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*We commissioned Frost & Sullivan, an independent market research firm, as an industry consultant to prepare an industry research report, the Frost & Sullivan Report. Unless otherwise indicated, all information and statistics relating to the global and PRC sportswear industry, which consists of swimwear, fitness wear and sports underwear sectors, in this and other sections of this Prospectus have been derived from the Frost & Sullivan Report.*

### OVERVIEW

We own and operate *Hosa*<sup>TM</sup>, 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 sportswear products, including swimwear, fitness wear, sports underwear and accessories, which we sell under our well-known *Hosa*<sup>TM</sup> brand. According to Frost & Sullivan, we captured the largest market shares of 6.1%, 4.6% and 31.1% in the swimwear, fitness wear and sports underwear market sectors, respectively, in terms of 2010 ex-factory sales in China. We believe that our leading market position and strong brand name in China, our industry know-how and our extensive and efficiently managed sales and distribution network effectively differentiate us from multinational and domestic competitors. In addition to continuing our strong presence in first-tier cities, we have extended our sales coverage to China's second- and third-tier cities, and we are poised to further penetrate and capture these growing markets in their early development stage.

We promote our *Hosa*<sup>TM</sup> brand as a symbol for active, fashionable and healthy lifestyles. Our reputation in China as a high-quality and fashionable indoor sportswear brand has been strengthened over the years by numerous events and recognitions. Our *Hosa*<sup>TM</sup> brand has been recognized annually as one of China's 500 Most Valuable Brands since 2008. In 2008, our *Hosa*<sup>TM</sup> brand was recognized as an exemplary brand in the PRC swimwear industry and we were chosen to be the exclusive provider of swimwear products at the National Aquatics Center (Water Cube), the site of aquatic events during the 2008 Olympics. We also have been collaborating with the China Fashion Designer Association every year since 2003 to co-host the Hosa Cup China Swimwear Design Contest (浩沙杯中國泳裝設計大賽). In addition, we also sponsor various pageants and coordinate with professional associations and sports administrative authorities to sponsor events that encourage active and healthy lifestyles, such as the Hosa Cup National Aerobic Gymnastic Contest (浩沙杯全國萬人健美操大賽), which attracts over 100,000 participants annually. The extensive media and press coverage on such events reinforces our *Hosa*<sup>TM</sup> brand image.

We believe that our efforts and achievements in product design and development have been key to our sustained success and will continue to contribute to our success and growth. We have accumulated significant expertise in the design and development of indoor sportswear products over the years of our operations. We collaborate with Italian and French fashion consulting firms to enhance our brand positioning and product design. Furthermore, our product design teams conduct thorough market research and incorporate some of the latest global fashion trends, fabric and pattern technologies and consumer preferences into our products. We design our products to embody our *Hosa*<sup>TM</sup> brand's image of active, fashionable and healthy lifestyles, primarily targeting urban, white collar professionals between the ages of 20 and 40 with rising health consciousness and spending power. In 2010, our fitness wear products were recognized as one of China's Top Ten Innovative Sports Products (十大體育用品最具創新產品).

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The comprehensiveness and quality of our indoor sportswear product portfolio are among our core competitive strengths. We offer a wide range of products through our swimwear, fitness wear, sports underwear and accessories product lines. We believe that our comprehensive product portfolio has enabled us to cultivate and accelerate brand loyalty among our consumers. In addition, we design and select the appropriate fabrics with superior performance for our products to ensure that each product incorporates functionality, comfort and style.

We are able to swiftly respond to market trends using our streamlined design and production process. Once design concepts are solidified, we present product prototypes at our semiannual prototypes fair to our marketing personnel, distributors, retail sales personnel and fitness trainers, who choose the styles and products for the upcoming season. The selected products are subsequently showcased at our sales fair, during which we receive orders from distributors. We manufacture most of our products at our production facility in Jinjiang, Fujian Province and outsource the manufacturing of the remaining products. We are committed to exercising quality control at various stages of both in-house and outsourced production. While our production cycle is typically three to six months from concept to finished product, we have the technological and production capabilities to manufacture new products through our efficient design and production process in as few as 15 days when necessary. Our ability to swiftly respond to market changes has enabled us to remain competitive in the fast-paced indoor sportswear market.

