*You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial information as of and for each of the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2011 and the accompanying notes included in the Accountants' Report set out in Appendix I to this Prospectus. The accountants' report ("Accountants' Report") has been prepared in accordance with IFRS. Potential investors should read the whole of the Accountants' Report set out in Appendix I to this Prospectus and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk Factors" in this Prospectus.*

## SELECTED FINANCIAL INFORMATION

### *Selected Consolidated Financial Information*

The selected consolidated statements of comprehensive income and cash flow information for the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2010 and 2011 as well as the selected consolidated balance sheet information as of 31 December 2008, 2009 and 2010 and 30 June 2011 set forth below are extracted from the Accountants' Report set out in Appendix I to this Prospectus. Financial information for such periods may not be comparable to financial information for subsequent periods or indicative of future performance.

The table below sets forth our summary consolidated statements of comprehensive income for the periods indicated:

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) | RMB'000 |
| **Continuing operations** | | | | | |
| Revenue | 204,643 | 159,169 | 347,787 | 118,059 | 302,347 |
| Cost of sales | (142,383) | (96,253) | (178,382) | (62,162) | (109,149) |
| Gross profit | 62,260 | 62,916 | 169,405 | 55,897 | 193,198 |
| Other revenue | 240 | 664 | 1,928 | 1,301 | 4,001 |
| Other net income/(loss) | 142 | 64 | (379) | (241) | 229 |
| Selling and distribution expenses | (24,431) | (23,737) | (29,122) | (8,600) | (25,138) |
| Administrative and other operating expenses | (10,655) | (10,041) | (26,695) | (7,806) | (26,721) |
| Profit from operations | 27,556 | 29,866 | 115,137 | 40,551 | 145,569 |
| Finance costs | (921) | (2,640) | (6,382) | (2,936) | (1,544) |
| Profit before taxation | 26,635 | 27,226 | 108,755 | 37,615 | 144,025 |
| Income tax benefit/(expense) | 1,596 | 1,382 | (14,380) | (4,413) | (18,644) |
| Profit for the year/period from continuing operations | 28,231 | 28,608 | 94,375 | 33,202 | 125,381 |
| **Discontinued operations** | | | | | |
| Profit from discontinued operations | 734 | 79 | 4,135 | 2,787 | — |
| Net gain on disposal of subsidiaries, machinery and equipment | — | — | 17,596 | — | — |
| **Profit for the year/period** | 28,965 | 28,687 | 116,106 | 35,989 | 125,381 |
| Exchange differences on translation of financial information of operations outside the mainland China | — | — | — | — | 1 |
| **Total comprehensive income for the year/period** | 28,965 | 28,687 | 116,106 | 35,989 | 125,382 |

The table below sets forth our summary consolidated balance sheets as of the dates indicated:

| | As of 31 December | | | As of 30 June |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Non-current assets | 17,030 | 30,302 | 69,400 | 68,046 |
| Current assets | 193,717 | 329,962 | 464,048 | 322,445 |
| Current liabilities | (118,819) | (239,649) | (236,057) | (149,789) |
| Total equity | 91,928 | 120,615 | 297,391 | 240,702 |
| Net current assets | 74,898 | 90,313 | 227,991 | 172,656 |
| Total assets less current liabilities | 91,928 | 120,615 | 297,391 | 240,702 |

The table below sets forth our summary consolidated cash flow statements for the periods indicated:

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) | RMB'000 |
| Net cash (used in)/generated from operating activities | (35,105) | (68,445) | 107,366 | (86,994) | 225,680 |
| Net cash (used in)/generated from investing activities | (14,965) | (17,960) | (66,787) | 435 | 3,238 |
| Net cash generated from/(used in) financing activities | 59,594 | 84,413 | 27,603 | 86,614 | (252,049) |
| Cash as of 1 January | 8,113 | 17,637 | 15,645 | 15,645 | 83,827 |
| Cash as of 31 December/30 June | 17,637 | 15,645 | 83,827 | 15,700 | 60,696 |

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### *Overview*

We own and operate *Hosa*™, the largest indoor sportswear brand in terms of 2010 ex-factory sales in China. We design and produce a wide range of mid-to-high end indoor sportswear products through our swimwear, fitness wear, sports underwear and accessories product lines, which we sell under our well-known *Hosa*™ brand. The comprehensiveness and quality of our indoor sportswear product portfolio are among our core competitive strengths. We believe that our comprehensive product portfolio has enabled us to cultivate and accelerate brand loyalty among our consumers.

During the Track Record Period, our operating segments representing different product categories consisted of:

- **Swimwear**: swimsuits and beachwear for women, men and children;
- **Fitness wear**: apparel for women and men for indoor fitness activities including yoga, gym and dance;

- **Sports underwear**: professional sports underwear and casual sports underwear for women and men; and

- **Accessories**: accessories that complement our swimwear and fitness wear products.

Our revenue generated from continuing operations was RMB204.6 million, RMB159.2 million and RMB347.8 million for the years ended 31 December 2008, 2009 and 2010, respectively, whereas our profit from continuing operations increased substantially from RMB28.2 million and RMB28.6 million for the years ended 31 December 2008 and 2009, respectively, to RMB94.4 million for the year ended 31 December 2010. In the six months ended 30 June 2011, our revenue from continuing operations amounted to RMB302.3 million, representing an increase of 156.1% over the comparable period in 2010, and our profit from continuing operations for the six months ended 30 June 2011 amounted to RMB125.4 million, representing an increase of 277.6% over the comparable period in 2010.

We disposed of our operation of manufacturing and sales of fabric in July 2010 and three subsidiaries that engaged in retail businesses of our products in July 2010, which have been recorded as discontinued operations.

For more information about our operating segments, see the section "C-2. Turnover and segment reporting" in the Accountants' Report in Appendix I to this Prospectus.

### *Basis of Presentation*

Our Company was incorporated in the Cayman Islands on 2 September 2010 and became the holding company of the companies now comprising our Group pursuant to the Corporate Reorganization completed on 16 March 2011. The Corporate Reorganization has been accounted for in accordance with the principle similar to a reverse acquisition as set out in International Financial Reporting Standard 3, Business Combinations. The issue of shares of our Company's subsidiary, Hosa Group, in exchange for the controlling interest in Haosha Industry and the connected share swap between our Company, Hosa Investment and Hosa Group resulted in our Company becoming the holding company of Haosha Industry. The Financial Information has been prepared as a continuation of Haosha Industry and the assets and liabilities of Haosha Industry are recognized and measured at their historical carrying values prior to the Corporate Reorganization.

We operate our business in four operating segments. Operating segment reporting is based on our management and internal reporting structure. The operating segments mainly represent our product categories. There were no inter-segment sales involved during the Track Record Period. No geographical segment analysis is presented as substantially all assets, liabilities and gross profits of our Group are attributable to our operations in the PRC.

### *Factors Affecting Our Results of Operations and Financial Condition*

Our results of operations and the period-to-period comparability of our financial results are affected by a number of external factors that are beyond our control. Our consolidated financial information may not be indicative of our future earnings, cash flows or financial position for numerous reasons, including those described below.

### General economic conditions and the growth in disposable income of residents of China

Consumer demand in China for indoor sportswear products is one of the key drivers of our sales of *Hosa*™ products and depends in large part on the general economic conditions in China and the growth in disposable income of residents in China. The statistics published by the PRC General Administration of Sport show that there is a general correlation between increasing income levels of PRC residents and the rising popularity of sports. According to Frost & Sullivan, China's indoor sportswear market has experienced rapid growth in recent years with a total size of approximately RMB3.46 billion in 2010, achieving a CAGR of 30.5% as compared to 2007. Frost & Sullivan also estimated that the size of China's indoor sportswear market will reach RMB10.16 billion in 2015, representing an expected CAGR of 24.0% from 2010 to 2015. We believe that the increase in the purchasing power of PRC residents will drive sentiment towards the purchase of branded indoor sportswear products, which should help to positively affect our results of operations.

### Changes in consumption patterns and trends in the PRC

The success of our business also depends in large part on consumption patterns and trends in China. Our growth depends on the existence and the continuation of consumer spending preferences in the PRC for lifestyle-enhancing products, such as entertainment, leisure and fashionable apparel and accessories. We also believe that a number of trends relevant to our industry, such as the increasing appreciation for the health benefits of indoor sports and fitness activities and the attitude to embrace active, healthy lifestyles have affected the indoor sportswear market and may continue to do so. There is also an increasing demand for functional athletic apparel with high quality and a growing willingness among consumers to pay a premium for functionality on such products with higher selling prices. The duration and extent of these trends, however, is unknown and may be subject to adverse changes, and we cannot assure you we will continue to benefit from these consumption patterns and trends in the future.

### Our ability to maintain and enhance our brand recognition that differentiate ourselves from our competitors

We believe that the indoor sportswear industry is highly competitive in the PRC and will continue to be so for the near future. Participants in the indoor sportswear industry in the PRC market include international and domestic brands, which compete in, among other things, brand loyalty, product variety, product design, product quality, distribution network and sales channel, marketing and promotion, price and the ability to meet delivery commitments to distributors. We aim to solidify our leading position in the indoor sportswear industry by maintaining our competitive advantages, in particular, by enhancing our *Hosa*™ brand recognition through our effective and innovative marketing and promotion and determination to offer premium-quality products to Chinese consumers, in order to differentiate ourselves from our competitors.

For the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2011, our advertising and promotional expenses accounted for approximately 4.0%, 3.0%, 2.6% and 4.3% of our total revenue from continuing operations for the same periods, respectively. We may increase our expenditures in advertising and marketing to further strengthen our brand and market position. If we are not able to maintain and continue to enhance the market perception and consumer acceptance of our *Hosa*™ brand, our business, financial condition, results of operations and prospects may be materially and adversely affected. Also see "Risk Factors — Risks relating to our business operations — We rely heavily on our *Hosa*™ brand and any failure to effectively promote or maintain our *Hosa*™ brand may materially and adversely affect our future success."

**Our distributorship business model and ability to continue to expand our distribution network**

During the Track Record Period, we gradually shifted our business model to distributorship. Under the new distributorship business model, we sell our *Hosa*™ products on a wholesale basis to distributors who then sell our products to end-consumers at the retail outlets directly operated by such distributors or to sub-distributors. As our distributorship business model is relatively new to us, it may be difficult to identify all the risks and difficulties that we may encounter in the different stages of developing and implementing this new business model. Also see "Risk Factors — Risks relating to our business operations — Our limited operating experience with a distributorship business model and our failure to effectively handle the risks associated with our distributorship arrangement may materially and adversely affect our business."

As of the Latest Practicable Date, all of our domestic sales of *Hosa*™ products are made to our distributors. Our financial condition and results of operations may also be affected by our ability to work closely with our distributors to increase and improve our marketing campaign, our ability to expand and optimize our distribution network, and also the ability of our distributors to further enhance the geographical reach of retail outlets operated by our distributors or sub-distributors. We plan to proactively strengthen our presence in second- and third-tier cities by leveraging our leading position in first-tier cities to create an extensive indoor sportswear distribution network in China. By broadening our retail coverage, we can more effectively penetrate our target markets and further enhance the recognition for our brand as one of the leading indoor sportswear brands in China. However, the past expansion of our distribution network may not be sustainable and our business model may not be as profitable in the future, which could have material adverse effects on our financial condition and results of operations. Also see "Risk Factors — Risks relating to our business operations — We rely primarily on our distributors to expand our retail network and oversee sub-distributors and their failure to do so may materially and adversely affect our business."

**Pricing of our products and product mix**

The value of our *Hosa*™ brand is a significant factor that we take into consideration in determining the suggested retail prices of our *Hosa*™ products. Our ability to continue to price our *Hosa*™ products at current levels is crucial to our financial performance. We typically sell our products to our distributors at a discount to the suggested retail price of our products. Our wholesale discount to distributors ranged from 60% to 75% off of the suggested retail price in 2008 and 2009, and our wholesale discount to distributors was 75% off the suggested retail price in 2010. In 2011, we lowered our wholesale discount to distributors to 65% off of the suggested retail price. We require our distributors to comply with our retail pricing guidelines, which we determine based on various factors such as our internal production costs, our competitors' pricing strategies, consumers' purchasing power, and general economic conditions in China. We strategically market our *Hosa*™ products primarily to urban, white collar professionals between the ages of 20 and 40 who, we believe, embrace active and fashionable lifestyles and are willing to pay a premium for indoor sportswear products with athletic functionality, comfort and style. We believe our product positioning enables us to capture a well-defined niche market with growing demand. Going forward, we believe our ability to continue to attract consumers by offering indoor sportswear products with premium quality and higher retail selling prices will have a direct impact on the results of our operations and financial condition.

We also offer a wide range of indoor sportswear products for both men and women, through the products lines of swimwear, fitness wear, sports underwear and accessories. We continuously optimize our product mix and develop and introduce new products that we believe will generate higher consumer demand, as part of our efforts to maximize revenue. We will continue to adjust our product mix and enhance our product positioning in an effort to increase our revenue and gross profit. However, our gross profit may be continuously affected by any change in revenue attributable to, and gross profit margin of, the product mix in each operating segment as well as among product categories. Also see "Risk Factors — Risks relating to our business operations — If we are unable to optimize and adjust our product mix, our sales may fluctuate and our profit margins may decline substantially."

**Cost of raw materials**

The principal raw materials used in the production of our products are various types of fabric. For the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2011, the cost of our raw materials accounted for 75.0%, 64.0%, 71.9% and 79.2%, respectively, of our cost of sales of continuing operations. We also include in our cost of raw materials the outsourced processing and service fees we paid to contract manufacturers for fabric manufacturing, fabric printing and dyeing, and fabric cutting, sewing and stitching processes during the Track Record Period. It is important for us to obtain from our suppliers sufficient quantities of good quality raw materials in a timely manner and at competitive prices for our internal production. The cost of some of our key raw materials is affected by several factors, such as fluctuations in commodity prices (including oil and cotton), purchase volume and availability of substitute materials. We do not enter into long-term agreements with our raw material suppliers. Fluctuations in the costs of our principal raw materials and our inability to pass on any increases in raw material costs to our customers may materially and adversely affect our cost of sales, gross profit margins and profitability. See "Risk Factors — Risks relating to our business operations — We may be materially and adversely affected by increases in the market prices of raw materials."

**Level of income tax and preferential tax treatment**

The EIT Law imposes a unified enterprise income tax rate of 25% for both domestic enterprises and foreign invested enterprises. Under the EIT Law, enterprises that enjoyed a preferential tax rate prior to the EIT Law's promulgation shall gradually transit to the new tax rate over five years from the effective date of the EIT Law. Enterprises which enjoyed a fixed period of tax exemption and reduction under the then applicable rules and regulations may continue to enjoy such preferential tax treatment until the expiry of such prescribed period, and for those enterprises whose preferential tax treatment has not commenced due to lack of profit, such preferential tax treatment shall commence from the effective date of the EIT Law.

Under the current tax regime, our PRC subsidiary, namely Haosha Industry, being a foreign invested enterprise engaged in the manufacture and sales business, was entitled to an enterprise income tax exemption for its first two years of profitable operations (after offsetting all tax losses carried forward from previous years), which had a significant positive effect on our profit after taxation during the two financial years ended 31 December 2008 and 2009. For the year ended 31 December 2010 and the two years ending 31 December 2011 and 2012, Haosha Industry was and will continue to be entitled to a 50%

reduction of the current state enterprise income tax rate of 25%. We expect that upon the expiry of the 50% tax reduction from enterprise income tax currently enjoyed by Haosha Industry, it will be subject to a 25% tax rate and our tax payment will increase from 2013 onwards.

