
CONNECTED TRANSACTIONS

During the Track Record Period, we have entered into a number of related party transactions, details of which are set out in Note 26 to Section B of the Accountant's Report in Appendix I to this prospectus.

CONNECTED PERSON

Xiamen Minghao

As at the Latest Practicable Date, Xiamen Minghao is owned as to 80% by Mr. Ding Peijie (丁培杰), a brother of each of Mr. Ding, Mr. Ding Peiyuan and Ms. Ding Lizhen, and 20% by Mr. Ding Rongyuan (丁榮源), a brother-in-law of Mr. Ding Peijie.

As Mr. Ding, Mr. Ding Peiyuan and Ms. Ding Lizhen are all Directors of our Company and Mr. Ding is also the chief executive officer and a substantial Shareholder of our Company, all of them are connected persons of our Group. Pursuant to Rule 14A.11(4)(b)(ii) of the Listing Rules, as Mr. Ding Peijie is a brother of each of Mr. Ding, Mr. Ding Peiyuan and Ms. Ding Lizhen and as Mr. Ding Peijie can exercise more than 50% of the voting power at general meetings of Xiamen Minghao, Xiamen Minghao is an associate of Mr. Ding, Mr. Ding Peiyuan and Ms. Ding Lizhen, and therefore, a connected person of our Group.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Xiamen Minghao is one of our distributor. Historically, we entered into distributorship agreement with Xiamen Minghao, the terms of which are identical with those of the distributorship agreement we enter into with our other independent distributors. In compliance with the requirements of Chapter 14A of the Listing Rules, on December 16, 2013, Xiamen Minghao and Red Kids China, an indirect wholly-owned subsidiary of our Company, entered into a distributorship agreement (the "Xiamen Minghao Distributorship Agreement"), pursuant to which Red Kids China agreed to provide children's apparel products to Xiamen Minghao. The Xiamen Minghao Distributorship Agreement is for a term from January 1, 2013 to December 31, 2015. We have the right to terminate the Xiamen Minghao Distributorship Agreement for cause at any time before its expiration subject to compliance with the Listing Rules.

For the three years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our sales of children's apparel products to Xiamen Minghao amounted to approximately RMB20.0 million, RMB17.3 million, RMB17.1 million and RMB10.9 million, and accounted for approximately 6.1%, 4.4%, 3.3% and 4.3% of our total turnover during the same periods, respectively. The reason for the decrease in sales to Xiamen Minghao for the two years ended December 31, 2012 was because we adjusted the authorized geographical regions for Xiamen Minghao to establish retail outlets to sell our products, so as to avoid more than one distributor being authorized to sell our products in any of the major cities within Fujian Province. Compared to the sales amount of RMB7.1 million to Xiamen Minghao for the six months ended June 30, 2012, the increase in sales to Xiamen Minghao for the six months ended June 30, 2013 was mainly due to the increase in sales volume by Xiamen Minghao, as a result of the increase in demand and market acceptance of our products.

The prices for the sales of children's apparel products to Xiamen Minghao are agreed between Xiamen Minghao and us from time to time after arm's length negotiation and are comparable to market prices of similar products that we sell to other independent distributors customers.

CONNECTED TRANSACTIONS

Our Directors anticipate that the annual caps of the transaction amounts under the Xiamen Minghao Distributorship Agreement will be approximately RMB21 million, RMB26 million and RMB29 million, respectively, for each of the three years ending December 31, 2013, 2014 and 2015. The above annual caps are based on (i) sales to Xiamen Minghao for the ten months ended October 31, 2013 amounted to approximately RMB16.6 million, which represented approximately 97.1% of the total sales to Xiamen Minghao for the year ended December 31, 2012; (ii) sales volume to Xiamen Minghao for the ten months ended October 31, 2013 amounted to approximately 308,000 units, which represented approximately 89.2% of the total number of units sold to Xiamen Minghao for the year ended December 31, 2012 and the estimated sales volume to Xiamen Minghao for the year ending December 31, 2013 amounting to approximately 360,000 units, which is calculated primarily based on the actual sales volume for the ten months ended October 31, 2013 plus expected volume to be delivered to Xiamen Minghao in November and December of 2013; (iii) the ordered volume of our spring and summer collection for 2014 by Xiamen Minghao amounted to approximately 210,000 units, which represented an approximately 5% increase compared with Xiamen Minghao's ordered volume of our spring and summer collection for 2013, and for the sole purpose of determination of transaction caps, we expect that a similar growth trend will continue for the rest of the year of 2014 and the whole year of 2015; (iv) solely for the purpose of determining the annual cap amounts, the estimated increase in the average retail price of our products being sold to Xiamen Minghao from approximately RMB57.7 for the year ending December 31, 2013 to RMB64.9 for the year ending December 31, 2015; and (v) the expected growing rate for retail sales of children's apparel in the PRC at a CAGR of approximately 20.5% between 2012 and 2017, according to Frost & Sullivan.

As the applicable ratios (other than the profits ratio) for the transactions under the Xiamen Minghao Distributorship Agreement are expected to be more than 0.1% but less than 5% on an annual basis, the Xiamen Minghao Distributorship Agreement and the transactions contemplated therein constitute continuing connected transactions for our Company which are subject to the reporting, annual review and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

CONFIRMATIONS

Directors' Confirmation

Our Directors (including our independent non-executive Directors) consider that disclosure of the transactions under the Xiamen Minghao Distributorship Agreement in full compliance with the Listing Rules would add unnecessary administrative costs to our Company. In addition, our Directors believe that it is the interests of our Company to continue with these transactions after Listing.

Our Directors (including our independent non-executive Directors) confirm that (i) the transactions under the Xiamen Minghao Distributorship Agreement are entered into in the ordinary and usual course of business of our Group on normal commercial terms, are fair and reasonable and in the interests of our Company and our Shareholders as a whole, and that the annual caps of the transaction under the Xiamen Minghao Distributorship Agreement are fair and reasonable and in the interests of our Company and our Shareholders as a whole; and (ii) apart from the announcement requirements of which the waiver is sought, our Company will comply with the relevant requirements under Chapter 14A of the Listing Rules, including the proposed annual caps.

CONNECTED TRANSACTIONS

Joint Sponsors' Confirmation

After review of the relevant documentation and historical figures provided by us, the Joint Sponsors concur with the views of the Directors (including the independent non-executive Directors).

WAIVER FROM THE STOCK EXCHANGE

On the basis of the above, we have applied to the Stock Exchange for and the Stock Exchange has granted to us, a conditional waiver from strict compliance with the announcement requirements under Rule 14A.42(3) of the Listing Rules at the time of Listing in respect of the continuing connected transactions, i.e., the Xiamen Minghao Distributorship Agreement, described in this section. If any terms of the transactions under the Xiamen Minghao Distributorship Agreement are altered or if our Company enters into any new agreements with any connected persons (within the meaning of the Listing Rules) in the future, our Company will fully comply with the relevant requirements under Chapter 14A of the Listing Rules unless we apply for and obtain a separate waiver from the Stock Exchange.