



KBS: KEEP BEST STATE

A RETAIL SUCCESS STORY

HIGHLIGHTS

FRANCHISING GROWTH STRATEGY

KBS is growing their business by focusing on franchise store additions in China's 2nd and 3rd tier cities, which has allowed them to increase their market share by over 100% in the last 3 years.

3RD LARGEST APPAREL MARKET IN THE WORLD

The Chinese apparel market has become the 3rd largest market behind the United States and Japan. The fashion sportswear sector is expected to grow from \$2.9 billion to \$5.3 billion by 2012: 35% CAGR.

SEASONED MANAGEMENT TEAM

The CEO is experienced in the apparel industry, having started as a workshop manager. In 1995 he founded Hongri as an OEM and then launched the KBS brand in 2007. Together with the CFO, who has previously obtained a NASDAQ listing for another Chinese company, he has grown KBS to be the #3 branded fashion sportswear retailer in China.

KBS designs, produces and sells its own brand of apparel, principally targeting China's middle class 20 to 40 year-olds. The company's "Pleasure and Cheerful Lifestyle" concept provides middle income youth – who are oriented towards a high-class and romantic lifestyle – with a focused selection of high-quality, fashion sportswear at compelling value. This is an important cohort: McKinsey forecasts that China's wealthiest consumers will be from 25 to 45 years old. Based on the company's demographic and prices, KBS is to China what American Eagle, lululemon, Roots and Aeropostale are to North America.

Franchising Growth Strategy

The company is aiming at creating China's leading fashion sportswear brand. It currently operates 145 stores, the majority of which are located in China's 2nd and 3rd tier cities. 83 of the 101 new stores planned for 2011 will be franchises.

Contrary to conventional strategies that encourage retailers to target the largest markets, KBS has developed a strategy that targets 2nd and 3rd tier cities. These cities have very recently

become the backbone of the Chinese growth story. They represent a growing domicile for the incoming middle class that has, on average, a disposable income of US\$2,515, three times more than a decade ago. This is the exact market segment that KBS is targeting. Seventy percent of KBS's revenue comes directly from these cities, which are not as economically mature as their 1st tier counterparts. Currently, 1st tier cities such as Shanghai, Beijing, Chengdu and Guangzhou are still expanding significantly when compared to their North American counterparts. However, 1st tier cities are close to hitting their population ceilings and with the amount of competition in these cities, the margin for growth is not as attractive as that in the 2nd and 3rd tier cities.

2nd and 3rd tier cities have smaller populations but, due to the growth in their respective middle class populations, they have become an attractive entry point for companies to build substantial market share. The growth in these cities can be attributed to the lower cost of living than that of the 1st tier cities.



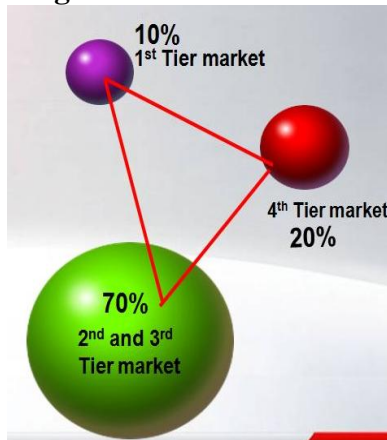
KBS's planned manufacturing plant 2011/2012

Helen Wang, a Forbes contributor and expert on China's middle class, says: "middle class people have available one-third of their income for discretionary spending." Helen defines China's middle class as "urban professionals in foreign companies, private businesses, or state enterprises, government officials, and entrepreneurs, who have college degrees and earn an annual income from \$10,000 to \$60,000. Over three hundred million people, or about 25 percent of China's population, met these criteria in 2010". McKinsey forecasts the middle class to grow to be 50% of China's population in the next 5 to 8 years.

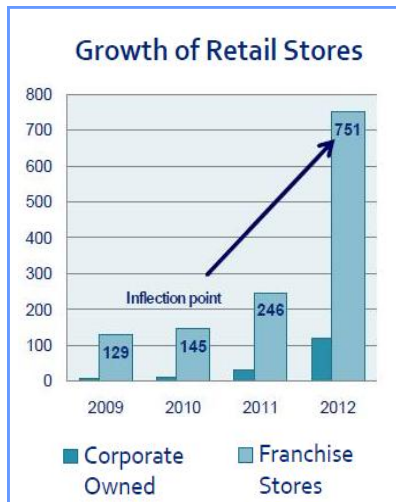
KBS believes that the growth of the middle class fits in perfectly with their aim of being China's leading fashion sportswear brand.

KBS GROWTH STRATEGY

Target 2nd and 3rd Tier Cities



Franchise to Drive Growth



FACTOID

NUMBER OF CHINESE CITIES BY TIER

4 1ST TIER CITIES
Population 10-20 million each

23 2ND TIER CITIES
Population 2-10 million each

333 3RD TIER CITIES
Population > 250,000 each

Third Largest Apparel Market in the World

KBS's strategy has worked very well over the past 4 years and has been a catalyst for the company's growth. The company had 0.75% of the fashion sportswear market in 2007 and currently has 1.8% of that market. The market size of the Chinese fashion sportswear sector is currently at \$2.9 billion and is expected to grow to \$5.3 billion in 2012. This represents a compounded annual growth rate (CAGR) of 35% since 2006 for the market sector. The growth in the apparel market over the past 15 years has been significant and, currently, China is the third largest in the world behind the United States and Japan.

