Zongheng Financial Consulting Co., Ltd. in 1999 and serves as the President and Chairman of the Board of Beida Zongheng. From 1997 to 1999, he served as the Managing Director of Shenzhen Yanning Development Co., Ltd., in charge of investment. From 1993 to 1996, he served as the Vice Chairman of Shenzhen Anxing Financial Consulting Co., Ltd and Vice Chairman of Shenzhen Anxing investing Co., Ltd. Mr. Fei Luo received his Master degree in Economics from Peking University in 1999 and his BA in Economics from Peking University in 1988.

**Mr. Tianhong Yu, Independent Director**

Mr. Yu has served as Vice President and Managing Director of Huayi Brothers & Taihe Film Investment Co., Ltd., a

leading motion picture and television production and distribution company in China, since 2005. From 2003 to 2005, he had planned and supervised a number of movie and TV series. Prior to that, he was the senior manager of TOM.com Inc., a leading wireless internet company in China. Mr. Yu also founded Beijing Modern Art Center and CHINALAW DATABASE, the first law database in China. Mr. Yu received his Bachelor Degree in Economic Law from Peking University in 1988.

The Company currently lacks audit, nominating or compensation committees but intends to establish them during 2008.

**5.15.3. Family Relationships**

Ms. Xiaoyin Luo, a director, is the elder sister of Ms. Cindy Luo, CEO, and the sister-in-law of Mr. Wenbin Fang, a director. Mr. Wenbin Fang is the husband of Ms. Cindy Luo. There are no other family relationships between any of OmniaLuo's directors and executives.

**5.16. Compensation**

OmniaLuo's executives are paid a base salary and are eligible to receive a board-approved discretionary bonus on an ad hoc basis for superior performance. No bonuses have been paid to date. Perquisites seem well controlled. No executives received any equity awards during the fiscal 2006 or 2007.

OmniaLuo has historically not paid its directors fees for attending meetings, but may adopt a policy of paying its independent directors fees for their attendance at board and committee meetings. Directors are reimbursed for reasonable travel expenses.

OmniaLuo's 102 employees are paid salaries ranging from \$1,750 for a junior clerk to \$75,000 for the CEO.

A summary breakdown of salaries according to function and seniority is provided in Tables 20 and 21 below.

**Table 20. OmniaLuo: Senior Executive Compensation, 2007**

Name	Position	Salary	Bonus/ Other	Stock Awards	Option Awards	Total
Zheng Lou	CEO	75,000	1,600	0	0	76,600
Junneng Yang	COO	30,000	1,200	0	0	31,200
Zhang Liping	Controller	20,000	0	0	0	20,000

Source: Company

**Table 21. OmniaLuo: Senior Executive Compensation, 2006**

Name	Position	Salary	Bonus/ Other	Stock Awards	Option Awards	Total
Zheng Lou	CEO	75,000	0	0	0	76,600

Source: Company

### 5.16.1. Equity Compensation Plans

OmniaLuo intends to adopt an employee equity incentive plan under which the Company's officers, directors, consultants, and employees will be eligible to receive either securities or stock options at exercise prices that may be equal to or lower than the 2007 private placement \$1.25 offering price. The Company intends to reserve up to 5 million shares of common stock for issuance under this plan. Since the plan has not been adopted, we have not included these shares in our dilutive share count.

### 5.16.2. Retirement Benefits

OmniaLuo currently has no company sponsored retirement benefits, deferred compensation, severance, termination or change of control compensation arrangements other than the state pension scheme.

### 5.16.3. Critical terms in CEO's Employment Agreements

Under Ms. Cindy Luo's employment contract with OmniaLuo's operating subsidiary, Oriental Fashion, she may not compete with Oriental Fashion while employed and, if she terminates employment, Oriental Fashion may thereafter pay her RMB 1,800,000 (currently \$237,000) not to compete with its business for up to 3 years.

## 6.0. China's Fashion Retail Industry

### 6.1. Introduction – Restructuring and Growth in China's Retail Industry

China's retail and distribution sectors were amongst the last to be deregulated. The broad thrust of China's economic policy over the last 20 years has been to develop manufacturing, particularly export-orientated manufacturing. Foreign access to domestic retail and distribution markets was only gradually permitted in order to allow local firms time to develop sufficiently to be able to meet foreign competition. During the last two decades, China's economic growth and increasing openness to the outside world have led to the rapid emergence of an urban middle class of increasingly sophisticated consumers who are demanding higher quality, variety and innovation from their retailers. China's retail revolution is not limited to the major urban centres. Migration from the countryside to the cities has boosted the size of the second and third-tier urban retail markets, and rural markets remain significant.