We have grown rapidly in recent years in terms of sales and sales channels. As of 31 May 2011, we mainly sold our products to 27 distributors, who along with their sub-distributors operated 904 retail outlets as well as online sales platforms in China. We believe that our distributorship business model enables us to achieve higher growth and operational efficiency. We are able to leverage the resources of our distributors to manage a larger retail network and to ensure that sub-distributors operate according to the same standards of our strict monitoring and reporting system as our distributors themselves. Our sales and distribution model also allows us to focus our own resources on the development of our brand and the design and marketing of new products to meet the increasing market demand for indoor sportswear products in China.

We have achieved overall growth in revenue and profit for the year from 2008 to 2010. 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 for the year 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.

### OUR COMPETITIVE STRENGTHS

We believe that the following strengths contribute to our competitive position in China's indoor sportswear industry:

*We are a leading indoor sportswear enterprise in China.*

We operate our business mainly in China, with a focus on mid-to-high end indoor sportswear products. Our *Hosa*<sup>TM</sup> brand is the largest indoor sportswear brand in terms of 2010 ex-factory sales in China. In particular, we captured the largest market shares of 23.5%, 19.4% and 42.7% in the mid-to-high end swimwear, fitness wear and sports underwear market segments, respectively, in terms of ex-factory sales in China in 2010. In 2008, our *Hosa*<sup>TM</sup> brand was recognized as an exemplary brand in the PRC

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swimwear industry and we became the exclusive provider of swimwear products at the National Aquatics Center (Water Cube), the site of aquatic events during the 2008 Olympics. Since 2008, our *Hosa*<sup>TM</sup> brand has been recognized as one of China's 500 Most Valuable Brands granted annually by World Brand Lab, an international brand research institute specializing in brand appraisal, training, management and marketing.

Our business has grown significantly in recent years as a result of our efforts in brand-building, business expansion and product portfolio enhancement, as well as the rising health awareness among Chinese consumers, continuing urbanization and the increasing availability of indoor exercise facilities in urban areas. 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 for the year 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.

***We have an efficiently managed nationwide sales and distribution network.***

As of 31 May 2011, we mainly sold our products to 27 distributors, who along with their sub-distributors operated 904 retail outlets across 26 provinces and municipalities as well as online sales platforms in China. The majority of our retail outlets are located in China's first-tier cities. Given our strong presence in China's first-tier cities, we are well positioned to further extend our sales coverage to China's second- and third-tier cities and capture these growing markets in their early development stage. We believe that our sales and distribution model enables us to expand and solidify the strong sales network and brand recognition that we have accumulated over the years and to better manage our rapidly growing business. It also allows us to focus our resources on the development of our brand and the design and marketing of new and innovative products, thus enabling us to respond to the increased market demand for indoor sportswear products in China.

We carefully select our distributors according to stringent procedures and re-evaluate their performance every year. In addition, we have implemented sales management guidelines to efficiently manage our network of distributors and sub-distributors as well as the retail outlets operated by them. We require our distributors to manage their respective sub-distributors according to our standard sales management manual and to regularly provide their sales reports for our review. Our distributors and sub-distributors are required to follow our pricing policies and adopt our standardized retail outlet design and promotional materials. Furthermore, we collaborate closely with our distributors in developing a structured expansion plan, requiring each distributor to establish a minimum number of new outlets during the term of the distributorship or retail agreement and to meet minimum purchase targets. We also organize frequent training programs for all distributors and sub-distributors regarding our products, brand image, company policies and customer service. We believe such uniform policies and stringent standards strengthen our brand recognition and help to build a consistent brand image and management nationwide.