**End consumers' seasonal demand and weather conditions**

Consumers' purchases of swimwear and sports underwear products have historically reflected a certain degree of seasonality, which we expect to continue. Swimwear products usually achieve higher sales for the spring and summer seasons as compared to autumn and winter seasons. In contrast, consumers tend to purchase more sports underwear products during autumn and winter seasons as compared to spring and summer. In addition, weather conditions, such as unusual weather or temperatures, may affect consumers' purchases of swimwear and sports underwear products. However, the seasonality of the consumption of swimwear and sports underwear products has not directly impacted our sales, primarily due to the industry practice that we hold sales fairs before the retail sales cycle of the respective products starts and that our distributors would spread their purchases into several orders based on our production capacity and their inventory management. As a result, comparisons of our sales and operating results between different periods within a single financial year, or between different periods in different financial years, are not necessarily meaningful and cannot be relied on as indicators of our performance. Furthermore, we expect our results of operation are likely to continue to fluctuate from period to period, as may be affected by consumers' seasonal demand and weather condition to a certain extent. Also see "Risk Factors — Risks relating to our business operations — End-consumers' demand for our products are subject to seasonality and weather conditions, which could cause our results of operations to fluctuate."

***Critical Accounting Policies and Practices***

The discussion and analysis of our results of operations and financial condition is based on our consolidated financial information, which have been prepared in accordance with IFRS. Our results of operations and financial condition are sensitive to accounting methods, assumptions and estimates that underlie the preparation of our consolidated financial information. These assumptions and estimates are based on historical experience and various other factors that we currently believe to be reasonable, which form the basis for making judgments on matters that are not readily apparent from other sources. Our management evaluates these estimates on an ongoing basis. Actual results may differ from these estimates as the facts, circumstances and conditions may experience change or as a result of different assumptions.

Our management team considers the following factors in reviewing the respective consolidated financial information:

- the selection of critical accounting policies; and
- the judgments and other uncertainties affecting the application of those critical accounting policies.

The selection of critical accounting policies, the judgments and other uncertainties affecting the application of those policies, as well as the sensitivity of reported results to changes in conditions and assumptions, are all factors to be considered when reviewing our financial information. Our significant accounting policies are summarized in section C-1 to the Accountants' Report of our Company in Appendix I to this Prospectus. We believe the following critical accounting policies and practices involve the most significant judgments and estimates used in the preparation of our financial information:

**Impairments**

If circumstances indicate that the carrying value of an asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognized in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to level of sales volume, sales revenue and amount of operating costs. We use all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, sales revenue and amount of operating costs.

**Net realizable value of inventories**

Net realizable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the historical experience of selling products with similar nature. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down made in prior years and affect our net assets value. We reassess these estimates at each balance sheet date.

**Impairment of trade and other receivables**

We estimate the impairment allowances for trade and other receivables by assessing the recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgments. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amounts of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. We reassess the impairment allowances at each balance sheet date.

**Depreciation and amortization**

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. Intangible assets except for those with an indefinite life are amortized on a straight-line basis over the estimated useful lives. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortization expenses to be recorded during any reporting period. The useful lives are based on our historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortization expenses for future periods are adjusted prospectively if there are significant changes from previous estimates.

***Description of Components of Results of Continuing Operations***

**Revenue**

*By operating segment*

During the Track Record Period, we generated our revenue from the manufacture and sale of indoor sportswear products, including swimwear, fitness wear, sports underwear and accessories products. The following table sets forth the sources of our revenue by operating segments in our continuing operations for the periods indicated:

| | Year ended 31 December | | | | | | Six months ended 30 June | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | | 2009 | | 2010 | | 2010 | | 2011 | |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| Swimwear | 59,836 | 29.2 | 70,631 | 44.4 | 143,477 | 41.3 | 64,002 | 54.2 | 136,970 | 45.3 |
| Fitness wear | 87,321 | 42.7 | 31,316 | 19.7 | 73,806 | 21.2 | 19,104 | 16.2 | 78,031 | 25.8 |
| Sports underwear | 54,536 | 26.7 | 52,873 | 33.2 | 111,582 | 32.1 | 30,395 | 25.7 | 68,614 | 22.7 |
| Accessories | 2,950 | 1.4 | 4,349 | 2.7 | 18,922 | 5.4 | 4,558 | 3.9 | 18,732 | 6.2 |
| **Total** | 204,643 | 100.0 | 159,169 | 100.0 | 347,787 | 100.0 | 118,059 | 100.0 | 302,347 | 100.0 |

The overall growth of our *Hosa*™ product sales during the Track Record Period was mainly due to the successful promotion of our *Hosa*™ brand, the rapid expansion of our distribution network in the domestic market and our conversion to distributorship business model as well as the general increase in market demand for indoor sportswear products and improving economic conditions in the PRC. The decrease of our revenue in 2009 was primarily due to the decrease in sales of our fitness wear products as a result of the significant decrease in the overseas sales of such products as affected by the global economic downturn since late 2008. To a lesser extent, the adjustment of product mix offered at retail outlets in the domestic market also resulted in the decrease in our domestic sales in 2009.

The following table sets forth the number of units sold and the average selling prices of our *Hosa*™ products for the periods indicated:

| | Year ended 31 December | | | | | | Six months ended 30 June | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | | 2009 | | 2010 | | 2010 | | 2011 | |
| | Total units sold | Average selling price(1) | Total units sold | Average selling price(1) | Total units sold | Average selling price(1) | Total units sold | Average selling price(1) | Total units sold | Average selling price(1) |
| | '000 | RMB | '000 | RMB | '000 | RMB | '000 | RMB | '000 | RMB |
| Swimwear (pieces) | 2,171 | 27.6 | 2,574 | 27.4 | 4,002 | 35.8 | 2,531 | 25.3 | 2,635 | 52.0 |
| Fitness wear (pieces) | 3,444 | 25.4 | 613 | 51.1 | 1,428 | 51.7 | 376 | 50.8 | 1,139 | 68.5 |
| Sports underwear (pieces) | 1,440 | 37.9 | 1,357 | 39.0 | 2,016 | 55.3 | 678 | 44.8 | 853 | 80.4 |
| Accessories (pieces/pairs) | 140 | 21.1 | 250 | 17.4 | 703 | 26.9 | 240 | 19.0 | 535 | 35.0 |

*Note:*

(1) Average selling price represents revenue from each operating segment representing each product category divided by the total units of that product category sold for the year/period.

The change of the average selling price of our fitness wear products in 2009 was primarily due to (i) changes in product mix and product positioning toward higher-end fitness wear products and (ii) the decrease in overseas sales through which we sold products with lower selling prices and provided more discounts to foreign trading companies. The increase in the average selling prices of our swimwear and sports underwear products in 2010 was primarily due to changes in product mix and product positioning toward premium functional products with higher selling prices. The change in average selling prices of our accessories products in 2010 mainly reflected the change in our procurement costs for various kinds of accessories products we purchased from external sources that complemented our swimwear and fitness wear operations. As such, the changes in average selling prices as well as units sold for our accessories products during the Track Record Period are not comparable from period to period. During the first half of 2011, the overall increase in the average selling price of all of our product categories was primarily due to (i) the reduction of our wholesale discount to distributors to 65% off of the suggested retail price in the first half of 2011, (ii) the repositioning toward premium functional products with higher selling prices, as well as (iii) the decrease in our overseas sales, through which we sold products with lower selling prices than those of our domestic sales. While the average selling price of all of our product categories increased in the first half of 2011, such increase did not have a direct impact on the suggested retail price of our products and we did not make a substantial increase in the suggested retail price of our products during the same period.

*By region*

While we primarily conduct our business in China, our products were sold overseas to certain South East Asian, North American and European countries during the Track Record Period based on purchase orders we received from foreign trading companies or wholesalers. For the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2011, we had 47, 30, 35 and one overseas customer for our continuing operations. Our overseas sales of fitness wear decreased significantly in 2009, which resulted in the overall decrease in our overseas sales in 2009 compared to 2008, primarily due to the global economic downturn since late 2008. In addition, since 2011, our overseas sales have been limited to the fulfillment of selected overseas purchase orders on a case-by-case basis. We expect that our overseas sales as a percentage of our total revenue will continue to decrease in the future as we aim to continue the active expansion of our sales and distribution network in the domestic market.

The following table sets forth a geographical breakdown of our revenue from continuing operations for the periods indicated:

| | **Year ended 31 December** | | | | | | **Six months ended 30 June** | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2008** | | **2009** | | **2010** | | **2010** | | **2011** | |
| | **RMB'000** | % | **RMB'000** | % | **RMB'000** | % | **RMB'000** | % | **RMB'000** | % |
| Domestic sales | | | | | | | | | | |
| Swimwear | 32,722 | 16.0 | 41,708 | 26.2 | 97,937 | 28.2 | 30,148 | 25.5 | 136,726 | 45.2 |
| Fitness wear | 41,759 | 20.4 | 26,528 | 16.7 | 68,387 | 19.6 | 17,185 | 14.6 | 78,031 | 25.8 |
| Sports underwear | 54,536 | 26.7 | 52,873 | 33.2 | 111,582 | 32.1 | 30,395 | 25.8 | 68,614 | 22.7 |
| Accessories | 2,942 | 1.4 | 4,035 | 2.5 | 18,892 | 5.4 | 4,528 | 3.8 | 18,732 | 6.2 |
| Subtotal | 131,959 | 64.5 | 125,144 | 78.6 | 296,798 | 85.3 | 82,256 | 69.7 | 302,103 | 99.9 |
| Overseas sales(1) | | | | | | | | | | |
| Swimwear | 27,114 | 13.2 | 28,923 | 18.2 | 45,540 | 13.1 | 33,854 | 28.7 | 244 | 0.1 |
| Fitness wear | 45,562 | 22.3 | 4,788 | 3.0 | 5,419 | 1.6 | 1,919 | 1.6 | — | — |
| Accessories | 8 | 0.0 | 314 | 0.2 | 30 | 0.01 | 30 | 0.03 | — | — |
| Subtotal | 72,684 | 35.5 | 34,025 | 21.4 | 50,989 | 14.7 | 35,803 | 30.3 | 244 | 0.1 |
| **Total** | 204,643 | 100.0 | 159,169 | 100.0 | 347,787 | 100.0 | 118,059 | 100.0 | 302,347 | 100.0 |

*Note:*

(1) We did not export our sports underwear products during the Track Record Period.

Our overseas sales consist primarily of products with lower selling prices and we also provide more discounts to foreign trading companies. The average selling price of our swimwear products in overseas sales was RMB20.5, RMB22.4, RMB17.8 and RMB11.3, respectively, for the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2011. The average selling price of our fitness wear products in overseas sales was RMB18.1, RMB50.0 and RMB23.6, respectively, for the years ended 31 December 2008, 2009 and 2010. We did not make any overseas sales of our fitness wear products in the first half of 2011. We had limited sales of accessories products in our overseas sales and we did not export our sports underwear products during the Track Record Period.

**Cost of sales**

*By type*

Our cost of sales for our *Hosa*™ products primarily consists of internal production costs and procurement costs of finished products from external sources. Internal production costs include raw material costs, labor costs as well as manufacturing overhead incurred in the production of our *Hosa*™ swimwear, fitness wear and sports underwear.

The following table sets forth a breakdown of our cost of sales for our *Hosa*™ products for the periods indicated:

| | Year ended 31 December | | | | | | Six months ended 30 June | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | | 2009 | | 2010 | | 2010 | | 2011 | |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| Raw materials | 106,817 | 75.0 | 61,631 | 64.0 | 128,335 | 71.9 | 44,902 | 72.2 | 86,474 | 79.2 |
| Labor | 17,416 | 12.2 | 14,049 | 14.6 | 20,613 | 11.6 | 8,248 | 13.3 | 10,035 | 9.2 |
| Manufacturing overhead | 16,656 | 11.7 | 12,090 | 12.6 | 19,350 | 10.8 | 5,030 | 8.1 | 4,472 | 4.1 |
| Procurement costs of finished products | 1,494 | 1.1 | 8,483 | 8.8 | 10,084 | 5.7 | 3,982 | 6.4 | 8,168 | 7.5 |
| **Total** | 142,383 | 100.0 | 96,253 | 100.0 | 178,382 | 100.0 | 62,162 | 100.0 | 109,149 | 100.0 |

Raw material costs primarily refer to costs of procuring raw materials used in the production of our products, such as fabrics, threads and ancillary clothing materials. For the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2011, we engaged 38, 45, 46 and 34 raw materials suppliers, respectively. The average purchase price for our key raw materials, including but not limited to various stretch fabrics, for the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2011 was RMB59.4 per kg, RMB46.5 per kg, RMB64.1 per kg and RMB67.7 per kg, respectively. Such changes in the average purchase prices of our key raw materials were primarily due to the fluctuation of commodity prices, in particular crude oil and cotton prices.

Certain production processing steps of our swimwear, fitness wear and sports underwear products, primarily fabric manufacturing, fabric printing and dyeing, and fabric cutting, sewing and stitching, are outsourced to external contract manufacturers. We provide fabric materials to contract manufacturers for processing and pay outsourced processing and service fees. Such outsourced processing and service fees are categorized under our raw materials costs.

Labor costs consist of salaries, benefits and other compensation expenses paid to our production staff.

Manufacturing overhead mainly includes depreciation of production facilities, costs associated with operating our facilities, such as electricity, water and maintenance costs, and other miscellaneous costs associated with our manufacturing operations.

We purchase all of our accessories products and a small portion of our sports underwear products from external contract manufacturers and categorize the purchase prices as procurement costs of finished products. We conduct final packaging for such finished products at our production facilities before their distribution to the market.