Before China's accession to the World Trade Organization, foreign retailers had to accept a host of restrictions on their operations designed to slow their rate of growth. However, since 2002 most restrictions have been eased and multinational retailers enjoy unprecedented freedom,

including the option to establish wholly-owned foreign enterprises (WOFEs) rather than operate through a joint venture (JV). As a result, foreign retailers are growing both organically, by opening new stores, and also through merger and acquisition.

At least 35 of the global top 50 retailers are now in China. In 2005 alone, the Ministry of Commerce approved over 1,000 investments by foreign-invested retailers and wholesalers with contractual foreign direct investment (FDI) of US\$1.9bn. Yet, foreign invested retail operations accounted for just 2.6% of total retail sales in 2004. Of the country's top 100 retail chains by revenue in 2004, just 17 were foreign-invested, with only one foreign player, Carrefour of France, making it into the top10.

The reality is that domestic operators continue to dominate China's retail sector, with strong support from the government. In 2004, The Ministry of Commerce selected 20 flagship retailers — including Shanghai Bailian (Group) Co, China's largest retailer with revenues of Rmb72.1bn (US\$8.9bn) in 2005 - for special financial support. Beijing knows that with its market opening up steadily to global competition, its domestic players must modernize, innovate and raise standards if they are to survive. Indigenous "national champions" are already emerging, nurtured by a government keen to create major retailers with strong domestic share and the ability to expand overseas. As in other sectors, the government appears to be focusing its support on state-owned or ex-state-owned companies, but it may be the quicker moving domestic private companies that grow the fastest, and M&A will be their tool of choice.

The women's apparel market is highly fragmented in China. According to a China Garment Industry Report ("CGIR") issued by the CFDA, in 2005 the top ten women's wear brands, including international and domestic brands, totaled only 13.36% of the total market. This may change as M&A activity, which is building in other areas of retail, reaches the women's apparel sector.

Large-scale retailers, domestic and foreign alike, are expanding aggressively in a bid to grow their networks and boost their bargaining power with suppliers. The quickest way to gain critical mass is through acquisition, which can give a company a head-start over its rivals or allow it to catch up after late entry. A wave of M&A activity is just beginning, primarily between domestic retailers. Both state-run and private players are rushing to consolidate in a range of retail sectors, from home appliances and food retailing to sports and fashion. Rapid market development means that targets are emerging very quickly. Some 70,000 new supermarkets opened outside major Chinese cities in 2005, while around 600 new convenience stores and supermarkets opened in Beijing's suburbs in 2006 alone. This unprecedented chain store expansion will fuel M&A activity as industry players try to build scale and market share

outside their regional strongholds. The number of outlets controlled by China's top 30 domestic chain stores rose 21% year-on-year to 16,665 in 2005, while total sales generated by these companies climbed 31% to Rmb491bn (US\$60.5bn) in the same period. This retail revolution is also spurring a further wave of M&A activity in the supplier base as retailer power becomes a reality. Already hard-pressed by price wars of recent years, a shake-out is highly likely in a range of industries as larger retailers seek to increase their power over a narrower range of suppliers.

## 6.2. Competitive Environment in Fashion Retailing

In fashion retailing, national domestic chains have only started to emerge in the last few years. For example, Meters Bonwe a casual clothing manufacturer and retailer set up in Wenzhou (Zhejiang province) in 1994 and now based in Shanghai, sources its products from over 250 garment factories and markets them through its chain of 1,600 stores, of which over 900 are franchised. As of 2005, the company's revenues were about RMB 3 billion and its sales volume run rate was 30 million pieces. It has been one of China's top hundred garment companies for six successive years and is now a leading brand among young Chinese. Other emerging names include SeptWolves, a menswear retailer based in Fuzhou (Fujian province) and Youngor, also in menswear, from Ningbo (Zhejiang province). Among OmniaLuo's competitors are domestic brands such as Girdear, JNBY and Lilang Ji Wenbo, and well established international brands such as Esprit, Etam, Ochirly, Zara, H&M and Gap, most of which have the same demographic focus as OmniaLuo. OmniaLuo believes it can effectively compete with other brands based on its close attention to regional aesthetic tastes and its regional expansion strategy.