***We effectively promote our brand through creative and diverse marketing channels.***

We effectively promote our *Hosa*<sup>TM</sup> brand as a symbol for active, fashionable and healthy lifestyles and as the premier brand for indoor sportswear products through creative marketing channels, which include event sponsorships, marketing at sports and recreational facilities and retail outlets, and media advertising. We strategically select and sponsor international, national and regional events to promote our *Hosa*<sup>TM</sup> brand name to the general public, and in particular to our target consumers. We sponsor pageants

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and contests with international exposure, such as Miss Asia, Miss Bikini International and Asia Super Model Contest, in which our products are modeled. At the national level, we have been the exclusive sponsor of the Hosa Cup National Aerobic Gymnastics Contest (浩沙杯全國萬人健美操大賽) every year since 2004. This event is hosted by the Chinese Aerobic Gymnastics Association (中國健美操協會) and promoted by the relevant sports administrative authorities to encourage healthy exercise in the public, and attracts over 100,000 participants annually. Since 2003, we have been collaborating with the China Fashion Designer Association (中國服裝設計師協會) every year to co-host the Hosa Cup China Swimwear Design Contest (浩沙杯中國泳裝設計大賽). The extensive media and press coverage on such events reinforces our *Hosa*<sup>TM</sup> brand image. We believe that the diversity and scale of the events we sponsor have enabled us to reach a wide audience and to effectively market our *Hosa*<sup>TM</sup> brand to target consumers nationwide.

We also strategically place advertisements, promotional materials and/or our products for sale at sports and recreational facilities, such as professional sports stadiums, fitness gyms, aquatic facilities and vacation resorts, to maximize the exposure of our *Hosa*<sup>TM</sup> brand to our target consumers. We leverage the promotion channels of Hosa Fitness Gyms by conducting promotional events and engaging fitness trainers to serve as spokespersons for our brand. Our distributors and their sub-distributors also directly sell our products to end-consumers at the gyms. In 2008, we were chosen to be the exclusive provider of swimwear products at the National Aquatics Center (Water Cube), the site of aquatic events during the 2008 Olympics. Furthermore, we place advertisements in fitness, fashion and shopping magazines, on popular sports, entertainment and lifestyle channels of major national and regional television networks, and on major media websites. We believe our creative and targeted marketing efforts have contributed to our brand image as an authority on professional indoor sportswear.

***We have the capabilities to swiftly respond to market trends using our streamlined design and production workflow.***

We have the capabilities to swiftly respond to market developments and consumer preferences. Our product design teams analyze the latest global indoor sportswear trends based on both internal and external data. We have accumulated significant expertise and data on product designs tailored to the body types and preferences of consumers in China. Moreover, we gather data through market research, sales fairs and international and domestic product exhibitions as well as consult trainers at fitness gyms to gain information on the latest global trends in fashion and fitness. We believe that our product design teams have a proven track record of identifying and responding to indoor sportswear market trends in China.

Through technological innovation, we develop high performance products which we believe meet the functional needs of our target consumers. We work closely with Italian and French fashion consulting firms to conduct market research and apply the findings to the promotion of our *Hosa*<sup>TM</sup> brand and the design of our products. Furthermore, we have established long-term collaborative relationships with well-known international suppliers of fibers and fabric products, such as Lycra fibers and Coolmax fabric, so that we have access to their newest products as well as information on the latest technologies in the market. Our research, design and development workforce coordinates closely with the production team to achieve high efficiency for our design and production process. We have the technological capabilities to manufacture new products through our efficient design and production process in as few as 15 days when necessary. Our ability to swiftly respond to market changes has enabled us to remain competitive in the

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fast-paced indoor sportswear market. In recognition for our technological capabilities and innovation, our fitness wear products were recognized as one of China's Top Ten Innovative Products (十大創新產品) in 2010.

***We offer a comprehensive portfolio of high-quality indoor sportswear products.***

We develop and produce indoor sportswear and accessories that focus on functionality, comfort and style. We currently offer a wide range of mid-to-high end indoor sportswear products, including swimwear, fitness wear, sports underwear and accessories. Our comprehensive selection of accessories, such as swim caps and goggles that complement our swimwear product line and yoga mats and dance shoes for our fitness wear product line, renders Hosa retail outlets one-stop shops for the indoor sportswear needs of consumers, providing them with a complete experience of our Hosa™ brand. We believe that our comprehensive portfolio of high-quality indoor sportswear products will accelerate the development of brand loyalty among consumers.