*By operating segments*

The following table sets forth a breakdown of our cost of sales by operating segment in our continuing operations for the periods indicated:

| | Year ended 31 December | | | | | | Six months ended 30 June | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | | 2009 | | 2010 | | 2010 | | 2011 | |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| Swimwear | 41,679 | 29.3 | 43,841 | 45.6 | 72,909 | 40.9 | 36,501 | 58.7 | 50,041 | 45.8 |
| Fitness wear | 65,234 | 45.8 | 17,521 | 18.2 | 38,011 | 21.3 | 8,579 | 13.8 | 26,083 | 23.9 |
| Sports underwear | 34,266 | 24.1 | 31,497 | 32.7 | 59,023 | 33.1 | 14,259 | 22.9 | 27,077 | 24.8 |
| Accessories | 1,204 | 0.8 | 3,394 | 3.5 | 8,439 | 4.7 | 2,823 | 4.6 | 5,948 | 5.5 |
| **Total** | 142,383 | 100.0 | 96,253 | 100.0 | 178,382 | 100.0 | 62,162 | 100.0 | 109,149 | 100.0 |

## Gross profit and gross profit margin

Our gross profit is our revenue from sales of our *Hosa*™ products for the relevant period less the cost of sales for our *Hosa*™ products for the same period. The following table sets forth a breakdown of our gross profit from our continuing operations and gross profit margin by geographical regions and operating segments for the periods indicated:

| | Year ended 31 December | | | | | | Six months ended 30 June | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | | 2009 | | 2010 | | 2010 | | 2011 | |
| | Gross profit | Gross profit margin | Gross profit | Gross profit margin | Gross profit | Gross profit margin | Gross profit | Gross profit margin | Gross profit | Gross profit margin |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| Domestic sales | | | | | | | | | | |
| Swimwear | 13,672 | 41.8 | 19,326 | 46.3 | 57,612 | 58.8 | 17,327 | 57.5 | 86,909 | 63.6 |
| Fitnesswear | 18,879 | 45.2 | 12,077 | 45.5 | 34,222 | 50.0 | 9,645 | 56.1 | 51,948 | 66.6 |
| Sports underwear | 20,270 | 37.2 | 21,376 | 40.4 | 52,559 | 47.1 | 16,136 | 53.1 | 41,537 | 60.5 |
| Accessories | 1,746 | 59.3 | 690 | 17.1 | 10,460 | 55.4 | 1,712 | 37.8 | 12,784 | 68.3 |
| Subtotal | 54,567 | 41.4 | 53,469 | 42.7 | 154,853 | 52.2 | 44,820 | 54.5 | 193,178 | 63.9 |
| Overseas sales[(1)] | | | | | | | | | | |
| Swimwear | 4,485 | 16.5 | 7,464 | 25.8 | 12,956 | 28.4 | 10,174 | 30.1 | 20 | 8.2 |
| Fitness wear | 3,208 | 7.0 | 1,718 | 35.9 | 1,573 | 29.0 | 880 | 45.8 | — | — |
| Accessories | — | — | 265 | 84.4 | 23 | 76.7 | 23 | 76.4 | — | — |
| Subtotal | 7,693 | 10.6 | 9,447 | 27.8 | 14,552 | 28.5 | 11,077 | 30.9 | 20 | 8.2 |
| **Total gross profit/gross profit margin** | 62,260 | 30.4 | 62,916 | 39.5 | 169,405 | 48.7 | 55,897 | 47.3 | 193,198 | 63.9 |

*Note:*

(1) We did not export our sports underwear products during the Track Record Period.

Gross profit for our *Hosa*™ products increased by 1.1% from RMB62.3 million for the year ended 31 December 2008 to RMB62.9 million for the year ended 31 December 2009, primarily due to the decrease in the purchase prices of raw materials and the change in our product mix. Gross profit increased by 169.3% from RMB62.9 million for the year ended 31 December 2009 to RMB169.4 million for the year ended 31 December 2010, due to our overall sales growth and the increase in the average selling price of our swimwear and sports underwear products in 2010. Gross profit increased by 245.6% from RMB55.9 million for the six months ended 30 June 2010 to RMB193.2 million for the six months ended 30 June 2011, primarily due to our sales growth and the increase in the average selling price of our products.

Gross profit margin for our *Hosa*™ products increased from 30.4% for the year ended 31 December 2008 to 39.5% for the year ended 31 December 2009, primarily attributable to the decrease in purchase prices of raw materials and the introduction of fitness wear products with higher selling prices and profit margin. Our gross profit margin increased from 39.5% for the year ended 31 December 2009 to 48.7% for the year ended 31 December 2010, primarily due to the increase in average selling prices of our swimwear and sports underwear products as a result of the improvement of our product mix and our repositioning toward premium functional products with higher selling prices and profit margins. Gross profit margin increased from 47.3% for the six months ended 30 June 2010 to 63.9% for the six months ended 30 June 2011, primarily due to (i) the reduction of our wholesale discount to distributors to 65% off of the suggested retail price in the first half of 2011 and (ii) the decrease in our overseas sales through which we sold products with lower profit margins than those of our domestic sales.

**Other revenue**

Our other revenue primarily consisted of government grants, interest income from interest-bearing bank deposits and rental income. Government grants were provided by provincial or prefectural government authorities in the form of unconditional subsidies as a recognition for our contribution to the local economy through our business operations and our achievements as one of the core enterprises in local industry clustering, as well as an encouragement for our exportation. There are no continuing obligations or requirements for us or conditions in relation to the government grants. The amount of government grants received by us varied during the Track Record Period, primarily due to changes in the aggregate amount of government grants available and the underlying government policies during each of the years ended 31 December 2008, 2009 and 2010 as well as for the six months ended 30 June 2010 and 2011. Our rental income primarily related to the leasing of equipment to Haosha Garments, which ended after our disposal of our fabric production line to Haosha Garments in July 2010.

**Other net income/loss**

Our other net income in 2008 and 2009 primarily consisted of net exchange gain from the depreciation of the US dollar against the Renminbi and appreciation of the Euro against the Renminbi in connection with our procurement of equipment and overseas sales. Our other net loss for the year ended 31 December 2010 primarily consisted of net exchange loss from the depreciation of the US dollar against the Renminbi in connection with our overseas sales and procurement of equipment. Our other net income in the six months ended 30 June 2011 primarily consisted of net exchange gain from the appreciation of the Renminbi against the US dollar in connection with the dividend distribution by Haosha Industry to its then shareholders Haosha H.K. and Haosha Garments in 2011.

**Selling and distribution expenses**

Selling and distribution expenses consist primarily of advertising and promotion expenses, incentive fees for the sales personnel employed by the retail outlets, decoration expenses for retail outlets, remuneration and employees benefits for our sales and marketing personnel, rental expenses, packaging and transportation expenses, depreciation and amortization expenses of our properties used for sales and marketing activities, travel expenses and other miscellaneous expenses.

Advertising and promotion expenses primarily include fees paid for event sponsorships and TV, magazine and billboard advertising.

For the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2011, our selling and distribution expenses were RMB24.4 million, RMB23.7 million, RMB29.1 million and RMB25.1 million, respectively, representing 11.9%, 14.9%, 8.4% and 8.3% of our revenue from continuing operations, respectively.

**Administrative and other operating expenses**

Administrative and other operating expenses consist primarily of remuneration and employee benefits for our administrative staff, impairment losses for trade receivables and prepayments, travel and transportation expenses, general office expenses, stamp duty and property taxes, depreciation and amortization expenses of our properties used for administrative activities, donations, research and development expenses, professional service fees relating to the Listing and other miscellaneous expenses.

For the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2011, administrative and other operating expenses were RMB10.7 million, RMB10.0 million, RMB26.7 million, and RMB26.7 million, respectively, representing 5.2%, 6.3%, 7.7% and 8.8% of our revenue from continuing operations, respectively.

**Finance costs**

Our finance costs primarily consist of interest and administrative fees charged on our interest-bearing bank borrowings. For the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2011, finance costs from continuing operations were RMB0.9 million, RMB2.6 million, RMB6.4 million and RMB1.5 million, respectively.

**Income tax benefit/expenses**

Income tax expenses represent amounts of corporate income tax paid by us. No provision for Hong Kong profits tax has been made as we did not generate any assessable profits arising in Hong Kong during the Track Record Period. We were also not subject to any tax in the Cayman Islands and the BVI during the Track Record Period.

However, our PRC subsidiary, namely Haosha Industry, is subject to PRC enterprise income tax. During the Track Record Period, our PRC subsidiary, namely Haosha Industry, was entitled to an enterprise income tax exemption for the two financial years ended 31 December 2008 and 2009, and a 50% reduction of the current state enterprise income tax rate of 25% for the year ended 31 December

2010. Haosha Industry will continue to be entitled to the 50% reduction of the current state enterprise income tax rate of 25% for the two financial years of 2011 and 2012, but will be subject to a 25% tax rate from 2013 onwards.

In addition, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC-resident enterprises for profits earned since 1 January 2008. A lower withholding tax rate of 5% will be applied under the Sino-Hong Kong Double Tax Arrangement if a Hong Kong company is the beneficial owner and holds 25% or more of the equity interests of the PRC company directly. However, according to the Circular 124, whether a Hong Kong investor of a PRC company could enjoy such preferential tax rate under such double tax arrangement is subject to the approval of the competent PRC authorities. As our PRC subsidiary, namely Haosha Industry, is wholly and directly owned by a Hong Kong company, a rate of 5% will be applicable to the calculation of the PRC dividend withholding tax upon the approval of the competent authorities.

We recorded an income tax benefit of RMB1.6 million in 2008 and RMB1.4 million in 2009, as a result of the preferential tax treatment and the tax effect of accrued expenses deductible in subsequent period. In 2010 and the six months ended 30 June 2011, we had income tax expenses of RMB14.4 million and RMB18.6 million and the effective tax rate for the same period was 13.2% and 12.9%, respectively.

***Description of Discontinued Operations***

In 2010, we terminated and disposed of our operations of manufacturing and sales of fabric and retail sales of our *Hosa*™ products to focus on manufacturing and sales of our branded swimwear, fitness wear, sports underwear and accessories products through our distributors. For the years ended 31 December 2008, 2009 and 2010, our discontinued operations recorded revenue of RMB59.0 million, RMB70.8 million and RMB119.3 million, respectively. We had net profit from the discontinued operations of RMB0.7 million, RMB79,000 and RMB4.1 million in the years ended 31 December 2008, 2009 and 2010, respectively. The increase in our revenue and net profit from discontinued operations in 2010, in particular in the second half of 2010, was primarily due to our increased sales of finished products of our discontinued operations to Independent Third Parties during the course of the termination of such businesses.

On 31 July 2010, we disposed of our production lines relating to fabric materials on an arm's length basis to Haosha Garments at a consideration of RMB2.0 million. We incurred a loss of RMB26,000 from such transaction.

On 30 July 2010, we terminated our retail operations and disposed of our interests in Beijing Yasha, Shanghai Haote and Guangzhou Yingchang, whose businesses consisted of the retail operations of swimwear, fitness wear and sports underwear, to Independent Third Parties. Such Independent Third Parties were referred to the opportunities to acquire our three subsidiaries by mutual friends of the Independent Third Parties and our Controlling Shareholders from their shared origin of Fujian Province, China. The purchase prices for the sales to the Independent Third Parties were reached after negotiations made on an arm's length basis. As of the Latest Practicable Date, the purchase prices have been fully settled by bank remittances. Although Beijing Yasha and Guangzhou Yingchang recorded net liabilities as of 30 July 2010, the consideration for such transactions was RMB8.08 million primarily for the retail networks possessed by Beijing Yasha and Guangzhou Yingchang, which later became our third-party distributors after such transactions. As Shanghai Haote did not commence actual operations since its establishment and until the transaction, the consideration was set at the paid-in capital of Shanghai Haote in the amount of RMB5.0 million.

For the years ended 31 December 2008, 2009 and 2010, the revenue generated from retail sales through our then three distributor subsidiaries were RMB1.2 million, RMB47.2 million and RMB35.2 million, respectively. The gross profit generated from such retail sales before the elimination of intra-group sales were RMB0.2 million, RMB14.6 million and RMB12.3 million, respectively.

For more details on our discontinued operations, please see Note 6 of Appendix I to this Prospectus.

## RESULTS OF OUR CONTINUING OPERATIONS

The following table sets forth, for the period indicated, certain income and expense items from our consolidated statements of comprehensive income and the percentage of revenue of such items for the periods indicated:

| | Year ended 31 December | | | | | | Six months ended 30 June | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008 | | 2009 | | 2010 | | 2010 | | 2011 | |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 (unaudited) | % | RMB'000 | % |
| **Continuing operations** | | | | | | | | | | |
| Revenue | 204,643 | 100.0 | 159,169 | 100.0 | 347,787 | 100.0 | 118,059 | 100.0 | 302,347 | 100.0 |
| Cost of sales | (142,383) | (69.6) | (96,253) | (60.5) | (178,382) | (51.3) | (62,162) | (52.7) | (109,149) | (36.1) |
| Gross profit | 62,260 | 30.4 | 62,916 | 39.5 | 169,405 | 48.7 | 55,897 | 47.3 | 193,198 | 63.9 |
| Other revenue | 240 | 0.1 | 664 | 0.4 | 1,928 | 0.6 | 1,301 | 1.1 | 4,001 | 1.3 |
| Other net income/(loss) | 142 | 0.07 | 64 | 0.04 | (379) | (0.1) | (241) | (0.2) | 229 | (0.08) |
| Selling and distribution expenses | (24,431) | (11.9) | (23,737) | (14.9) | (29,122) | (8.4) | (8,600) | (7.3) | (25,138) | (8.3) |
| Administrative and other operating expenses | (10,655) | (5.2) | (10,041) | (6.3) | (26,695) | (7.7) | (7,806) | (6.6) | (26,721) | (8.8) |
| Profit from operations | 27,556 | 13.5 | 29,866 | 18.8 | 115,137 | 33.1 | 40,551 | 34.3 | 145,569 | 48.1 |
| Finance costs | (921) | (0.5) | (2,640) | (1.7) | (6,382) | (1.8) | (2,936) | (2.5) | (1,544) | (0.5) |
| Profit before taxation | 26,635 | 13.0 | 27,226 | 17.1 | 108,755 | 31.3 | 37,615 | 31.9 | 144,025 | 47.6 |
| Income tax benefit/ (expense) | 1,596 | 0.8 | 1,382 | 0.9 | (14,380) | (4.1) | (4,413) | (3.7) | (18,644) | (6.2) |
| Profit for the year/period from continuing operations | 28,231 | 13.8 | 28,608 | 18.0 | 94,375 | 27.1 | 33,202 | 28.1 | 125,381 | 41.5 |
| **Discontinued operations** | | | | | | | | | | |
| Profit from discontinued operations | 734 | 0.4 | 79 | 0.05 | 4,135 | 1.2 | 2,787 | 2.4 | — | — |
| Net gain on disposal of subsidiaries, machinery and equipment | — | — | — | — | 17,596 | 5.1 | — | — | 1 | 0.0 |
| **Profit for the year/period** | 28,965 | 14.2 | 28,687 | 18.0 | 116,106 | 33.4 | 35,989 | 30.5 | 125,381 | 41.5 |
| Exchange differences on translation of financial information of operations outside the mainland China | — | — | — | — | — | — | — | — | 1 | 0.0 |
| **Total comprehensive income for the year/ period** | 28,965 | 14.2 | 28,687 | 18.0 | 116,106 | 33.4 | 35,989 | 30.5 | 125,382 | 41.5 |

***Six Months Ended 30 June 2011 Compared to Six Months Ended 30 June 2010***

**Revenue**

We did not generate any inter-segment sales during this period and, as a result, all revenues discussed below are from external customers. Revenue increased by 156.1% from RMB118.1 million for the six months ended 30 June 2010 to RMB302.3 million for the six months ended 30 June 2011, primarily as a result of the following:

*Swimwear*

Revenue from sales of our *Hosa*™ swimwear products increased by 114.0% from RMB64.0 million for the six months ended 30 June 2010 to RMB137.0 million for the six months ended 30 June 2011, primarily due to the increase in average selling price of our swimwear products. The number of pieces of *Hosa*™ swimwear products sold increased by 4.1% from 2,531,478 pieces for the six months ended 30 June 2010 to 2,635,176 pieces for the six months ended 30 June 2011, primarily due to the expansion of our domestic distribution network and retail channels, offset by the decrease in our overseas sales volume. The average selling price of our *Hosa*™ swimwear products increased by 105.5% from RMB25.3 for the six months ended 30 June 2010 to RMB52.0 for the six months ended 30 June 2011, primarily due to (i) the reduction of our wholesale discount to distributors to 65% off of the suggested retail price in 2011, (ii) the repositioning toward premium functional products with higher selling prices as well as (iii) the decrease in our overseas sales of swimwear products, through which we sold products with lower selling prices than those of our domestic sales.