Foreign fashion retailers have also been successful in creating a national footprint. Hong Kong-based casual clothing brands in particular have expanded rapidly beyond tier-one and tier-two cities. These retailers, led by Giordano, Bossini and Baleno, have sought to achieve scale while repositioning themselves to a more local offering, all the while under constant threat from local rivals which learn quickly from competition. Giordano, which entered China in 1992, now has 680 mainland outlets representing about 45% of its total operations. In 2001, mainland China overtook Hong Kong as the company's main market. Giordano claims to have been profitable in China for the past five years, partly thanks to a well-developed local sourcing base and strong relations with manufacturers. Important for the success of Giordano and other Hong Kong-based casual clothing retailers was the Closer Economic Partnership Arrangement (CEPA), which gave Hong Kong retailers an early-mover advantage over the international competition in allowing them to set up wholly-owned retail and distribution businesses as of early 2004. While the market is now fully open to all comers, Hong Kong retailers have nevertheless benefited from greater market familiarity, stronger brand

recognition and comparatively long-standing relationships with suppliers. Yet with time, this competitive advantage is expected to diminish gradually as other foreign entrants catch up.

While some international retailers have chosen to expand via franchise agreements, others are taking the concession route. Esprit, which was one of the earliest foreign clothing retailers to enter China in the 1990s, now has 280 concessions. French retailer Etam has moved even more swiftly, with more than 2,000 stores nationwide, mainly department store concessions. Etam has benefited enormously from this rapid rollout, with sales climbing 14% in China in 2005 and helping to drive group profits to US\$17.2m in 2005 from a US\$68.2m loss in 2004. Tokyo-listed Fast Retailing Co., which opened its first Uniqlo clothing stores in Shanghai in September 2002, had a patchy start but is reported to be seeing steady revenue growth, and opened its first two stores in Beijing in September 2005. In February 2006, Spanish fashion giant Inditex opened its first Zara flagship store in Shanghai and has added more in Shanghai and Beijing.

The expansion of modern retailing has sparked a renaissance in retail environment and experience, with developers building high-end shopping malls in first and second-tier cities across the country and private equity and hedge fund investors seeking retail property investment opportunities. Increased availability of quality retail space has also encouraged luxury brands to set up shop, particularly in top malls in Shanghai and Beijing.

## 6.3. Contemporary Fashion Design in Mainland China

The contemporary fashion world in mainland China is complex. Most garments are produced by large state-run corporations and joint-venture companies established with overseas capital. Much design is therefore anonymous. However, a growing number of designers have established their own labels and work independently. Many of them are young and entrepreneurial with a clearly identified brand and market appeal, who sell direct to customers or through up-market department stores.

Government agencies have played an active role in developing China's fashion industry. The China Garment Designers' Association has promoted the work of young designers since its inception in 1993. It organizes fashion events such as the Golden Scissors Award for functional wear and the Japanese-sponsored Brother Cup for fashion designers under 35 which emphasizes creativity over functionality. In 1996 the China Famous Brand Name Development Company was established to spearhead China's ambitions to create ten world-famous fashion labels by the year 2000. The China Fashion Designers' Association (CFDA), a voluntary professional organization whose members specialize in garment-related design, art,

exhibitions and theory, is one of China's leading trade associations for fashion designers. The Association is under the guidance of China National Textile and Apparel Council, a non-profit organization formed on a volunteer basis that functions as the national federation of all textile-related industries in China.

China's current generation of leading designers include Shenzhen-based Cindy Luo, Beijing-based Sun Jian and Guo Pei, Shanghai-based Wang Yiyang, Han Feng, Alex Ying Jianxia and Gao Xin, and Hong-Kong based Peter Lau and William Tang. Taiwan's designers, such as Carole Chang can also be expected to become a major force in the mainland fashion scene, as their pop star countrymen have become part of the mainland music scene.

