
RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Upon completion of the Global Offering and the Capitalization Issue, our Controlling Shareholders will control the exercise of voting rights of 61.488% of the Shares eligible to vote in general meetings of our Company (assuming the Over-allotment Option is not exercised). In addition to their interests in our Company, two of our Controlling Shareholders, namely, Mr. Shi Hongliu and Mr. Shi Hongyan, also directly own Haosha Garments, a company established in the PRC, which primarily engages in the manufacture and sale of fabric products, and provides dyeing and printing services to apparel manufacturing enterprises, including Haosha Industry and other companies not related to our Group. Haosha Garments is owned as to 55.0% by Mr. Shi Hongliu, 25.0% by Mr. Shi Hongyan, 10.0% by Mr. Shi Yangqiao and 10.0% by Mr. Shi Huangpao, and is a connected person of our Company. We have entered into certain transactions with Haosha Garments and these transactions will continue after the Listing, thereby constituting continuing connected transactions of our Company under the Listing Rules. For details of these transactions, please refer to the section headed “Connected Transactions” in this Prospectus. As contemplated under the Corporate Reorganization, Haosha Garments was excluded and thereby does not form part of our Group because (i) we intend to primarily focus our efforts and resources on our overall brand building and management of our Hosa indoor sportswear business, and (ii) the business conducted by Haosha Garments may generate certain pollutants and therefore requires significant capital investment in more sophisticated waste processing machinery, which may impair our Group’s efforts and strain our resources in the development of the Hosa indoor sportswear business.

Our Directors, to the best of their knowledge, information and belief, have confirmed that our Controlling Shareholders and our Directors have no interests in businesses which may directly or indirectly compete against the business of our Company.

DEED OF NON-COMPETITION

Our Controlling Shareholders have entered into the Deed of Non-Competition in favor of our Company, pursuant to which our Controlling Shareholders have undertaken with our Company (for itself and for the benefit of each of the members of our Group) that:

- (a) it/he would not, and would procure that its/his associates (except any members of our Group) would not, during the restricted period set out below, directly or indirectly, either on its/his own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, principal, agent, director, employee, operator, licensor, licensee, joint venturer, consultant or otherwise) any restricted business set out below or any business which is similar to or is likely to compete with the restricted business in the countries in which any member of the Group carries on or intends to carry on its business operation including without limitation the PRC and Hong Kong (“restricted territories”);
- (b) during the restricted period set out below, the Controlling Shareholders will not, and will cause their respective associates (other than any member of our Group) not to, directly or indirectly invest in any company or enterprise carrying out the restricted business, within or outside the PRC, in any manner (including but not limited to joint operation, equity joint venture, cooperative joint venture, partnership, ownership of interest or as borrower or lender), or hold any direct or indirect interest in such company or enterprise in whatever manner subject to certain exceptions;

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- (c) if any business opportunity is offered to any of the Controlling Shareholders or their respective associates which falls within the scope of the restricted business, the Controlling Shareholders will immediately notify or cause their respective associates (other than any member of our Group) to notify our Company of such business opportunity, and will assist our Company (and/or our subsidiaries) to obtain such business opportunity on the terms which are not less favorable than those offered to the Controlling Shareholders or their respective associates, on more favorable terms or on terms acceptable to our Company (and/or our subsidiaries).

The Controlling Shareholders have also agreed not to engage in any act that will impair the interests or any member of our Group by making use of their capacity as Controlling Shareholders of our Company including making use of any of the trade marks, domain names and other intellectual property rights either registered or in application for registration, to be associated with the restricted business or directly or indirectly taking any action which constitutes an interference with or a disruption of the restricted business including, but not limited to, solicitation of our Group's customers, suppliers or personnel of any member of our Group.