*Fitness wear*

Revenue from sales of our *Hosa*™ fitness wear products increased by 308.5% from RMB19.1 million for the six months ended 30 June 2010 to RMB78.0 million for the six months ended 30 June 2011, primarily due to the increase in sales volume of our fitness wear products. The number of pieces of *Hosa*™ fitness wear products sold increased by 203.0% from 376,032 pieces for the six months ended 30 June 2010 to 1,139,212 pieces for the six months ended 30 June 2011, primarily due to the expansion of our domestic distribution network, especially professional retail channels, since the second half of 2010 as well as the addition of new fitness wear products, partly offset by the decrease in our overseas sales volume. Such significant change in the sales volume of our fitness wear products is also attributable to the relatively low level of sales volume in the first half of 2010, which included a deferred effect of the adjustment of our product mix offered at retail outlets in the domestic market in 2009. The average selling price of our *Hosa*™ fitness wear products increased by 34.8% from RMB50.8 for the six months ended 30 June 2010 to RMB68.5 for the six months ended 30 June 2011, primarily due to (i) the reduction of our wholesale discount to distributors to 65% off of the suggested retail price in 2011 and (ii) the decrease in our overseas sales of fitness wear products, through which we sold products with lower selling prices than those of our domestic sales.

*Sports underwear*

Revenue from sales of our *Hosa*™ sports underwear products increased by 125.7% from RMB30.4 million for the six months ended 30 June 2010 to RMB68.6 million for the six months ended 30 June 2011, primarily due to the increase in the average selling price of our sports underwear products. The number of pieces of *Hosa*™ sports underwear products sold increased by 25.9% from 677,580 pieces for the six months ended 30 June 2010 to 853,197 pieces for the six months ended 30 June 2011, primarily due to the expansion of our domestic distribution network. The average selling price of our *Hosa*™ sports underwear products increased by 79.5% from RMB44.8 for the six months ended 30 June 2010 to RMB80.4 for the six months ended 30 June 2011, primarily due to the reduction of our wholesale discount to distributors to 65% off of the suggested retail price in 2011 as well as the change of our product mix and positioning toward premium functional products with higher selling prices.

*Accessories*

Revenue from sales of our *Hosa*™ accessories products increased by 311.0% from RMB4.6 million for the six months ended 30 June 2010 to RMB18.7 million for the six months ended 30 June 2011, primarily due to the increase in sales volume of our accessories products that complement our expanding swimwear and fitness wear product line as well as the reduction of our wholesale discount to distributors to 65% off of the suggested retail price in 2011.

**Cost of sales**

Cost of sales increased by 75.6% from RMB62.2 million for the six months ended 30 June 2010 to RMB109.1 million for the six months ended 30 June 2011, primarily as a result of our sales growth. Our raw material costs increased by 92.6% from RMB44.9 million for the six months ended 30 June 2010 to RMB86.5 million for the six months ended 30 June 2011, primarily due to the increase in our production volume as well as the increase in our use of outsourced processing services for the production of certain lower-end products in 2011. Procurement costs of finished products increased from RMB4.0 million for the six months ended 30 June 2010 to RMB8.2 million for the six months ended 30 June 2011, primarily due to the increase in sales of our accessories products that corresponded to the expansion of our business operations.

Changes of our cost of sales by operating segments for the six months ended 30 June 2010 and 2011 are discussed as follows:

*Swimwear*

Cost of sales incurred for our swimwear products increased by RMB13.5 million, or 37.1%, from RMB36.5 million for the six months ended 30 June 2010 to RMB50.0 million for the six months ended 30 June 2011 primarily due to the significant increase in sales volume of our swimwear products in domestic sales, through which we sold more premium products with higher unit costs.

*Fitness wear*

Cost of sales incurred for our fitness wear products increased by RMB17.5 million, or 204.0%, from RMB8.6 million for the six months ended 30 June 2010 to RMB26.1 million for the six months ended 30 June 2011 primarily due to the significant increase in sales volume of our fitness wear products.

*Sports underwear*

Cost of sales incurred for our sports underwear products increased by RMB12.8 million, or 89.9%, from RMB14.3 million for the six months ended 30 June 2010 to RMB27.1 million for the six months ended 30 June 2011 primarily due to the increase in sales volume of our sports underwear products and, to a lesser extent, the increase in sales of more premium products.

*Accessories*

Cost of sales incurred for our accessories products increased by RMB3.1 million, or 110.7%, from RMB2.8 million for the six months ended 30 June 2010 to RMB5.9 million for the six months ended 30 June 2011 primarily due to the significant increase in sales volume of our accessories products.

**Gross profit and gross profit margin**

Gross profit increased by 245.6% from RMB55.9 million for the six months ended 30 June 2010 to RMB193.2 million for the six months ended 30 June 2011. Overall gross profit margin increased from 47.3% for the six months ended 30 June 2010 to 63.9% for the six months ended 30 June 2011. The changes are primarily due to the results of the following:

*Swimwear*

Gross profit for our *Hosa*™ swimwear products increased by 216.1% from RMB27.5 million for the six months ended 30 June 2010 to RMB86.9 million for the six months ended 30 June 2011. Gross profit margin for our *Hosa*™ swimwear products increased from 43.0% for the six months ended 30 June 2010 to 63.5% for the six months ended 30 June 2011, primarily due to the reduction of our wholesale discount to distributors to 65% off of the suggested retail price in 2011 as well as the decrease in our overseas sales of swimwear products through which we derived lower profit margins than those of our domestic sales.

*Fitness wear*

Gross profit for our *Hosa*™ fitness wear products increased by 393.6% from RMB10.5 million for the six months ended 30 June 2010 to RMB51.9 million for the six months ended 30 June 2011. Gross profit margin for our *Hosa*™ fitness wear products increased from 55.1% for the six months ended 30 June 2010 to 66.6% for the six months ended 30 June 2011, primarily due to the reduction of our wholesale discount to distributors to 65% off of the suggested retail price in 2011 as well as the decrease in our overseas sales of fitness wear products through which we derived lower profit margins than those of our domestic sales.

*Sports underwear*

Gross profit for our *Hosa*™ sports underwear products increased by 157.4% from RMB16.1 million for the six months ended 30 June 2010 to RMB41.5 million for the six months ended 30 June 2011. Gross profit margin for our *Hosa*™ sports underwear products increased from 53.1% for the six months ended 30 June 2010 to 60.5% for the six months ended 30 June 2011, primarily due to the reduction of our wholesale discount to distributors to 65% off of the suggested retail price in 2011.

*Accessories*

Gross profit for our *Hosa*™ accessories products increased significantly from RMB1.7 million for the six months ended 30 June 2010 to RMB12.8 million for the six months ended 30 June 2011. Gross profit margin for our *Hosa*™ accessories products increased from 38.1% for the six months ended 30 June 2010 to 68.2% for the six months ended 30 June 2011, primarily due to the increase in selling prices of certain accessories products as well as the reduction of our wholesale discount to distributors to 65% off of the suggested retail price in 2011.

**Other revenue**

Other revenue increased by 207.5% from RMB1.3 million for the six months ended 30 June 2010 to RMB4.0 million for the six months ended 30 June 2011, primarily due to the increase in government grants from provincial and prefectural government authorities in 2011, as compared to the same period in 2010. The increase in government grants in 2011 primarily consisted of subsidies of RMB3.2 million from the Jinjiang prefectural government in recognition of our achievements as one of the core enterprises in local industry clustering.

**Other net income/loss**

We recorded other net loss of RMB241,000 for the six months ended 30 June 2010 and we recorded other net income of a RMB229,000 for the six months ended 30 June 2011, primarily as a result of our net foreign exchange loss from the appreciation of the US dollar against the Renminbi in connection with our overseas sales and procurement of raw materials in 2010 and foreign exchange gain from the appreciation of the Renminbi against the US dollar in connection with the dividend distribution by Haosha Industry to its then shareholders, Haosha H.K. and Haosha Garments in 2011.

**Selling and distribution expenses**

Selling and distribution expenses increased by 192.3% from RMB8.6 million for the six months ended 30 June 2010 to RMB25.1 million for the six months ended 30 June 2011, primarily due to the increase in advertising and promotional expenses and, to a lesser extent, the increase in salaries and wages of our sales and marketing staff as a result of the addition of sales and marketing force. Selling and distribution expenses represented 8.3% of our revenue for the six months ended 30 June 2011, as compared to 7.3% of our revenue for the six months ended 30 June 2010, primarily because the increase in our sales and marketing efforts corresponded to the expansion of our business operations and promotion of our *Hosa*™ brand in the first half of 2011.

**Administrative and other operating expenses**

Administrative and other operating expenses increased by 242.3% from RMB7.8 million for the six months ended 30 June 2010 to RMB26.7 million for the six months ended 30 June 2011, primarily due to the incurrence of professional service fees and relevant expenses relating to the Listing. To a lesser extent, (i) the increase in the number of our administrative staff; (ii) the increase in research and development expenses and (iii) the increase in depreciation expenses relating to machinery, equipment and motor vehicles also contributed to the increase in our administrative and other operating expenses in the first half of 2011.

**Finance costs**

Finance costs decreased by 47.4% from RMB2.9 million for the six months ended 30 June 2010 to RMB1.5 million for the six months ended 30 June 2011, primarily due to the decrease in the average outstanding balance of our interest-bearing bank borrowings in the first half of 2011.

**Income tax**

Income tax expenses increased significantly from RMB4.4 million for the six months ended 30 June 2010 to RMB18.6 million for the six months ended 30 June 2011, primarily due to the increase in our taxable income. Our effective income tax rate for the same periods was 11.7% and 12.9%, respectively, and the change in our effective tax rate was primarily due to certain expenses incurred in the first half of 2011 that were not deductible for our PRC corporate income tax purposes.

**Profit for the period from continuing operations**

As a result of the foregoing factors, our profit from continuing operations increased by 277.6% from RMB33.2 million for the six months ended 30 June 2010 to RMB125.4 million for the six months ended 30 June 2011.

***Year Ended 31 December 2010 Compared to Year Ended 31 December 2009***

**Revenue**

We did not generate any inter-segment sales during this period and, as a result, all revenues discussed below are from external customers. Revenue increased by 118.5% from RMB159.2 million for the year ended 31 December 2009 to RMB347.8 million for the year ended 31 December 2010, primarily as a result of the following:

*Swimwear*

Revenue from sales of our *Hosa*™ swimwear products increased by 103.1% from RMB70.6 million for the year ended 31 December 2009 to RMB143.5 million for the year ended 31 December 2010, primarily due to the increase in sales volume as well as the increase in average selling price of our swimwear products. The number of pieces of *Hosa*™ swimwear products sold increased by 55.5% from 2,573,804 pieces for the year ended 31 December 2009 to 4,002,533 pieces for the year ended 31 December 2010, primarily due to the expansion of our distribution network and the growth of our operations. The average selling price of our *Hosa*™ swimwear products increased by 30.7% from RMB27.4 for the year ended 31 December 2009 to RMB35.8 for the year ended 31 December 2010, primarily due to the change of our product mix and positioning toward premium functional products with higher selling prices.

*Fitness wear*

Revenue from sales of our *Hosa*™ fitness wear products increased by 135.7% from RMB31.3 million for the year ended 31 December 2009 to RMB73.8 million for the year ended 31 December 2010, primarily due to the increase in sales volume. In addition, our sales of fitness wear products were relatively lower in 2009 as a result of the decrease in overseas sales due to the global economic downturn and the decrease in domestic sales due to the adjustment of our product mix offered at retail outlets in the domestic market. The number of pieces of *Hosa*™ fitness wear products sold increased by 133.0% from 612,949 pieces for the year ended 31 December 2009 to 1,428,373 pieces for the year ended 31 December 2010, primarily due to the expansion of our distribution network, in particular our coverage of professional retail channels at our alliance gyms. The average selling price of our *Hosa*™ fitness wear products remained stable at RMB51.1 for the year ended 31 December 2009 and RMB51.7 for the year ended 31 December 2010.

*Sports underwear*

Revenue from sales of our *Hosa*™ sports underwear products increased by 111.0% from RMB52.9 million for the year ended 31 December 2009 to RMB111.6 million for the year ended 31 December 2010, primarily due to the increase in sales volume as well as the average selling price of our sports underwear products. The number of pieces of *Hosa*™ sports underwear products sold increased by 48.5% from 1,357,388 pieces for the year ended 31 December 2009 to 2,015,997 pieces for the year ended 31 December 2010, primarily due to the expansion of our distribution network and the growth of our operations. The average selling price of our *Hosa*™ sports underwear products increased by 41.8% from RMB39.0 for the year ended 31 December 2009 to RMB55.3 for the year ended 31 December 2010, primarily due to the change of our product mix and positioning toward premium functional products with higher selling prices.

*Accessories*

Revenue from sales of our *Hosa*™ accessories products increased from RMB4.3 million for the year ended 31 December 2009 to RMB18.9 million for the year ended 31 December 2010, primarily due to increase in sales of our accessories products that complement our expanding swimwear and fitness wear product lines.

**Cost of sales**

Cost of sales increased by 85.3% from RMB96.3 million for the year ended 31 December 2009 to RMB178.4 million for the year ended 31 December 2010, primarily as a result of our sales growth. Our raw material costs increased by 108.2% from RMB61.6 million for the year ended 31 December 2009 to RMB128.3 million for the year ended 31 December 2010 as a result of our sales growth and an increase in the purchase prices of our raw materials. Labor costs increased by 46.7% from RMB14.0 million for the year ended 31 December 2009 to RMB20.6 million for the year ended 31 December 2010, primarily because of the increase in the average salaries and wages of our manufacturing staff. Manufacturing overhead increased by 60.0% from RMB12.1 million for the year ended 31 December 2009 to RMB19.4 million for the year ended 31 December 2010, primarily because of the economies of scale as a result of the expansion of our operations. Procurement costs of finished products increased from RMB8.5 million for the year ended 31 December 2009 to RMB10.1 million for the year ended 31 December 2010.

Changes of our cost of sales by operating segments from the year ended 31 December 2009 to the year ended 31 December 2010 are discussed as follows:

*Swimwear*

Cost of sales incurred for our swimwear products increased by RMB29.1 million, or 66.3%, from RMB43.8 million for the year ended 31 December 2009 to RMB72.9 million for the year ended 31 December 2010 primarily due to the increase in sales volume of our swimwear products.

*Fitness wear*

Cost of sales incurred for our fitness wear products increased by RMB20.5 million, or 116.9%, from RMB17.5 million for the year ended 31 December 2009 to RMB38.0 million for the year ended 31 December 2010 primarily due to the increase in sales volume of our fitness wear products.

*Sports underwear*

Cost of sales incurred for our sports underwear products increased by RMB27.5 million, or 87.4%, from RMB31.5 million for the year ended 31 December 2009 to RMB59.0 million for the year ended 31 December 2010 primarily due to the increase in sales volume of our sports underwear products and, to a lesser extent, the increase in unit cost as a result of our use of fabric with higher purchase costs for our premium functional sports underwear products.

*Accessories*

Cost of sales incurred for our accessories products increased significantly by RMB5.0 million from RMB3.4 million for the year ended 31 December 2009 to RMB8.4 million for the year ended 31 December 2010 primarily due to the significant increase in sales volume of our accessories products.