#### 6.4. Supply Side – Conditions in the Chinese Garment Manufacturing Industry

The garment sector in China is based mainly on the east coast, in Guangdong, Zhejiang and Jiangsu provinces. Most factories are within "Special Economic Zones". They are predominantly privately owned and foreign investment is common. For example in Guangdong province, about two-thirds of garment factories are foreign owned, many by Hong Kong and Taiwanese companies.

According to the Chinese National Textile Industry, about 15 million people are employed in the industry. The workforce is made up mainly of young women, the majority of whom are also migrant workers. Oxfam, a non-profit organization, calculates that 4 out of 5 garment sector workers are women under 25. Most garment workers are employed on short term contracts of one to three years and labor turnover is therefore high.

The move towards a "socialist market economy" has changed garment sector ownership from mainly state owned to privately owned companies, creating high numbers of "laid off workers" from former State Owned Enterprises (SOEs) and impacting significantly on labor relations and social security arrangements in China. A previous system of direct state ownership and control has been replaced by a system of laws and regulations that are currently only weakly enforced. For example, official Labor Law requires employers to provide old age, industrial injury, maternity and medical insurance, but this is not always provided in practice. Health and safety conditions in the factories include exposure to toxic chemicals, fire hazards and high risk of industrial accidents. Most migrant workers are either not covered or only partially covered for maternity pay, sick pay or work injury. The Chinese industry's competitiveness lies in its efficiency, its ability to produce at short notice and its back-linked industries (such as cotton production). The knock-on effects for conditions are long hours and overtime at short notice.

A change in Chinese migration laws in the 1980s has prevented Chinese citizens from relocating freely in search of work. This combined with high levels of underdevelopment and poverty in rural areas, has led to a class of migrant workers in China. All Migrant workers (known as *nongmingong*) require a permit and a work visa in advance of moving to a city to start work. While in the cities they are not entitled to welfare benefits, to own property or to bring their family. When the contract ends they must return to their village.

It is estimated by the China Labor Bulletin that between 2003 and 2020, 15 million new people will enter the Chinese labor market each year, while only 8 million new jobs will be created at the current growth rate. It is therefore likely that there will be further pressure on wages and job security for Chinese workers in the coming years. Nonetheless recent labor shortages have been observed in the Guangdong garment sector. Shortages of 30-40% have been blamed on bad working conditions, and more and more migrant workers relocating to areas with more skilled and better paid jobs, for example in the electronics industry. In response, some wage increases in Guangdong have occurred. The China Daily, a newspaper, reports that companies in the Pearl River Delta area, the country's manufacturing powerhouse, which includes the Guangdong and Shenzhen, are raising wages by about 13% to attract migrant workers. OmniaLuo and its suppliers are located in Shenzhen. Some factories have also relocated to other provinces to avoid rising labor costs. Research by the Asian Footwear Association shows that almost 1,000 shoemaking factories closed or moved out of the Pearl River Delta region in 2007, with 25% setting up in Southeast Asian countries, 50% in other mainland cities and about 25 percent adopting a wait-and-see approach.

There remains no Freedom of Association in China. Article 3 of China's trade Union Law, states that "all manual or mental workers...have the right to organize and join trade unions according to law". However, in reality, the All China Federation of Trade Unions (ACFTU) is the only legally recognized trade union and therefore has a complete monopoly on representation. China has ratified the UN covenant on Economic, Social and Cultural rights, but with reservations on the right to organize trade unions. It has not ratified the International Labor Organization (ILO) conventions on Freedom of Association and the right to bargain collectively. However, the ILO 1998 Declaration on Fundamental Principles and Rights at Work requires all members to respect, promote and realize freedom of association, regardless of whether they have ratified the conventions. So far China has ignored this.

The right to strike was removed from the Chinese constitution in 1982 and is not mentioned in the most recent trade union and labor law acts. Formally the law neither allows nor disallows strikes though in practice they are frequently repressed. The formal role of the ACFTU when

strikes occur is to mediate between employers and employees to resolve the situation. An ACFTU branch could not legally instigate a strike and is not the representative of the workers in negotiations. The ACFTU is officially subordinate to the CCP and has a fundamental conflict of interests between promoting party policies and workers interests.

