
CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

Haosha Industry, an indirectly wholly-owned subsidiary of our Company, has entered into certain transactions with Haosha Garments. Haosha Garments is a limited liability company established in the PRC on 24 October 1996, and is currently owned as to 55% by Mr. Shi Hongliu, 25% by Mr. Shi Hongyan, 10% by Mr. Shi Huangpao and 10% by Mr. Shi Yangqiao. Mr. Shi Hongliu is an executive Director of our Company. Mr. Shi Hongliu is entitled to exercise 55% (more than 30%) of the voting power at general meetings of Haosha Garments. Accordingly, Haosha Garments is an associate of Mr. Shi Hongliu under Rule 1.01 of the Listing Rules and therefore a connected person of our Company under Rule 14A.11(1) of the Listing Rules.

Haosha H.K. is beneficially owned as to 40.870% by Mr. Shi Hongliu, 21.507% by Mr. Shi Hongyan, 19.607% by Mr. Wu Changda, 10.016% by Mr. Xu Zehui and 8% by Mr. Zeng Shaoxiong. Mr. Shi Hongliu is an executive Director of our Company. Mr. Shi Hongliu is entitled to exercise 40.870% (more than 30%) of the voting power at general meetings of Haosha H.K. Accordingly, Haosha H.K. is an associate of Mr. Shi Hongliu under Rule 1.01 of the Listing Rules and therefore a connected person of our Company under Rule 14A.11(1) of the Listing Rules.

The following transactions entered into by Haosha Industry with Haosha Garments and Haosha H.K. will continue after the Listing, thereby constituting continuing connected transactions of our Company under the Listing Rules.

Type of Transaction	Term	Applicable Listing Rule	Waiver Sought
1. License of trademarks by Haosha H.K.	From 11 June 2011 until the completion of the transfer of trademarks to Hosa Group	Rule 14A.33(3)	None (De minimis transaction)
2. Procurement agreement with Haosha Garments	From 1 January 2011 to 31 December 2013	Rule 14A.34(1)	Announcement requirement
3. Processing agreement with Haosha Garments	From 1 January 2011 to 31 December 2013	Rule 14A.34(1)	Announcement requirement

EXEMPTED CONTINUING CONNECTED TRANSACTION

Set out below are the details of the exempted continuing connected transaction entered into between the connected person and a member of our Group. The applicable percentage ratio(s) (other than the profit ratio) of the exempted continuing connected transaction is on annual basis, expected to be less than 0.1% under Rule 14A.33(3) of the Listing Rules. As such, it is exempted from the reporting, announcement requirements and the independent shareholders' approval requirements.

License of trademarks by Haosha H.K.

On 11 June 2011, Hosa Group and Haosha H.K. entered into a trademark license agreement, pursuant to which Haosha H.K. agreed to grant an irrevocable, non-exclusive and royalty free license to Hosa Group to use all of its trademarks (whether registered in the PRC or overseas) relating to our business operation from 11 June 2011 until the date of completion of the transfer of these trademarks to Hosa Group. The license was granted at nil consideration.

CONNECTED TRANSACTIONS

Our Directors, including the independent non-executive Directors, consider that the trademark license agreement is on normal commercial terms and in the interests of our Shareholders as a whole.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Set out below are the details of the non-exempt continuing connected transactions entered into between the connected person and a member of our Group (the “Non-exempt Continuing Connected Transactions”). The applicable percentage ratio(s) (other than the profit ratio) of the Non-exempt Continuing Connected Transactions is(are), on annual basis, expected to be less than 5% under Rule 14A.34 of the Listing Rules. As such, the Non-exempt Continuing Connected Transactions are exempt from the independent shareholders’ approval requirements but are subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47, and the annual review requirements set out in Rules 14A.37 to 14A.40 and the requirements set out in Rules 14A.35(1) and 14A.35(2) of the Listing Rules.

Procurement Agreement with Haosha Garments

Nature of transaction

Haosha Garments is currently engaged in manufacture and sale of fabric products, and provision of fabric dyeing and printing services. On 7 June 2011, Haosha Industry, an indirectly wholly-owned subsidiary of our Company, entered into a procurement agreement with Haosha Garments, whereby Haosha Garments agreed to supply its fabric products to Haosha Industry from time to time for Haosha Industry to manufacture *Hosa*TM branded indoor sportswear products. The agreement entered into by Haosha Industry and Haosha Garments is for a term from 1 January 2011 to 31 December 2013 renewable for a further three years at our option subject to compliance with applicable requirements of the Listing Rules. We have the right to terminate the agreement at any time before expiration subject to compliance with the Listing Rules.

Haosha Garments has been our fabric products provider and we expect it to continue to provide us with fabric products in view of our long-term business relationship, which enables Haosha Garments to respond to our order requests in a more prompt and accurate manner compared with other independent suppliers of similar products available in the market, as well as the proximity between Haosha Garments and us, which helps reduce the transportation costs.

For the three years ended 31 December 2008, 2009, 2010 and for the six months ended 30 June 2011, the payment we made to Haosha Garments amounted to approximately RMB18.9 million, RMB2.0 million, RMB1.4 million and nil (RMB16.2 million, RMB1.7 million, RMB1.2 million and nil, net of VAT), and accounted for approximately 10%, 1.2%, 1.0% and nil of our total procurement of such raw materials during the same periods, respectively. During the Track Record Period, we broadened our product offering from time to time and accordingly we procured our fabric products from a range of suppliers available in the market and gradually decreased our procurement from Haosha Garments during the same period.

Price determination

The prices at which we procure our fabric products from Haosha Garments are based on terms that are comparable to those available from independent suppliers of similar products and on arm’s length negotiation and on normal commercial terms.