**Gross profit and gross profit margin**

Gross profit increased by 169.3% from RMB62.9 million for the year ended 31 December 2009 to RMB169.4 million for the year ended 31 December 2010. Overall gross profit margin increased from 39.5% for the year ended 31 December 2009 to 48.7% for the year ended 31 December 2010. The changes are primarily due to the following:

*Swimwear*

Gross profit for our *Hosa*™ swimwear products increased by 163.4% from RMB26.8 million for the year ended 31 December 2009 to RMB70.6 million for the year ended 31 December 2010. Gross profit margin for our *Hosa*™ swimwear products increased from 37.9% for the year ended 31 December 2009 to 49.2% for the year ended 31 December 2010, primarily because of the increase in sales in 2010 of premium swimwear products with higher selling prices and profit margin.

*Fitness wear*

Gross profit for our *Hosa*™ fitness swear products increased by 159.5% from RMB13.8 million for the year ended 31 December 2009 to RMB35.8 million for the year ended 31 December 2010. Gross profit margin for our *Hosa*™ fitness wear products increased from 44.1% for the year ended 31 December 2009 to 48.5% for the year ended 31 December 2010, primarily because of the economies of scale of our fitness wear operation as a result of sales growth as well as our consumption of raw materials that were purchased at a relatively low price in the second half of 2009 for our fitness wear operations in 2010.

*Sports underwear*

Gross profit for our *Hosa*™ sports underwear products increased by 145.9% from RMB21.4 million for the year ended 31 December 2009 to RMB52.6 million for the year ended 31 December 2010. Gross profit margin for our *Hosa*™ sports underwear products increased from 40.4% for the year ended 31 December 2009 to 47.1% for the year ended 31 December 2010, primarily because of the increase in sales in 2010 of premium sports underwear products with higher selling prices and profit margin.

*Accessories*

Gross profit for our *Hosa*™ accessories products were RMB1.0 million and RMB10.5 million for the years ended 31 December 2009 and 2010, respectively. Gross profit margin for our *Hosa*™ accessories products were 22.0% and 55.4% for the years ended 31 December 2009 and 2010, respectively. The change in gross profit margin for our accessories products primarily reflected the increase in the selling prices of certain accessories products, such as swim goggles, swimming caps, beach bags, as well as the change in the mix of accessories products sold and the addition of new accessories products that complement our swimwear and fitness wear products in 2010.

**Other revenue**

Other revenue increased from RMB0.7 million for the year ended 31 December 2009 to RMB1.9 million for the year ended 31 December 2010, primarily due to the addition of our rental income relating to lease of equipment to Haosha Garments.

**Other net income/loss**

We had other net income of RMB64,000 for the year ended 31 December 2009, which primarily consisted of net foreign exchange gain in connection with our overseas sales and procurement of equipment. We recorded other net loss of RMB379,000 for the year ended 31 December 2010, which primarily consisted of net foreign exchange loss resulting from the depreciation of the US dollar against Renminbi in connection with our overseas sales and procurement of equipment.

**Selling and distribution expenses**

Selling and distribution expenses increased by 22.7% from RMB23.7 million for the year ended 31 December 2009 to RMB29.1 million for the year ended 31 December 2010, primarily due to (i) the increase in our advertising and promotion expenses corresponding to the expansion of our distribution network and the growth of our business operations; (ii) the increase in packaging expenses primarily as a result of the increase in our sales; and (iii) the increase in the average wages and salaries for our sales and marketing staff. Such increase was partly offset by the decrease in the incentive fees we provided for sales personnel employed by the retail outlets due to the completion of our shift to distributorship business model in 2010. As a result of the foregoing and our enhanced operating efficiency brought by economies of scale, our selling and distribution expenses as a percentage of our total revenue decreased from 14.9% in 2009 to 8.4% in 2010.

**Administrative and other operating expenses**

Administrative and other operating expenses increased by 165.9% from RMB10.0 million for the year ended 31 December 2009 to RMB26.7 million for the year ended 31 December 2010, primarily due to the incurrence of professional service fees paid to external professional parties relating to the Listing. To a lesser extent, (i) the increase in depreciation expenses relating to our machinery, equipment and motor vehicles; (ii) the increase in impairment losses for prepayments to the suppliers of our previous fabric operations, which we disposed of in July 2010; and (iii) the increase in the average wages and salaries for our administrative staff also contributed to the increase in our administrative expenses in 2010.

**Finance costs**

Finance costs increased by 141.7% from RMB2.6 million for the year ended 31 December 2009 to RMB6.4 million for the year ended 31 December 2010, primarily due to the increase in the average outstanding balance of our interest-bearing bank borrowings.

**Income tax**

We recorded income tax benefits of RMB1.4 million for the year ended 31 December 2009. We incurred income tax expenses of RMB14.4 million for the year ended 31 December 2010, primarily due to the change of our applicable income tax rate in 2010.

**Profit for the year from continuing operations**

Profit from continuing operations increased from RMB28.6 million for the year ended 31 December 2009 to RMB94.4 million for the year ended 31 December 2010, primarily due to the factors described above.

***Year Ended 31 December 2009 Compared to Year Ended 31 December 2008***

**Revenue**

We did not generate any inter-segment sales during this period and, as a result, all revenues discussed below are from external customers. Revenue decreased by 22.2% from RMB204.6 million for the year ended 31 December 2008 to RMB159.2 million for the year ended 31 December 2009, primarily due to the decrease in the revenue generated from our fitness wear products, which was partly offset by the increase in the revenue generated from our swimwear products.

*Swimwear*

Revenue from sales of our *Hosa*™ swimwear products increased by 18.0% from RMB59.8 million for the year ended 31 December 2008 to RMB70.6 million for the year ended 31 December 2009, primarily due to the increase in sales volume. The number of pieces of *Hosa*™ swimwear products sold increased by 18.6% from 2,170,907 pieces for the year ended 31 December 2008 to 2,573,804 pieces for the year ended 31 December 2009, primarily due to the expansion of our distribution network and retail channels, in particular the increase in specialty stores and temporary counters in department stores for our swimwear products. Furthermore, we also employed the existing retail outlets of our fitness wear and sports underwear products to offer our swimwear products. The average selling price of our *Hosa*™ swimwear products was relatively stable for the years ended 31 December 2008 and 2009.

*Fitness wear*

Revenue from sales of our *Hosa*™ fitness wear products decreased by 64.1% from RMB87.3 million for the year ended 31 December 2008 to RMB31.3 million for the year ended 31 December 2009, primarily due to the decrease in the sales volume of our overseas sales as affected by the global economic downturn since late 2008. To a lesser extent, the adjustment of our product mix offered at retail outlets in the domestic market also resulted in the decrease in our domestic sales volume of fitness wear products. The number of pieces of *Hosa*™ fitness wear products sold decreased significantly from 3,444,259 pieces for the year ended 31 December 2008 to 612,949 pieces for the year ended 31 December 2009. The average selling price of our *Hosa*™ fitness wear products increased from RMB25.4 for the year ended 31 December 2008 to RMB51.1 for the year ended 31 December 2009, primarily because of the decrease in our overseas sales, under which we sold our products to trading companies at lower average selling prices than those of our domestic sales. In addition, our introduction of premium fitness wear products in 2009 with higher selling prices also contributed to the increase in the average selling price of our fitness wear products.

*Sports underwear*

Revenue from sales of our *Hosa*™ sports underwear products decreased by 3.0% from RMB54.5 million for the year ended 31 December 2008 to RMB52.9 million for the year ended 31 December 2009, primarily due to the decrease in sales volume. The number of pieces of *Hosa*™ sports underwear products sold decreased by 5.7% from 1,439,682 pieces for the year ended 31 December 2008 to 1,357,388 pieces for the year ended 31 December 2009, primarily due to the adjustment of our distribution channel for sports underwear products, such as spinning out sports underwear products to separate counters from our existing department store counters for swimwear products. The average selling price of our *Hosa*™ sports underwear products stayed relatively stable at RMB37.9 for the year ended 31 December 2008 when compared to RMB39.0 for the year ended 31 December 2009.

*Accessories*

Revenue from sales of our *Hosa*™ accessories products increased by 47.4% from RMB3.0 million for the year ended 31 December 2008 to RMB4.3 million for the year ended 31 December 2009, primarily due to the increase in the variety of our accessories product offerings that complemented our expanding swimwear products lines.

**Cost of sales**

Cost of sales decreased by 32.4% from RMB142.4 million for the year ended 31 December 2008 to RMB96.3 million for the year ended 31 December 2009, primarily as a result of the decrease in the sales of our fitness wear products and the decrease in raw material prices. Our raw material costs decreased by 42.3% from RMB106.8 million for the year ended 31 December 2008 to RMB61.6 million for the year ended 31 December 2009, primarily due to the decrease in our raw material costs as a result of the decrease in commodity prices, including crude oil, during the global economic downturn since late 2008.

Changes in our cost of sales by operating segments from the year ended 31 December 2008 to the year ended 31 December 2009 are discussed as follows:

*Swimwear*

Cost of sales incurred for our swimwear products increased by RMB2.2 million, or 5.2%, from RMB41.7 million for the year ended 31 December 2008 to RMB43.8 million for the year ended 31 December 2009 primarily due to the increase in sales volume of our swimwear products, partly offset by the decrease in raw material prices in 2009.

*Fitness wear*

Cost of sales incurred for our fitness wear products decreased significantly by RMB47.7 million, or 73.1%, from RMB65.2 million for the year ended 31 December 2008 to RMB17.5 million for the year ended 31 December 2009 primarily due to the decrease in sales volume of our fitness wear products. To a lesser extent, such decrease was partly offset by the increase in unit cost as a result of our use of fabric with higher purchase costs for our premium fitness wear products.

*Sports underwear*

Cost of sales incurred for our sports underwear products decreased by RMB2.8 million, or 8.1%, from RMB34.3 million for the year ended 31 December 2008 to RMB31.5 million for the year ended 31 December 2009 primarily due to the decrease in sales volume of our sports underwear products.

*Accessories*

Cost of sales incurred for our accessories products increased significantly by RMB2.2 million from RMB1.2 million for the year ended 31 December 2008 to RMB3.4 million for the year ended 31 December 2009 primarily due to the increase in sales volume of our accessories products as well as the increase in product variety and offerings.

**Gross profit and gross profit margin**

Gross profit increased by 1.1% from RMB62.3 million for the year ended 31 December 2008 to RMB62.9 million for the year ended 31 December 2009. Overall gross profit margin increased from 30.4% for the year ended 31 December 2008 to 39.5% for the year ended 31 December 2009.

*Swimwear*

Gross profit for our *Hosa*™ swimwear products increased by 47.5% from RMB18.2 million for the year ended 31 December 2008 to RMB26.8 million for the year ended 31 December 2009. Gross profit margin for our *Hosa*™ swimwear products increased from 30.3% for the year ended 31 December 2008 to 37.9% for the year ended 31 December 2009, primarily as a result of economies of scale for our swimwear operations and the decrease in raw material costs.

*Fitness wear*

Gross profit for our *Hosa*™ fitness wear products decreased by 37.5% from RMB22.1 million for the year ended 31 December 2008 to RMB13.8 million for the year ended 31 December 2009. Gross profit margin for our *Hosa*™ fitness wear products increased from 25.3% for the year ended 31 December 2008 to 44.1% for the year ended 31 December 2009, primarily because of the decrease in our overseas sales, for which we had lower profit margins, as well as our introduction of premium fitness wear products in 2009 with higher selling prices and profit margin to improve our product mix.

*Sports underwear*

Gross profit for our *Hosa*™ sports underwear products increased by 5.5% from RMB20.3 million for the year ended 31 December 2008 to RMB21.4 million for the year ended 31 December 2009. Gross profit margin for our *Hosa*™ sports underwear products increased from 37.2% for the year ended 31 December 2008 to 40.4% for the year ended 31 December 2009, primarily because of the decrease in raw material costs.

*Accessories*

Gross profit for our *Hosa*™ accessories products was RMB1.7 million for the year ended 31 December 2008 and RMB1.0 million for the year ended 31 December 2009. Gross profit margin for our *Hosa*™ accessories products was 59.2% and 22.0% for the years ended 31 December 2008 and 2009, respectively. The change in the gross profit margin for our accessories products primarily reflected the decrease in the selling price of certain accessories products, such as swim goggles and beach bags, as well as the change in the mix of accessories products sold in 2009.

**Other revenue**

Other revenue increased from RMB240,000 for the year ended 31 December 2008 to RMB664,000 for the year ended 31 December 2009, primarily due to the increase of the government grants from provincial and prefectural government authorities, as compared to the same period in 2008.

**Other net income**

Other net income decreased from RMB142,000 for the year ended 31 December 2008 to RMB64,000 for the year ended 31 December 2009, primarily due to the decrease in our exchange gains as a result of the decrease in our export sales in 2009.

**Selling and distribution expenses**

Selling and distribution expenses decreased by 2.8% from RMB24.4 million for the year ended 31 December 2008 to RMB23.7 million for the year ended 31 December 2009, primarily due to the decrease in advertising and promotion expenses. The change in our advertising and promotion spending was primarily attributable to certain one-off advertising and promotion activities during the 2008 Olympic Games.

**Administrative and other operating expenses**

Administrative and other operating expenses decreased by 5.8% from RMB10.7 million for the year ended 31 December 2008 to RMB10.0 million for the year ended 31 December 2009, primarily due to the decreases in our provision for doubtful debts and donations. Such decrease was partly offset by the increase in the number and average wage level of our administrative personnel due to the growth of our business operations.

**Finance costs**

Finance costs increased significantly from RMB0.9 million for the year ended 31 December 2008 to RMB2.6 million for the year ended 31 December 2009, primarily due to the increase in the average outstanding balance of our interest-bearing bank borrowings. The increase in our bank borrowings was primarily to fund the increased procurement of raw materials to take advantage of the relatively low raw material prices in 2009.

**Income tax benefit/expense**

We recorded income tax benefits for the year ended 31 December 2008 and 2009 of RMB1.6 million and RMB1.4 million, respectively, primarily attributable to the preferential tax treatment enjoyed by our subsidiary, Haosha Industry, as well as the deferred tax effect of accrued expenses deductible in the subsequent period.

**Profit for the year from continuing operations**

As a result of the foregoing factors, our profit from continuing operations increased slightly from RMB28.2 million for the year ended 31 December 2008 to RMB28.6 million for the year ended 31 December 2009.

## LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are to satisfy our working capital needs and our capital expenditure needs. We have historically financed our working capital and capital expenditure needs primarily through bank borrowings, cash flows from operating activities and capital contributions by our Shareholders.

***Cash Flow***

The following table is a condensed summary of our consolidated cash flow statements for the periods indicated:

| | Year ended 31 December | | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Net cash (used in)/generated from operating activities | (35,105) | (68,445) | 107,366 | (86,994) | 225,680 |
| Net cash (used in)/generated from investing activities | (14,965) | (17,960) | (66,787) | 435 | 3,238 |
| Net cash generated from/(used in) financing activities | 59,594 | 84,413 | 27,603 | 86,614 | (252,049) |
| Net increase/(decrease) in cash | 9,524 | (1,992) | 68,182 | 55 | (23,131) |
| Cash at 1 January | 8,113 | 17,637 | 15,645 | 15,645 | 83,827 |
| Cash at 31 December/30 June | 17,637 | 15,645 | 83,827 | 15,700 | 60,696 |

**Cash flow from operating activities**

We derive our cash generated from operating activities principally from the receipt of payments for the sale of our *Hosa*™ products. Our cash used in operating activities is principally for purchases of raw materials, salary payments, advertising and marketing expenses and other operating expenses.