The liberalization of China's economy, increasing foreign direct investment (FDI), and the new labor law framework have increased the demands of workers on the ACFTU. The number of independent labor actions and spontaneous protests in China, despite severe repression, has increased significantly in recent years indicating the perception by workers that the ACFTU is unable to defend their interests. The number of "mass incidents" (sit-ins, riots, strikes and demonstrations) reached 74 000 and involved 3.7 million people in 2004, compared with 10,000 incidents in 1994. Within the garment sector the number of arbitrated disputes has also increased; such disputes are mainly about wages and occupational health and safety complaints.

Management believes the working conditions and labor relations in the factories that supply its raw materials and garments are satisfactory. However we believe that without substantial reform of factory conditions, garment manufacturing and the downstream apparel retailing industry may increasingly be at risk from periodic supply shocks due to worker dissatisfaction.

## 7.0. China's Women's Apparel Retail Market

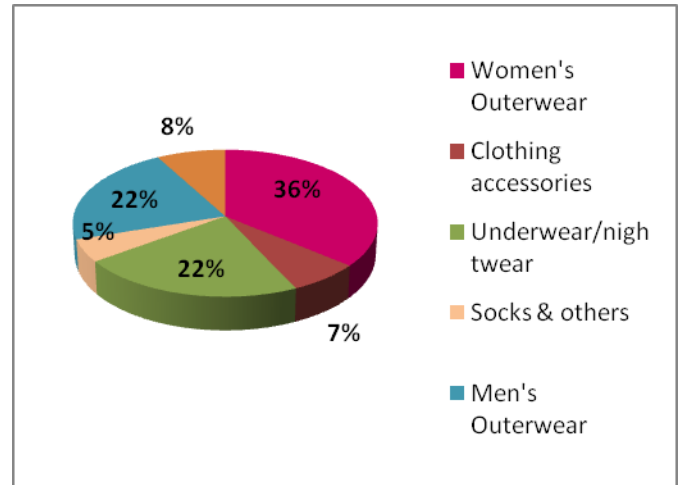
### 7.1. Size.

According to the CFDA's China Garment Industry Report, China's citizens generally spend 8% to 10% of their disposable income on purchasing garments. The garment industry in China in 2005 saw overall sales of \$87 billion. The women's apparel accounted for \$25 billion, of which branded women's apparel was \$3 billion, or 12% of women's apparel sales.

### 7.2. Segments

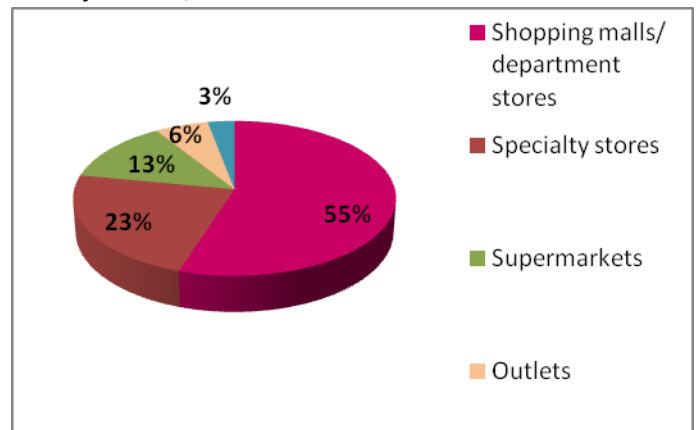
The garment industry in China can be divided into: women's outerwear, men's outerwear, kids' outerwear, knitwear, underwear/ nightwear, accessories, and socks. As Figure 3 shows, women's outerwear is the biggest sector in the Chinese garment industry and accounted for 36% of garment industry sales by dollar amount in 2005. In contrast, men's outerwear only represented 22% of industry sales in the same period. Underwear/nightwear is also a significant sector in garment industry in China.

Figure 3. Size of Garment Retailing Industry in China, by Segment



Source: China Fashion Designers' Association: *Chinese Garment Industry report 2005-2006*

Figure 4. Retail Distribution Channels in the Garment Retailing Industry in China, 2005



Source: China Fashion Designers' Association: *Chinese Garment Industry report 2005-2006*