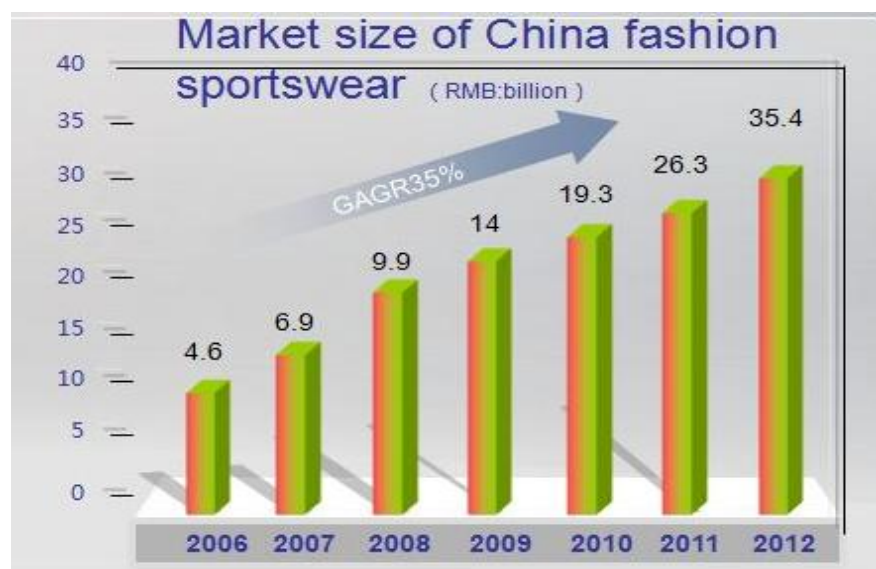
The primary driver of the sector's growth is the middle class and the dramatic shift in their buying habits. Between 2001 and 2008 China's household spending on apparel has more than doubled. As their disposable income continues to grow, more people will continue

to want high-quality fashion sportswear at compelling value such as that offered by KBS.

Seasoned Management Team

KBS's management has a very strong understanding of the apparel sector and has demonstrated they are able to grow the company year-after-year. The CEO, Mr. Keyan Yan, is a 38 year-old entrepreneur who started in the apparel industry as a workshop manager. In 1995 he founded Hongri as an OEM for Hong Kong's Xtep brand (SEHK: 01368). In 2007 he launched the KBS brand with the aim of creating China's leading fashion sportswear brand. Yan has grown KBS to be the #3 branded fashion sportswear retailer in China. The company is expected to have revenues of \$38 million in 2010 with a net margin of 32%.

Mr. Yan's objective is to continue to build the brand through the 2nd and 3rd tier cities in order to increase its market



UPCOMING EVENTS

EDMONTON

December 1st, 7:00 PM
Ironwood Professional Building
10050-112 Street

SASKATOON

December 1st, 7:00 PM
Stonset Offices
203-2121 Airport Drive

WINNIPEG

December 7th, 6:00 PM
Canad Inns – Polo Park
1405 St. Matthews Avenue

CALGARY

December 9th, 8:30 AM
Suncor Center West Tower
30th Flr. 3000 150 – 6th Ave SW

VANCOUVER

December 9th, 8:30 AM
Sutton Place Hotel
845 Burrard Street

WHITEROCK/SURREY

December 9th, 6:00 PM
North View Golf Club
6857 -168 Street

EDMONTON

December 15th, 7:00 PM
Ironwood Professional Building
10050 -112 Street

SASKATOON

December 15th, 7:00 PM
Stonset Offices
#203 – 2121 Airport Drive

share to 4% of the fashion sportswear segment within the next few years. At that point the company will either be able to compete in the 1st tier cities or become a take-over target for one of the larger players. The company plans on raising private capital in order to continue the store build-out component of their growth strategy. They intend to follow that up with a public listing and utilize the proceeds to build out a new manufacturing and production facility in Taihu City, Anhui Province in order to support a larger distribution web.

Mr. Yan took a very significant step in hiring KBS's CFO Mr. Stanley Wong. Mr. Wong is English speaking and western educated at the University of Kent in the United Kingdom.

More importantly, he comes with a strong accounting and audit background beginning with his time at KPMG from 1984 to 1987 as well as his experience with a variety of

public companies, assisting with and managing the listing process both in Asia and the United States. He was the CEO of, and Consultant for, China Biologic Products Inc. (CBPO) and was responsible for obtaining their NASDAQ listing. The company currently has a market capitalization of \$249 million.

Concluding Remarks

KBS offers investors access to a sector that is growing at over 35% a year and a company that has successfully built market share through a franchising strategy in 2nd and 3rd tier cities. The company has identified that, in order to build-out and capture more market share, it must have access to the capital markets through a public listing. This will facilitate faster growth and value creation for the company.

UPCOMING NEWSLETTER

MAOYUAN HUSBANDRY AND AGRICULTURE CO.

NEWSLETTER STAFF:

Writer: Tyler Doherty
Editor: Vivien Baker
Contributors: Dave Steele, Ric Harris, John Bean

GROUND FLOOR CAPITAL INC.

3111 Del Rio Drive, North
Vancouver, BC V7N 4C3
Office: (604) 980-8407

JOIN US FOR ONLINE WEBEX PRESENTATIONS EVERY TUESDAY AND THURSDAY AT 4:00PM (PACIFIC TIME) BY CLICKING ON THE LOGO BELOW.



If this link does not work when you click it, please copy and paste the link into your browser address line. If requested, enter your name and e-mail address. If a password is required, enter the meeting password: china123

This document may contain forward looking statements. Forward looking statements address future events and conditions and therefore involve inherent risks and uncertainties. Actual results may differ materially from those currently anticipated in such statements. The information does not constitute any advice, promise or obligation of Ground Floor Capital Inc. ("GFC") and does not necessarily represent the most current source of company information. GFC cannot, and does not, guarantee or ensure the accuracy or completeness or authenticity of this document's contents and may make changes and revisions to the information on this document at anytime and without notice.