CONNECTED TRANSACTIONS

Annual caps

Our Directors anticipate that the annual caps of the VAT-inclusive procurement payment under the procurement agreement with Haosha Garments will be approximately RMB2.0 million, RMB2.2 million and RMB2.5 million, respectively, for each of the three years ended 31 December 2011, 2012 and 2013. The above annual caps are based on (i) the historical transaction amounts for the three years ended 31 December 2008, 2009 and 2010, and (ii) the estimated growth of our sales which will require more fabric products for the production of our *Hosa*TM branded indoor sportswear products.

Processing Agreement with Haosha Garments

Nature of transaction

In light of the facts that Haosha Industry lacks the in-house facilities for dyeing and printing its procured fabric products, on 7 June 2011, Haosha Industry entered into a processing agreement with Haosha Garments, whereby Haosha Garments agreed to supply dyeing and printing services to Haosha Industry from time to time on commercial terms. The processing agreement is for a term from 1 January 2011 to 31 December 2013 renewable for a further period of three years at our option subject to compliance with applicable requirements of the Listing Rules. We have the right to terminate the agreement at any time before expiration subject to compliance with the Listing Rules.

Haosha Garments has been our processing service provider and we expect it to continue to provide us with processing services in view of our long-term business relationship, which enables Haosha Garments to respond to our order requests in a more prompt and accurate manner compared with other independent suppliers of similar services available in the market, as well as the proximity between Haosha Garments and us, which helps reduce the transportation costs.

For the three years ended 31 December 2008, 2009 and 2010, the processing fees we paid to Haosha Garments amounted to approximately RMB11.5 million, RMB14.7 million and RMB24.9 million (RMB9.8 million, RMB12.6 million and RMB21.2 million, net of VAT), and accounted for approximately 32.3%, 42.9% and 54.8% of our total processing services during the same periods, respectively. For the six months ended 30 June 2011, the transaction amount of the processing services with Haosha Garments is RMB10.5 million (RMB9.0 million, net of VAT), and accounted for approximately 42.7% of our total processing services during this period.

Price determination

The prices at which we procure the processing services from Haosha Garments are based on terms that are comparable from independent suppliers of similar services and on arm's length negotiation and on normal commercial terms.

Annual caps

Our Directors anticipate that the annual caps of the VAT-inclusive processing fees under the processing agreement with Haosha Garments will be approximately RMB29.2 million, RMB33.6 million and RMB45.2 million, respectively, for each of the three years ended 31 December 2011, 2012 and 2013. The annual caps for processing service are expected to increase significantly as compared to the historical transaction amounts during the Track Record Period due to the continuous increase in market demand for

CONNECTED TRANSACTIONS

our Group's products in the coming years. We therefore expect that the processing service required will increase significantly and the annual caps are our estimation based on the historical amount of processing service provided, the prevailing market price for processing service in the market, and the expected future growth in the turnover taking into account the anticipated increases in the purchase orders to be placed by our distributors pursuant to the distribution agreements, and production volume of our Group.

WAIVER FOR NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS FROM THE STOCK EXCHANGE

Our Directors (including the independent non-executive Directors) are of the view that the Non-exempt Continuing Connected Transactions have been and shall be (i) entered into in the ordinary and usual course of business of our Group; (ii) on normal commercial terms and are fair and reasonable or to the advantage of our Group and are in the interests of our Shareholders as a whole; and (iii) the annual caps amounts are fair and reasonable and are for and are in the interests of our Shareholders and reasonable as a whole.

Each of the applicable percentage ratios of the Non-Exempt Continuing Connected Transactions with Haosha Garments is, on an annual basis, expected to be less than 5%. As such, pursuant to Rule 14A.34 of the Listing Rules, such transactions are exempt from the independent shareholders' approval requirement but subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47, and the annual review requirements set out in Rules 14A.37 to 14A.40 and the requirements set out in Rules 14A.35(1) and 14A.35(2) of the Listing Rules.

As the Non-exempt Continuing Connected Transactions will continue after the Listing on a recurring basis, our Directors consider that strict compliance with the announcement requirements under the Listing Rules would be unduly burdensome and impractical.

Accordingly, we have applied for, and have received from, the Stock Exchange a waiver from strict compliance with the requirements set out in Rule 14A.47 of the Listing Rule pursuant to Rule 14A.42(3) of the Listing Rules in respect of the Non-Exempt Continuing Connected Transaction, subject to the annual caps set out above.

In respect of Rules 14A.35(2), the maximum aggregate annual cap for the Non-Exempt Continuing Connected Transactions shall not exceed the applicable limit.

Our Company confirms that our Company will comply with the requirements set out in Chapter 14A of the Listing Rules, including Rules 14A.35(1), 14A.35(2), 14A.36 to 14A.40, 14A.45 and 14A.47 of the Listing Rules in relation to the above Non-Exempt Continuing Connected Transactions and that the maximum aggregate annual values of the Non-Exempt Continuing Connected Transactions with Haosha Garments, for the three years ended 31 December 2011, 2012 and 2013 are not expected to exceed the annual caps, and will re-comply with Rules 14A.35(3) and (4) of the Listing Rules if any of the respective annual caps set out above is exceeded, or when the relevant agreements are renewed or when there is any material change to the terms of the relevant agreements.

CONNECTED TRANSACTIONS

CONFIRMATION FROM THE SOLE SPONSOR

The Sole Sponsor is of the view that (i) the Non-exempt Continuing Connected Transactions for which waiver is sought have been and shall be entered into in the ordinary and usual course of business of our Company on normal commercial terms and are fair and reasonable and in the interests of our Shareholders as a whole; and (ii) the proposed annual caps for the Non-exempt Continuing Connected Transactions are fair and reasonable and in the interests of our Shareholders as a whole.