For the six months ended 30 June 2011, our net cash generated from operating activities amounted to RMB225.7 million, consisting of cash from operations of RMB242.7 million and income tax paid of RMB17.0 million. Our profit before working capital adjustment was RMB147.0 million. Positive working capital adjustments reflected primarily (i) the decrease in amount due from related parties of RMB74.5 million as a result of the repayments of our advances made to our related parties and (ii) the decrease in trade and bill receivables, prepayments and other receivables of RMB58.9 million, as a result of the close monitoring and enhanced collection of our trade and bill receivables in the first half of 2011. Such positive adjustments were partly offset by: (i) the increase in inventories amounting to RMB17.1 million, which corresponded to the growth of our business and (ii) the decrease in trade and other payables, as a result of our enhanced working capital management to reduce relevant financing costs relating to our bill payables.

For the year ended 31 December 2010, our net cash generated from operating activities amounted to RMB107.4 million, consisting of cash from operations of RMB116.1 million and income tax paid of RMB8.7 million. Our profit before working capital adjustments was RMB126.8 million. Negative working capital adjustments reflected primarily an increase in trade and bill receivables, prepayments and other receivables of RMB138.4 million, mainly due to the expansion of our operations and our sales growth in 2010. Such negative adjustments were partly offset by: (i) the decrease in inventories amounting to RMB64.5 million as a result of our consumption of raw materials purchased in 2009 at relatively low prices as well as our disposal of three distributor subsidiaries operating retail outlets, which carried inventories of finished products; and (ii) the increase in trade and other payables amounting to RMB54.6 million as a result of the expansion of our operations.

For the year ended 31 December 2009, our net cash used in operating activities amounted to RMB68.4 million. Our profit before working capital adjustments was RMB34.2 million. Negative working capital adjustments reflected primarily: (i) an increase in inventories of RMB62.0 million, primarily because we decided to purchase more raw materials at relatively lower prices in the year of 2009 in order to meet the production demand early in 2010; (ii) an increase in trade and bill receivables, prepayments and other receivables of RMB25.6 million, which represented the increase in the sales made to our distributors; and (iii) the increase in the amount of RMB50.6 million due from related parties due to the increase in advances we provided to our related parties for their short-term working capital needs. Such negative adjustments were partly offset by the increase in trade and other payables of RMB33.4 million, primarily due to the expansion of our business operations and, to a lesser extent, due to the transfer of inventory of our finished products at cost of RMB9.6 million from a then related-party retail companies, Beijing Aiya, to Beijing Yasha, our distributor subsidiary, when Beijing Aiya switched its core business to the operation of Hosa Fitness Gyms in 2009.

For the year ended 31 December 2008, our net cash used in operating activities amounted to RMB35.1 million, consisted of cash used in operations of RMB34.1 million and income tax paid of RMB1.0 million. Our profit before working capital adjustments was RMB31.6 million. Negative working capital adjustment reflected primarily: (i) an increase in inventories of RMB44.9 million, primarily due to the increased purchases of raw materials correlating to the growth of our business operations; and (ii) an increase in trade and bill receivables, prepayments and other receivables of RMB39.1 million, primarily due to increased sales volume. Such negative adjustments were partly offset by the increase in trade and other payables of RMB45.2 million, as a result of the expansion of our operations in 2008.

**Cash flow from investing activities**

Our cash used in investing activities is principally for the purchase of property, plant and equipment, payment for construction in progress, payment for lease prepayments and payment for purchase of intangible assets, and increase in pledged deposits relating to our bill payables which requires that we have on deposit with our banks a certain percentage of the bill payables that are issued by them at our request.

For the six months ended 30 June 2011, we had net cash generated from investing activities of RMB3.2 million, which primarily consisted of receipt of cash consideration of RMB13.1 million for disposal of three subsidiaries, and partly offset by the increase in pledged deposits of RMB9.9 million attributable to the increase in security deposits pledged to the banks for issuing bank acceptance bills.

For the year ended 31 December 2010, we had net cash used in investing activities of RMB66.8 million, which primarily consisted of (i) payment for purchases of property, plant and equipment of RMB31.5 million relating to the acquisition of plant and land use right from Haosha Garments; (ii) increase in pledged deposits of RMB24.7 million, primarily attributable to the security deposits pledged to the bank for issuing bank acceptance bills; and (iii) payment for lease prepayment of RMB9.1 million in connection with our operating leases.

For the year ended 31 December 2009, we had net cash used in investing activities of RMB18.0 million, which primarily consisted of: (i) payment for purchases of property, plant and equipment of RMB3.9 million relating to our manufacturing equipment; (ii) payment for construction in progress of RMB11.0 million relating to our procurement and installation of printing and dyeing production facilities; and (iii) an increase in pledged bank deposits of RMB3.0 million, primarily attributable to the increase in the security deposits pledged to the banks for issuing bank acceptance bills.

For the year ended 31 December 2008, we had net cash used in investing activities of RMB15.0 million, which primarily consisted of: (i) payment for purchases of property, plant and equipment of RMB1.7 million relating to our manufacturing equipment; (ii) payment for lease prepayment of RMB3.0 million in connection with our operating leases; and (iii) an increase in pledged bank deposits of RMB10.3 million in connection with the increased security deposits pledged to the banks for issuing bank acceptance bills, as a result of the expansion of our business operations.

**Cash flow from financing activities**

We derive our cash generated from financing activities principally from proceeds from bank loans, cash received from capital injection, and interest received on interest-bearing bank deposits. Our cash used in financing activities is principally for repayment of bank loans and interest payments.

For the six months ended 30 June 2011, we had net cash used in financing activities of RMB252.0 million, which mainly consisted of (i) the dividend payment by Haosha Industry of RMB151.7 million to its then shareholders, Haosha H.K. and Haosha Garments, (ii) the repayment of bank loans of RMB98.8 million and (iii) the payment of interest of RMB1.5 million.

For the year ended 31 December 2010, we had net cash generated from financing activities of RMB27.6 million, which mainly consisted of proceeds from bank loans of RMB214.6 million and cash received from capital injection of RMB60.7 million, partly offset by the repayment of bank loans of RMB239.3 million and the payment of interest of RMB8.4 million.

For the year ended 31 December 2009, we had net cash generated from financing activities of RMB84.4 million, which mainly consisted of proceeds from bank loans of RMB159.1 million, partially offset by the repayment of bank loans of RMB71.2 million and the payment of interest of RMB3.5 million.

For the year ended 31 December 2008, we had net cash generated from financing activities of RMB59.6 million, which mainly consisted of proceeds from bank loans of RMB39.0 million, cash received from capital injection of RMB21.8 million, partially offset by the payment of interest of RMB1.2 million.

***Working Capital***

Working capital is critical to our financial performance and we must maintain sufficient liquidity and financial flexibility to continue our daily operations.

Our current assets primarily consist of cash at bank and in hand, inventories, trade and bills receivables, prepayments and other receivables and pledged deposits. Our current liabilities primarily consist of trade and other payables, bank loans and current taxation. Going forward, we believe our liquidity requirements will be satisfied using a combination of the proceeds from the Global Offering, cash generated from operating activities and funding from bank loans. We will use part of the proceeds from the Global Offering to fulfill our capital commitments for future expansion and, based on our current and anticipated levels of operations and conditions in the markets and industry, we intend to fund our ongoing operating cash needs and the continuing expansion of our business with cash from our operations as well as bank loans from time to time. We focus on improving the profitability of our business to improve our operating cash flow. We closely monitor and manage the level of our trade receivables and trade and other payables by (i) performing regular reviews of the terms of trade receivables and timely collection; (ii) allocating responsibility for overdue trade receivables and making provisions for doubtful accounts; and (iii) extending the payments of our trade and other payables based on our liquidity position. It is also our policy to monitor regularly our balance of bank deposits and liquidity requirements and compliance with debt covenants (if any) to ensure that we maintain sufficient resources of cash and adequate debt or equity financing. We may use short-term bank borrowings to finance operations and repay bank borrowings when we have excess cash positions. We have not experienced and do not expect to experience any difficulties meeting our obligations as they become due.

Our Directors are of the opinion that, taking into consideration the financial resources presently available to us, including banking facilities and other internal resources, and the estimated net proceeds of the Global Offering, we have sufficient working capital for our working capital requirements at least in the next twelve months commencing from the date of this Prospectus.

The table below sets forth our current assets and liabilities as of each balance sheet date indicated:

| | As of 31 December | | | As of 30 June | As of 31 October |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) |
| **Current assets** | | | | | |
| Inventories | 68,972 | 131,017 | 51,376 | 68,516 | 100,465 |
| Trade and bill receivables | 47,454 | 68,101 | 180,823 | 122,245 | 228,271 |
| Prepayment and other receivables | 49,364 | 101,959 | 110,102 | 23,176 | 28,314 |
| Pledged deposits | 10,290 | 13,240 | 37,920 | 47,812 | 13,072 |
| Cash at bank and in hand | 17,637 | 15,645 | 83,827 | 60,696 | 51,369 |
| | 193,717 | 329,962 | 464,048 | 322,445 | 421,491 |
| **Current liabilities** | | | | | |
| Bank loans | 39,000 | 126,880 | 98,800 | — | — |
| Trade and other payables | 79,819 | 112,769 | 128,966 | 138,735 | 157,463 |
| Current taxation | — | — | 8,291 | 11,054 | 4,494 |
| | 118,819 | 239,649 | 236,057 | 149,789 | 161,957 |
| **Net current assets** | 74,898 | 90,313 | 227,991 | 172,656 | 259,534 |

Our net current assets increased by 20.6% from RMB74.9 million as of 31 December 2008 to RMB90.3 million as of 31 December 2009, primarily due to: (i) an increase of RMB62.0 million in inventories as we purchased more raw materials at relatively low prices, as a result of the decrease in crude oil prices in 2009; (ii) an increase in prepayment and other receivables of RMB52.6 million primarily attributable to the increase in our amount due from related parties; and (iii) an increase in trade and bill receivables of RMB20.6 million attributable to the increase in the sales made to our distributors. Such increase was partially offset by (i) an increase in bank loans of RMB87.9 million the proceeds of which were primarily used for the increased purchases of raw materials in 2009; and (ii) an increase of RMB33.0 million in trade and other payables as a result of the expansion of our business operations and, to a lesser extent, as a result of the transfer of inventory of our finished products originally sold to a then related-party retail company, Beijing Aiya, to Beijing Yasha, our distributor subsidiary, when Beijing Aiya switched its core business to the operation of Hosa Fitness Gyms in 2009.

Our net current assets increased by 152.4% from RMB90.3 million as of 31 December 2009 to RMB228.0 million as of 31 December 2010, primarily due to an increase of RMB112.7 million in trade and bill receivables as a result of the expansion of our distribution network and an increase of RMB68.2 million in our cash at bank and in hand. Such increase was partially offset by (i) a decrease of RMB79.6 million in inventories as a result of our consumption of raw materials purchased in 2009 at relatively low prices as well as our disposal of three distributor subsidiaries conducting retail operations, which carried inventories of finished products; and (ii) an increase of RMB16.2 million in trade and other payables as a result of the expansion of our operations.

Our net current assets decreased by 24.3% from RMB228.0 million as of 31 December 2010 to RMB172.7 million as of 30 June 2011, primarily due to (i) the decrease in prepayment and other receivables of RMB86.9 million as a result of the repayments of the advances provided to our related parties and (ii) the decrease in our trade and bill receivables of RMB58.6 million as a result of the close monitoring and enhanced collection of our trade and bill receivables in the first half of 2011. Such decrease was partly offset by the decrease in our bank borrowings of RMB98.8 million in the first half of 2011.

As of 31 October 2011, we had a net current asset position of RMB259.5 million. The increase in our net current asset position by RMB86.8 million from RMB172.7 million as of 30 June 2011 was primarily due to the increase in trade and bill receivables and prepayments and other receivables of RMB111.2 million and the increase in inventories of RMB31.9 million, primarily due to the expansion of our distribution network and our sales growth. Such increase in our current asset position was partly offset by the decrease in pledged deposits of RMB34.7 million, primarily due to the decrease in bill payables.

***Inventories***

During the Track Record Period, inventories were one of the principal components of our current assets. Inventories were stated at cost and the value of our inventories accounted for 35.6%, 39.7%, 11.1% and 21.2% of our total current assets as of 31 December 2008, 2009, 2010 and as of 30 June 2011, respectively. We conduct physical stock counts from time to time and we record a specific provision if the estimate of the net realizable value of any inventory is below the corresponding cost of such inventory, as a result of, among other things, being obsolete or damaged. For the years ended 31 December 2009 and 2010 and for the six months ended 30 June 2011, the write-down of our inventories to net realizable value amounted to RMB521,000, RMB435,000 and RMB84,000, respectively. Such write-downs of inventories are included in our cost of sales.

The following table sets forth the breakdowns of our inventories as of the dates indicated:

| | As of 31 December | | | As of 30 June |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Raw materials | 46,515 | 82,820 | 25,311 | 38,852 |
| Work in progress | 2,384 | 2,911 | 656 | 2,077 |
| Finished goods | 20,073 | 45,286 | 25,409 | 27,587 |
| **Total** | 68,972 | 131,017 | 51,376 | 68,516 |

Our inventories increased from RMB69.0 million as of 31 December 2008 to RMB131.0 million as of 31 December 2009, as we purchased more raw materials, in particular, various stretch fabric, when the prices of raw materials were relatively low as a result of the decrease in crude oil prices in the second half of 2009. To a lesser extent, the transfer of inventory of our finished products originally sold to a then related-party retail company, Beijing Aiya, to Beijing Yasha, our distributor subsidiary, when Beijing Aiya switched its core business to the operation of Hosa Fitness Gyms in 2009 also contributed to the increase of our inventory level as of 31 December 2009. Our inventories decreased from RMB131.0 million as of 31 December 2009, to RMB51.4 million as of 31 December 2010, as a result of our consumption of raw materials purchased in the second half of 2009 at relatively low prices as well as our disposal of three distributor subsidiaries, which carried inventories of finished products in July 2010. Our inventories increased from RMB51.4 million as of 31 December 2010 to RMB68.5 million as of 30 June 2011, primarily as a result of the increase in the inventory of raw materials in line with the growth of our business operations. As of the Latest Practicable Date, approximately RMB33.4 million and RMB2.1

million, or 86.1% and 100.0%, of the raw materials and work in progress in our inventories as of 30 June 2011 were subsequently utilized, respectively, and approximately RMB24.8 million, or 89.7%, of the finished goods in our inventories as of 30 June 2011 were subsequently sold.

The following table sets forth our average inventory turnover days for the Track Record Period:

| | Year ended 31 December | | | Six months ended 30 June |
|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2011** |
| Average inventory turnover days[1] | 87 | 253 | 123 | 99 |

*Note:*

(1) Average inventory turnover days is equal to the average of the starting and ending inventory balances of the period divided by costs of sales from our continuing and discontinued operations and multiplied by 365 days for a one year period or multiplying these figures by 180 days for a six-month period.