Such non-competition undertaking does not apply to:

- (a) any interests held by any of the Controlling Shareholders or their associates in the shares of any member of our Group; or
- (b) interests in the shares of a company other than our Group which shares are listed on a stock exchange recognized by the laws of the restricted territories provided that:
 - (i) any restricted business or business similar to the restricted business conducted or engaged in by such company (and assets relating thereto) accounts for no more than 10% of that company's total consolidated turnover or consolidated assets, as shown in that company's latest audited accounts; or
 - (ii) the total number of the shares held by the relevant Controlling Shareholder and/or its/his associates in aggregate does not exceed 5% of the issued shares of that class of shares in the listed company in question and such Controlling Shareholder and/or its/his respective associates are not entitled to appoint a majority of the directors of that company and at any time there should exist at least another shareholder of that company whose shareholdings in that company is higher than the total number of shares held by the relevant Controlling Shareholder and/or its/his associates in aggregate; or
 - (iii) the relevant Controlling Shareholder and/or its/his respective associates do not have control over the board of such company.

The "restricted period" stated in the Deed of Non-Competition refers to the period during which (i) the Shares of our Company remain listed on the Stock Exchange; (ii) in relation to each Controlling Shareholder, it/he or its/his associates holds (directly or indirectly) an interest in our Company; and (iii) the relevant Controlling Shareholders and/or their respective associates jointly or severally are entitled to exercise or control the exercise of not less than 30% in aggregate of the voting rights at general meetings of our Company.

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The “restricted business” stated in the Deed of Non-Competition refers to the manufacture, sale or distribution of sportswear products (including without limitation swimwear, fitness wear, sports underwear and accessories) whether as a wholesaler, retailer, distributor, agent, franchisee, consignee or otherwise and other businesses operated by any member of the Group from time to time during the term of the Deed of Non-Competition in the restricted territories.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to manage the conflict of interests arising from the competing business and to safeguard the interests of our Shareholders:

- (a) the independent non-executive Directors will review, on an annual basis, the compliance with the undertaking given by our Controlling Shareholders under the Deed of Non-Competition;
- (b) our Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed of Non-Competition;
- (c) our Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the non-compete undertaking of our Controlling Shareholders under the Deed of Non-Competition in the annual reports of our Company; and
- (d) our Controlling Shareholders will make an annual declaration on compliance with their undertaking under the Deed of Non-Competition in the annual report of our Company.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the matters described above and the following factors, we believe that our Group is capable of carrying on its business independently of our Controlling Shareholders and their respective associates after completion of the Global Offering:

Management Independence

Our Board comprises four executive Directors and three independent non-executive Directors. Mr. Shi Hongliu and Mr. Shi Hongyan, each an executive Director, are also our Controlling Shareholders.

Save as disclosed above, no other Controlling Shareholder holds any directorship in our Company. Each of our Directors is aware of his fiduciary duties as a Director of our Company which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant Board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, we have an independent senior management team to carry out the business decisions of our Group independently.

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Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders after completion of the Global Offering.

Operational Independence

We have established our own set of organizational structure made up of individual departments, each with specific areas of responsibilities. Our Group has independent access to sources of supplies or raw materials for the production as well as customers. We procure fabric products and seek processing service from Haosha Garments, a connected person of our Company, on normal commercial terms. However, we have independent access to numerous fabric products suppliers and processing service providers in the market. Our Directors believe that since we are able to source raw materials or seek processing service directly from third-party suppliers and there are alternative purchasing or processing agents available in the market, we are able to operate independently in this regard. We have also established a set of internal controls to facilitate the effective operation of our business.

Financial Independence

Our Group has established, and maintains independent internal control and accounting systems, accounting and finance departments, independent treasury function for cash receipts and payments, and independent access to third party financing.

Our Directors confirm that as of the Latest Practicable Date, none of our Controlling Shareholders had provided any guarantees to our Group. Our Directors confirm that as of the Latest Practicable Date, all of the loans from Mr. Shi Hongliu have been repaid in full. In addition, our Directors confirm that there are no outstanding loans from our Controlling Shareholders as of the Latest Practicable Date and our Group do not intend to obtain any further borrowing from any of our Controlling Shareholders. Therefore, there is no financial dependence on our Controlling Shareholders.