### 7.2.1. Women's Apparel Market - Consumer Segments by Income

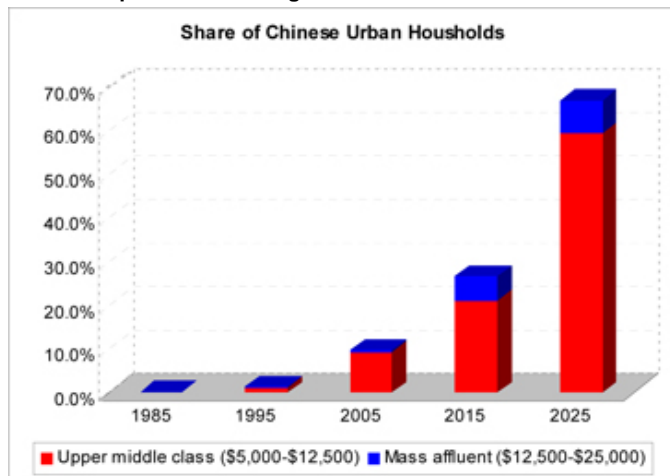
In 2005, the upper middle class and mass affluent class accounted for 9.4% and 0.5% of the total urban population respectively. However, they represented 24.2% and 2.4% of total urban disposable income. The McKinsey Global Institute Analysis report projected that by 2015, the percentage of upper middle and mass affluent classes could grow to 21.2% and 5.6%, respectively. The report also projected that the two groups collectively would occupy 44.3% of urban disposal income, compared to 26% in 2005.

### 7.2.2. Women's Apparel Market - Consumer Segments by Income

By the end of 2004, the 25 to 45 year old age groups had a combined population of 215 million, accounting for 35% of

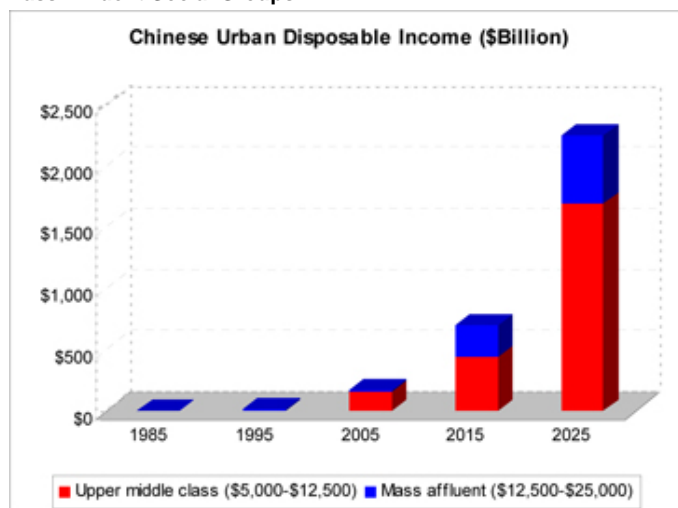
the total Chinese female population. Together, these two groups form the wealthiest block in China's female population, according to the McKinsey report; in the U.S., the wealthiest female consumers are 45 to 54 years old. 25 to 35 year old Chinese women have the greatest propensity to buy apparel amongst all Chinese females. According to an article written by Lisa Movius in *Women's Wear Daily* (March 22, 2005), this group spends over 20% of their disposable income on clothing, compared with the national average of 8% to 10%.

**Figure 5: Projected Share of Upper Middle Class and Mass Affluent Social Groups as a Percentage of Chinese Urban Households**



Source: National Bureau of Statistics of China; McKinsey Global Institute analysis

**Figure 6: Projected Disposable Income of Upper Middle Class and Mass Affluent Social Groups**



Source: National Bureau of Statistics of China; McKinsey Global Institute analysis

**Table 22. Chinese Women's Apparel Market - Consumer Segments by Age Group**

Age Group	Age Range	% of Total Female Population	Group Size ('000)
<15	Kids	18	111,422
15-19	Teenagers	9	52,676
19-25	Youth	7	40,440
25-35	Young Adults	17	103,903
35-45	Middle-age Adults	18	111,122
>45	Seniors	32	196,333

Source: National Bureau of Statistics of China, 2005

**7.2.3. Concentration**

Men's wear in China was the most concentrated apparel retail sector, with the top 10 brands, both international and domestic, holding a combined category market share of about 50.0%. Children's wear is the second most concentrated sector, with the top 10 brands representing about 35.0% of overall category sales. Women's wear is the most fragmented sector, with the top 10 brands only accounting for 13.4% of sales. The garment industry is not yet experiencing major consolidation, although this may soon change.

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