Our average inventory turnover days increased significantly from 87 days for the year ended 31 December 2008 to 253 days for the year ended 31 December 2009, primarily due to the higher inventory we maintained as we purchased more raw materials at relatively lower prices in the year of 2009. Our average inventory turnover days decreased from 253 days for the year ended 31 December 2009 to 123 days for the year ended 31 December 2010, primarily due to our relatively low inventory position as of 31 December 2010 as a result of our consumption of raw materials purchased in 2009 at relatively low prices as well as our disposal of three distributor subsidiaries conducting retail operations, which carried inventories of finished products. Our average inventory turnover days for the six months ended 30 June 2011 decreased to 99 days, primarily due to improved raw material turnover days as a result of our close monitoring of our inventory level to enhance the efficiency of our working capital.

***Trade and Bill Receivables***

Our trade and bill receivables mainly represent the credit sales of our products to third parties as well as our related parties, less allowance for doubtful debts. The following table sets forth a breakdown of our trade and bill receivables as of the dates indicated:

| | As of 31 December | | | As of 30 June |
|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2011** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| Trade receivables | | | | |
| — third parties | 15,700 | 32,021 | 183,442 | 123,240 |
| — related parties | 32,961 | 37,611 | — | — |
| | 48,661 | 69,632 | 183,442 | 123,240 |
| Bill receivables | — | 300 | — | 600 |
| Less: allowance for doubtful debts | (1,207) | (1,831) | (2,619) | (1,595) |
| | 47,454 | 68,101 | 180,823 | 122,245 |

Our trade and bill receivables increased from RMB47.5 million as of 31 December 2008 to RMB68.1 million as of 31 December 2009 to RMB180.8 million as of 31 December 2010. Such changes in the balance of our trade and bill receivables were primarily due to the expansion of distribution network and our sales growth during the Track Record Period. In particular, our trade receivables grew significantly in the fourth quarter of 2010 as a result of the increase in the number of Hosa retail outlets to 666 in the second half of 2010. In addition, our core operating subsidiary began to operate the indoor sportswear business since late 2007 and, therefore, the starting balance of our trade and bill receivables in 2008 was relatively low due to the short period of time elapsed since we took over such operations from Haosha Garments. For more details, please also see the section headed "History and Corporate Structure — Our history and development — Establishment of Haosha Industry" and "Business — Sales and distribution — Our business model". Our trade and bill receivables decreased from RMB180.8 million as of 31 December 2010 to RMB122.2 million as of 30 June 2011, primarily due to our close monitoring and enhanced collection of our trade and bill receivables. As of the Latest Practicable Date, approximately RMB100.6 million, or 81.2%, of our trade and bill receivables as of 30 June 2011 were subsequently settled.

For the years ended 31 December 2008, 2009 and 2010, part of our revenue and trade receivables were attributable to sales to our then related-party distributors. Our senior management considered that since these related parties were under the common control of our Controlling Shareholders, no material credit risk existed on receivables from these related parties. In respect of our sales to third parties, credit evaluations are performed by our senior management on all customers demanding for credit sales. In general, we do not obtain collateral from customers.

Although there were no specific clauses relating to payment terms in most of our distribution agreements signed before 2011, in general, we had a mutual understanding with our distributors that outstanding trade receivables must be settled within 60 to 90 days. Since April 2011, the credit period we have been granting to our distributors is generally 90 days. However, there may be instances when we grant payment extensions to certain of our distributors, which will result in payments being made to us more than 90 days after the date of delivery of our *Hosa*™ products. We grant these extensions on a case-by-case basis, usually in instances when we believe that the extension of liquidity to our distributors would support the distributor in opening new retail outlets or engaging sub-distributors and thereby expanding our Hosa distribution network. For customers with good credit history and larger operational scale, we may also allow a longer period of up to 180 days after the delivery of our products and before they settle our outstanding trade receivables. In addition, for the majority of our overseas sales denominated in foreign currency and sales to new or small-scale customers, we require payment in advance to avoid foreign currency or credit risk. For risks associated with collecting outstanding trade and bill receivables, see "Risk Factors — Risks relating to our business operations — We may experience delays in collecting trade and bill receivables from our customers and our financial condition and results of operations could be materially and adversely affected."

Going forward, we intend to enhance our credit control policy. Commencing in April 2011, we established a credit-scoring system based on our customers' financial and operational conditions, and consider factors such as our customers' background, registered share capital, reputation, number of staff and repayment history. Based on this credit-scoring system, we have begun to classify our customers based on their credit scores and grant different credit periods ranging from 60 days to 90 days, in principle, to different customers based on their credit classification. Furthermore, we aim to enhance our daily monitoring procedures for receivables over due for two to three months, such as active collection, restrictions in product delivery, issuance of demand letters and taking further legal action such as litigation when deemed necessary, and to implement regular review of our customers' credit conditions. We believe our new credit control measures could effectively shorten the average trade receivables turnover days in the future.

The following table sets forth the aging analysis of our trade and bill receivables, net of allowance for doubtful debts, as of the dates indicated based on invoice dates is presented:

| | As of 31 December | | | As of 30 June |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Within one month | 14,590 | 29,361 | 48,619 | 73,635 |
| More than one month but within three months | 19,915 | 17,797 | 85,719 | 43,005 |
| More than three months but within six months | 11,183 | 17,165 | 39,730 | 5,233 |
| More than six months but within one year | 1,387 | 3,778 | 6,754 | 351 |
| More than one year | 379 | — | 1 | 21 |
| | 47,454 | 68,101 | 180,823 | 122,245 |

We review trade and bill receivables that are stated at cost or amortized cost as of each balance sheet date to determine whether objective evidence of impairment exists as of such date. Objective evidence of impairment includes observable data that comes to our attention about the events of significant financial difficulty of the debtor, a breach of contract by the debtor, such as a default or delinquency in interest or principal payments, or it becoming probable that the debtor will enter bankruptcy or other financial reorganization and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor. If objective evidence of impairment exists, the amount of impairment loss is measured as the difference between such receivables carrying amount and the present value of estimated future cash flows (discounting estimated future cash payments or receipts through the expected life of relevant receivables to the net carrying amount of the receivables where the effect of discounting is material). Impairment losses recognized in respect of trade and bill receivables are included within trade and other receivables, the recovery of which is considered doubtful but not remote, and such amounts are recorded using an allowance account.

The movement in the allowance for doubtful debts during the Track Record Period, including both specific and collective loss components, is as follows:

| | As of 31 December | | | As of 30 June |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At the beginning of the year/period | — | 1,207 | 1,831 | 2,619 |
| Impairment loss recognized/(written back) | 1,207 | 624 | 788 | (1,024) |
| At the end of the year/period | 1,207 | 1,831 | 2,619 | 1,595 |

As of 31 December 2008, 2009 and 2010 and 30 June 2011, RMB1.2 million, RMB1.8 million, RMB2.6 million and RMB1.6 million of our trade and bill receivables were individually determined to be impaired. The individually impaired receivables related to a number of customers, and we assessed that the receivables were not recoverable. Consequently, such allowances for doubtful debts were recognized as of 31 December 2008, 2009 and 2010 and as of 30 June 2011.

The following table sets forth our average trade and bill receivables turnover days for the Track Record Period, respectively:

| | Year ended 31 December | | | Six months ended 30 June |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| Average trade and bill receivables turnover days[(1)] | 50 | 94 | 99 | 91 |

*Note:*

(1) Average trade and bill receivables turnover days is equal to the average of the starting and ending trade and other receivables balances before allowance for doubtful debt of the period divided by revenue from our continuing and discontinued operations and multiplied by 365 days for a one year period or multiplying these figures by 180 days for a six-month period.

The increase in the average trade and bill receivables turnover days for the year ended 31 December 2009, compared with the year ended 31 December 2008, was due to the relatively low starting balance of our trade and bill receivables in 2008. Before late 2007, Haosha Garments operated the Hosa indoor sportswear business and it leased relevant production facilities to Haosha Industry in October 2007 and further transferred the same to Haosha Industry by June 2008. Haosha Industry, our core operating subsidiary, began to operate the indoor sportswear business afterwards and, therefore, the starting balance of our trade and bill receivables in 2008 was relatively low due to the short period of time elapsed since we took over such operations. For more details, please also see the section headed "History and Corporate Structure — Our history and development — Establishment of Haosha Industry" and "Business — Sales and distribution — Our business model". The average turnover days for the years ended 31 December 2009 and 2010 remained relatively stable. For the six months ended 30 June 2011, our average turnover days of trade and bills receivables decreased to 91 days, primarily as a result of the close monitoring and enhanced collection of our trade and bills receivables in the first half of 2011.

### *Prepayments and Other Receivables*

Our prepayments and other receivables primarily consist of deposits and prepayments we made to our raw material suppliers and outsourced production service providers, other receivables and amounts due from our Directors and related parties. As of 31 December 2008, 2009 and 2010 and as of 30 June 2011, our prepayments and other receivables were RMB49.4 million, RMB102.0 million, RMB110.1 million and RMB23.2 million, respectively.

As of 31 December 2008, 2009 and 2010 and as of 30 June 2011, our deposits and prepayments amounted to RMB10.9 million, RMB15.6 million, RMB19.6 million and RMB16.3 million, respectively.

As of 31 December 2008, 2009 and 2010 and as of 30 June 2011, our other receivables amounted to RMB5.9 million, RMB5.5 million, RMB14.2 million and RMB2.9 million, respectively. The increase in our other receivables in 2010 primarily consisted of the receivables relating to our disposal of three subsidiaries, namely Beijing Yasha, Shanghai Haote and Guangzhou Yingchang, in July 2010. Such receivables had been fully settled in the first half of 2011.

We made unsecured and interest-free advances to our Directors and related parties during the Track Record Period for the short-term working capital needs of entities historically within the business group and under the common control of our Controlling Shareholders. Such advances were unsecured, interest-free and had no fixed repayment terms. To a lesser extent, we also made small amount of advances to our Directors relating to our expenses to be paid by our Directors during the ordinary course of business, and we expect such advances to our Directors will continue after the Listing. As of 31 December 2008, 2009 and 2010 and as of 30 June 2011, the amount due from our Directors was RMB14.5 million, RMB12.1 million, nil and RMB2,000, respectively, and the amount due from related parties was RMB18.1 million, RMB68.7 million, RMB74.5 million and nil, respectively.

According to our PRC legal advisers, Jingtian & Gongcheng, such loan advancing activities between enterprises contravened certain provisions of the Lending General Provisions (貸款通則) promulgated by the PBOC in 1996. According to the Lending General Provisions, the PBOC may impose a fine equivalent to one to five times of the income (i.e. interests) generated from such advances. As such advances were interest-free, we did not generate any income from such advances. Accordingly, as confirmed by our PRC legal advisers, Jingtian & Gongcheng, it is unlikely that the PBOC would impose a fine on us by reason of such advancing activities. In any event, our Controlling Shareholders have agreed to indemnify us for any losses or any damages suffered by us as a result of any penalty imposed on us by the PBOC arising from such advances made. As of the Latest Practicable Date, such advances were repaid in full and we will not provide such advances to our Directors and related parties after the Listing.

***Trade and Other Payables***

The following table sets forth the components of our trade and other payables as of the dates indicated:

| | As of 31 December | | | As of 30 June |
|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2011** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| Trade payables | | | | |
| — third parties | 20,513 | 30,418 | 12,127 | 9,867 |
| — related parties | 1,727 | 10,727 | — | 3,226 |
| Subtotal | 22,240 | 41,145 | 12,127 | 13,093 |
| Bill payables | 41,450 | 48,860 | 77,306 | 34,487 |
| Receipts in advance | 2,979 | 5,010 | 4,293 | 2,804 |
| Other payables and accruals | 13,016 | 17,754 | 31,834 | 88,351 |
| Amounts due to related parties | 134 | — | 3,406 | — |
| **Total** | 79,819 | 112,769 | 128,966 | 138,735 |

**Trade and bill payables**

Our trade and bills payables primarily relate to the purchases of raw materials from our raw material suppliers and outsourced processing services and products from contract manufacturers, and are non-interest-bearing. Bill payables were secured by our pledged bank deposits and the balance of our pledged bank deposits as of 31 December 2008, 2009 and 2010 and 30 June 2011 were RMB10.3 million, RMB13.2 million, RMB37.9 million and RMB47.8 million, respectively.

Our trade and bill payables increased from RMB63.7 million as of 31 December 2008 to RMB90.0 million as of 31 December 2009 and to RMB89.4 million as of 31 December 2010. Such changes in the balance of our trade and bill payables were primarily due to (i) the increased purchase of raw materials at relatively low prices in 2009 and (ii) the repayment of trade payables relating to such purchases in 2010. Our trade and bill payables reduced to RMB47.6 million as of 30 June 2011, primarily as a result of (i) the increase in our operating cash inflow in line with the growth of our business and (ii) our enhanced cash and working capital management to utilize excess cash and reduce financing costs. As of the Latest Practicable Date, RMB43.5 million or 91.5% of our trade and bill payables as of 30 June 2011 were settled.

The following table sets forth the aging analysis of our trade and bill payables as of the dates indicated:

| | As of 31 December | | | As of 30 June |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Trade and bill payables** | | | | |
| Within 1 month or on demand | 14,251 | 23,753 | 9,003 | 5,269 |
| After 1 month but within 3 months | 14,796 | 8,313 | 7,675 | 11,240 |
| After 3 months but within 6 months | 33,883 | 44,555 | 71,728 | 29,828 |
| After 6 months | 760 | 13,384 | 1,027 | 1,243 |
| **Total** | 63,690 | 90,005 | 89,433 | 47,580 |

We have been granted a credit period from 30 days to 180 days by our suppliers. We may also be required to make deposits and advance payments to our suppliers. The following table sets forth our average trade and bill payables turnover days for the Track Record Period:

| | Year ended 31 December | | | Six months ended 30 June |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| Average trade and bill payables turnover days[(1)] | 88 | 180 | 113 | 113 |

*Note:*

(1) Average trade and other payables turnover days is equal to the average of the starting and ending trade and other payables balances of the period divided by cost of sales from our continuing and discontinued operations and multiplied by 365 days for a one year period or multiplying these figures by 180 days for a six-month period.

The increase in the average trade and bill payables turnover days for the year ended 31 December 2009, compared with the year ended 31 December 2008, was primarily due to a relatively high trade and bill payables position as of 31 December 2009 as a result of the expansion of our business operations and the increased purchases of raw materials in 2009.

The decrease in the average trade and bill payables turnover days for the year ended 31 December 2010, compared with the year ended 31 December 2009, was primarily due to a relatively low trade and bill payables position as of 31 December 2010 as a result of the repayment of trade payables relating to our raw materials purchases in the second half of 2009.

Our average trade and bill payables turnover days for the six months ended 30 June 2011 remained stable at the level of 113 days.

**Receipts in advance**

Receipts in advance consist of prepayments received from our distributors in relation to their orders placed with us. Our receipts in advance increased from RMB3.0 million as of 31 December 2008 to RMB5.0 million as of 31 December 2009, primarily because we engaged more distributors in the year of 2009 while we were converting our business model. Our receipts in advance decreased from RMB5.0 million as of 31 December 2009 to RMB4.3 million as of 31 December 2010. Our receipts in advance decreased from RMB4.3 million as of 31 December 2010 to RMB2.8 million as of 30 June 2011.

**Other payables and accruals**

Our other payables and accruals consisted primarily of our payroll payables, social insurance contributions payables, accruals for expenses relating to the Listing and, to a lesser extent, advertising fees, equipment costs, decoration subsidies to distributors, sales services expenses, VAT and other miscellaneous taxes, levies, surcharge and accruals payables. As of 31 December 2008, 2009 and 2010 and as of 30 June 2011, our other payables and accruals were RMB13.0 million, RMB17.8 million, RMB31.8 million and RMB88.4 million, respectively.

**Amounts due to related parties**

Our amounts due to related parties as of 31 December 2008 was RMB134,000, primarily consisting of advances provided to our related party, Haosha (China) Co., Ltd. Our amounts due to related parties as of 31 December 2010 was RMB3.4 million, primarily consisting of unreimbursed amounts of business disbursement payments made by Mr. Shi Hongliu. The amounts due to related parties as of 31 December 2008 and 2010 were unsecured and interest-free and had no fixed repayment terms. We had repaid such amounts in full in the first half of 2011.

***Capital Expenditures***

We have historically funded our capital expenditures with bank loans, cash flows from operating activities and capital contributions by our Shareholders. Our capital expenditures have principally consisted of expenditures on acquiring property, plant and equipment. The following table sets forth a breakdown of our capital expenditures during the Track Record Period:

| | For the year ended 31 December | | | Six months ended 30 June |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Property, plant and equipment | 2,789 | 11,365 | 41,910 | 422 |
| Vehicles and furnitures | 2,382 | 3,165 | 1,731 | 252 |
| **Total** | 5,171 | 14,530 | 43,641 | 674 |

Our capital expenditures increased from RMB5.2 million for the year ended 31 December 2008 to RMB14.5 million for the year ended 31 December 2009, primarily due to the procurement of equipment for our manufacturing facilities. Our capital expenditures increased from RMB14.5 million for the year ended 31 December 2009 to RMB43.6 million for the year ended 31 December 2010, primarily due to the procurement of manufacturing equipment and the acquisition of plant and land use rights relating to our production facilities from Haosha Garments. Our capital expenditures amounted to RMB0.7 million for the six months ended 30 June 2011, primarily consisting of the additions of machinery, equipment, furnitures and fixtures for our business expansion.

As part of our future growth strategy, we estimate that our capital expenditures will be approximately RMB9.4 million for the year ending 31 December 2011. Our planned capital expenditures for the year of 2011 for our business operations will primarily consist of (i) the procurement of machine and equipment for the expansion of our production capacity as well as (ii) implementing DRP, ERP and CRM systems and upgrading computer hardware.

## INDEBTEDNESS

### *Bank Borrowings*

As of 31 October 2011, being the most recent practicable date for the purpose of this indebtedness statement in this Prospectus, we had RMB300 million of revolving credit facilities made available to us, of which RMB49.4 million were utilized (including the amount of bill payables). Our banking borrowings primarily consisted of short-term working capital loans. All of our loans and bank borrowings were due within one year. The following table sets forth the amount and maturity profile of our bank loans as of the dates indicated:

| | As of 31 December | | | As of 30 June | As of 31 October |
|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) |
| **Current** | | | | | |
| Bank loans repayable within one year — unsecured | 39,000 | 126,880 | 98,800 | — | — |

The above bank loans are all denominated in RMB. Such bank loans bear interest rates ranging from 7.47% to 8.22% per annum for the financial year ended 31 December 2008, ranging from 4.86% to 8.22% per annum for the year ended 31 December 2009, ranging from 4.86% to 6.39% per annum for the year ended 31 December 2010. Due to their short maturity, the carrying amounts of current bank loans are approximately equal to their fair values.

As of 31 December 2008, 2009 and 2010, guarantees were given by our Controlling Shareholders and related parties, Jinjiang Sanxie and Haosha Garments in respect to our bank borrowings in the amount of RMB39.0 million, RMB107.1 million and RMB65.8 million, respectively.

### *Gearing Ratios*

Our gearing ratio was 18.5%, 35.2%, 18.5% and 0.0% as of 31 December 2008, 2009 and 2010 and as of 30 June 2011, respectively. Gearing ratio is derived by dividing the debts incurred in the ordinary course of business, which consist of interest bearing bank loans, by total assets. The changes of gearing ratio during the Track Record Period was primarily due to (i) the increase in our bank borrowings in 2009 relating to our purchase of raw materials during the same period, when the raw material prices were relatively low; (ii) the increase in our total assets, in particular our trade and bill receivables, cash at bank and in hand and property, plant and equipment, in 2010 and (iii) the repayment of bank borrowings in the first half of 2011.

### *Contingent Liabilities*

As of the Latest Practicable Date, we had no material contingent liabilities. We are not involved in any current material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving us. If we are involved in any material legal proceedings, we would record any loss contingencies when, based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated.

Save as disclosed in this Prospectus, we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as of the Latest Practicable Date.

Our Directors confirm that there have been no material changes in our indebtedness and contingent liabilities since 30 June 2011.

## COMMITMENTS AND CONTRACTUAL OBLIGATIONS

### *Contractual Obligations*

We lease certain properties and land under operating lease arrangements. Our operating leases generally run for two to ten years, with an option to renew the lease when all terms are renegotiated. The terms of the leases generally require us to pay security deposits and none of such terms include contingent rentals. Our future aggregate minimum operating lease payments under non-cancellable operating leases as of the date indicated are set forth below:

| | As of 31 December | | | As of 30 June |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Less than one year | 2,498 | 1,449 | 1,833 | 2,740 |
| After one year but within five years | 5,671 | 5,491 | 2,749 | 2,647 |
| After five years | 4,393 | 3,295 | — | — |
| **Total** | 12,562 | 10,235 | 4,582 | 5,387 |

### *Off-balance Sheet Commitments and Arrangements*

During the Track Record Period and up to the Latest Practicable Date, we had not entered into any off-balance sheet transaction.

## QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

### *Interest Rate Risk*

Our interest rate risk is mainly derived from our interest-bearing bank loans, including the fluctuation of market interest rate. We regularly review the mix of fixed and floating rate borrowings in order to manage the interest rate risk. Increases in interest rates could potentially result in an increase in our cost of borrowing, which could negatively affect our business and results of operations. A general increase of 100 basis points in interest rates, with all other variables held constant, would have increased our interest expenses and affect our profit after tax by RMB390,000, RMB1.3 million, RMB865,000 and nil as of 31 December 2008, 2009 and 2010 and as of 30 June 2011, respectively.

We do not anticipate a significant impact resulting from changes in interest rates, although our future interest expenses may fluctuate in line with market interest rates. We have not historically used, and do not expect to use in the future, any derivative financial instruments to manage our interest rate risk.

### *Foreign Currency Risk*

We mainly operate in the PRC and most of our transactions are settled in Renminbi. Our assets and liabilities and transactions arising from our operations are mainly denominated in Renminbi. The Renminbi is not freely convertible into other currencies and conversion of the Renminbi into foreign currencies is subject to foreign exchange control by the PRC Government. We use Renminbi as the reporting and functional currency for our financial information. All transactions in currencies other than Renminbi are recorded at the exchange rates prevailing on the respective relevant dates of such transactions. We are subject to foreign currency risk primarily through sales denominated in currencies other than our functional currency.

Our overseas sales in the Track Record Period were denominated in Euros, US dollars and Hong Kong dollars. For the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2011, approximately 35.5%, 21.4%, 14.7% and 0.1% of our sales, respectively, were denominated in Euros, US dollars and HK dollars. In order to reduce the exposures of foreign currency risk and credit risk, we request to receive prepayments when purchase orders are confirmed for the majority of our export sales. As a result, subsequent fluctuations of foreign exchange rates would have no material impact on these sales. In addition, full payments are usually received shortly after the delivery of our products. Hence, the exchange rate fluctuations subsequent to the delivery of our products have minimal impact to our financial information. In addition, we also make purchases of machinery and equipment denominated in foreign currencies. In 2009 such purchases amounted to USD1.5 million and Euro26,000. In the years ended 31 December 2008, 2009 and 2010 and for the six months ended 30 June 2011, we recorded foreign exchange gain of RMB143,000, foreign exchange gain of RMB66,000, foreign exchange loss of RMB380,000,and foreign exchange gain of RMB156,000, respectively. We have not used any forward contract, any other derivative financial instrument or currency borrowing to hedge our exposure to fluctuations in foreign currencies as our foreign currency risk is considered to be minimal.

### *Credit Risk*

Our credit risk is primarily attributable to trade and other receivables derived from credit sales to our distributors. For more information about our trade and bill receivables and related credit risk, see also "— Liquidity and capital resources — Trade and bill receivables".

For the years ended 31 December 2008 and 2009, substantial amounts of our revenue and trade receivables were attributable to sales to our related parties. Our senior management considered that since such related parties were under the common control of our Controlling Shareholders, there was no material credit risk on such related parties sales and trade receivables. It is our policy that third-party customers who wish to trade on credit terms are subject to credit evaluations by our senior management. We generally do not obtain collateral from customers. In addition, receivables balances are monitored on an ongoing basis and generally there is no requirement for collateral.

The credit risk of our other financial assets which comprise cash and cash balances, pledged deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

As of 31 December 2008 and 2009, we had certain concentrations of credit risk as 69% and 55% of our total trade receivables were due from our related party customers, respectively. Our senior management considered that since such related parties were under the common control of our Controlling Shareholders, there was no material credit risk associated with the customer concentration. There were no trade receivables outstanding from related parties as of 31 December 2010 as such parties ceased to carry on retail business. As of 31 December 2008, 2009 and 2010 and as of 30 June 2011, 9%, 9%, 35% and 37% of the total trade receivables were due from our five largest non-related customers, respectively.

***Liquidity Risk***

Liquidity risk is the risk of non-availability of funds to meet all contractual financial commitments as they fall due. Each of our operating subsidiaries is responsible for its own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by our Board of Directors when the borrowings exceed certain predetermined levels of authority. Our policy is to regularly monitor liquidity requirements and the compliance with lending covenants, to ensure that we maintain sufficient reserves of, and adequate committed lines of, funding from major financial institutions to meet our liquidity requirements in the short and longer terms.

## RELATED PARTY TRANSACTIONS

With respect to the related party transactions set out in section C-27 of the Accountants' Report in Appendix I to this Prospectus, our Directors confirm that these transactions were conducted on normal commercial terms and/or that such terms were no less favorable to us than terms available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole.

## UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purposes only and it may not give a true picture of our net tangible assets following the Global Offering. The following unaudited pro forma adjusted net tangible assets is set out here to illustrate the effect of the Global Offering on our consolidated net tangible assets as of 30 June 2011 as shown in the Accountants' Report, the text of which is set out in Appendix I to this Prospectus, and adjusted as described below. The unaudited pro forma adjusted net tangible assets statement does not form part of the Accountants' Report.

| | Our consolidated net tangible assets attributable to the equity holders of the Company as at 30 June 2011 | Estimated net proceeds from the Global Offering[1] | Unaudited pro forma adjusted net tangible assets | Unaudited pro forma adjusted net tangible assets per share[2] | |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB | HK$ |
| Based on an offer price of HK$1.60 per Share . . . . . . . . . | 228,570 | 474,056 | 702,626 | 0.44 | 0.53 |

*Notes:*

(1) The estimated net proceeds from the Global Offering are based on the offer price of HK$1.60 per Share, after deduction of the underwriting fees and other related expenses payable by us. No account has been taken for Shares which may be issued upon the exercise of the Over-allotment Option.

(2) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustment for the estimated net proceeds from the Global Offering payable to us as described in note (1) and on the basis that a total of 1,600,000,000 Shares were in issue as of 30 June 2011 (including Shares in issue as of the date of this Prospectus and those Shares to be issued pursuant to the Global Offering). The unaudited pro forma adjusted net tangible assets per Share are converted into Hong Kong dollars at the PBOC rate of HK$1.00 to RMB0.83162 prevailing on 30 June 2011.

## PROFIT FORECAST

We believe that, in the absence of unforeseen circumstances and on the bases and assumptions as set out in the section headed "Profit Forecast" in Appendix III to this Prospectus, our Company's profit attributable to equity shareholders for the year ending 31 December 2011 is expected to be not less than RMB270.1 million. Our Directors are currently not aware of any extraordinary items which have arisen or are likely to arise in respect of the year ending 31 December 2011 that would affect the prospective financial information presented.

On a pro forma basis and on the assumption that our Company had been listed since 1 January 2011 and a total of 1,600,000,000 Shares were issued and outstanding during the entire year (taking no account of any Shares which may be issued upon exercise of the Over-allotment Option), the unaudited pro forma forecast earnings per Share for the year ending 31 December 2011 is expected to be not less than RMB0.169.

The texts of letters from the reporting accountants of our Company and from the Sole Sponsor in respect of the profit forecast are set out in the section headed "Profit Forecast" in Appendix III to this Prospectus.

## DISTRIBUTABLE RESERVES

Our Company was incorporated on 2 September 2010. Prior to the completion of our Corporate Reorganization, as of 31 December 2008, 2009 and 2010, we had distributable reserves of the companies now comprising our Group of RMB27.1 million, RMB51.6 million and RMB157.4 million, respectively. There were no reserves available for distribution by our Company to its shareholders as of 30 June 2011.

## DIVIDEND POLICY

Haosha Industry, our principal operating subsidiary in the PRC, declared a dividend of RMB151.7 million on 12 January 2011 to its then shareholders Haosha H.K. and Haosha Garments. See "Risk Factors — Risks relating to the Global Offering and our Shares — Prior dividend distributions are not an indication of our future dividend policy."

After the completion of the Global Offering, we may distribute dividends by way of cash or by other means that our Board of Directors considers appropriate. The amount of any dividends to be declared or paid in the future will depend on, among other things, our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on IFRS, the constitution of our Company, the Companies Law, applicable laws and regulations, contractual restrictions and other factors that our Directors may consider as relevant. Holders of the Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. The declaration, payment, and amount of dividends will be subject to the absolute discretion of our Directors. Our future declaration of dividends may or may not reflect on our historical declarations of dividends. There is no assurance as to whether the dividend distribution will occur as intended, the amount of any dividend payment or the timing of such payment. See "Risk Factors — Risks relating to our business operations — We are a holding company and rely on dividend payments from our subsidiaries to fund our cash and financing requirements, including funding dividend payments to our Shareholders."

Subject to the factors described above, our Board of Directors currently intends to recommend at the relevant shareholders meetings an annual dividend of not less than 30% of our net profit available for distribution to the shareholders in the foreseeable future.

## PROPERTY INTERESTS AND PROPERTY VALUATION

BMI Appraisals Limited, an independent property valuer, has valued our property interests as of 31 October 2011 and is of the opinion that the value of our property interests as of such date was an aggregate amount of RMB42.0 million. The full text of the letter, summary of values and valuation certificates with regard to such property interests are set out in Appendix IV to this Prospectus.

The table below sets forth the reconciliation between the net book value of our property interests as of 30 June 2011 and the valuation of such property interests as of 31 October 2011:

| | (RMB thousand) |
|---|---|
| Net book value of our property interests as of 30 June 2011 | |
| — Buildings and land use rights | 39,930 |
| Movements for the four months ended 31 October 2011 | |
| Add: Net addition during the period | 550 |
| Less: Depreciation and amortization during the period | 700 |
| Net book value as of 31 October 2011 | 39,780 |
| Valuation surplus | 2,220 |
| Valuation as of 31 October 2011(1) | 42,000 |

(1) Our property interests as indicated are comprised of the properties, including all buildings, lands, structures, with or without certificates, valued by BMI Appraisals Limited, which are described in Appendix IV to this Prospectus.

## DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

## NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in our financial or trading position or prospects since 30 June 2011 and there is no event since 30 June 2011 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this Prospectus except for otherwise set forth herein.