We are committed to offering high-quality products to consumers and performing stringent quality control throughout procurement and production. We source a portion of our fabrics from international suppliers of premium fabrics. We have implemented multiple points of quality control and inspection throughout our in-house manufacturing process. Our in-house production system has received the ISO9001 quality control certification. To ensure the highest quality of our products supplied by contract manufacturers, we dispatch our employees to production plants to monitor the production process and inspect such finished products upon their delivery. We may also engage nationally accredited quality inspection facilities to examine product samples provided by contract manufacturers before their first large-scale production and on a regular basis afterwards.

***We have an experienced and committed management team.***

We are led by our chairman and executive Director Mr. Shi Hongliu, a veteran in the indoor sportswear industry with over 20 years of experience. In recognition of his entrepreneurial and leadership achievements, Mr. Shi was honored as one of the Top Ten Meritorious Entrepreneurs (十大功勳企業家) at China's International Fashion Week in 2007. In 2010, Mr. Shi was named as a "Brand China Person of the Year (Apparel Industry)" (品牌中國(服裝行業)年度人物) by Brand China Industry Alliance (品牌中國產業聯盟). Most of our members of our senior management team have been with the Hosa™ brand on average for over ten years, and possess rich industry experience and expertise in various areas of the indoor sportswear industry, including sales, marketing, brand management, research and development, production and financial management. We believe that our management team possesses the leadership, industry know-how and vision required to anticipate and exploit market opportunities, to formulate sound business strategies and to achieve continued growth. Our management team is fully committed to maximizing the value of our Company and, through its extensive experience, is well-situated to lead our business.

### OUR BUSINESS STRATEGIES

***Solidify our leading position by expanding our sales and distribution network***

We plan to continue the active expansion of our sales and distribution network nationwide. We intend to leverage our leading position in first-tier cities and the regional resources of our distributors to develop and expand our sales coverage in second- and third-tier cities, which are experiencing rapid

economic growth. As of 31 May 2011, we had 904 retail outlets nationwide, and we aim to increase the number to over 1,200 Hosa retail outlets by the end of December 2011. We also plan to diversify our retail channels to include department stores, flagship stores, online sales platforms, professional retail channels, such as fitness gyms and vacation resorts, and specialty stores, which are stand-alone shops that specialize in the sales of our product lines. Furthermore, we intend to optimize our product offering at specialty stores based on our analysis of each store's location, consumer base and historical performance in order to maximize sales. We believe that, by broadening our sales and distribution coverage and by diversifying our retail channels, we should be able to more effectively penetrate the growing target consumer market for indoor sportswear, increase our market share and further solidify our leading position in the indoor sportswear market in China.

To complement our expansion plan, we intend to strengthen the management of our sales and distribution network as well as our retail outlets. Through our regional sales teams who are specifically assigned to oversee and manage our distributors, sub-distributors and retail outlets in their respective geographic regions, we expect to be able to closely monitor the performance of our distributors, assist them in developing new sub-distributors and establishing retail outlets as well as entering into new markets, and provide them with sales and marketing know-how. We also intend to leverage the local resources of our distributors to manage their respective sub-distributors and retail outlets and help ensure their conformity to our uniform standards. In addition, we expect our management efficiency to further improve as a result of the DRP system, of which we plan to commence trial operations by the end of 2011. The implementation of the DRP system would enable the flow and integration of sales information among Hosa retail outlets, sub-distributors, our distributors and us. Leveraging our strong management capabilities and leading position in China's indoor sportswear industry, we are poised to further penetrate and capture the growing markets in China's second- and third-tier cities.

***Further strengthen our marketing activities to promote our products and enhance Hosa™ brand culture***

We intend to further refine our brand strategy and intensify our product promotion in order to better target our consumer base. We expect to increase awareness of our Hosa™ brand as a premier indoor sportswear brand in China by continuing our cooperation with various sport and fashion associations as well as by identifying additional event programs and associations that align with our brand value. As we continue our sponsorship of various international, national and regional events, we aim to fully leverage the publicity surrounding such events to promote our products. In addition to simply showcasing our products during our sponsored events, we intend to actively conduct accompanying product promotion events and subsequently engage pageant contestants as spokespersons of our Hosa™ brand products. We believe that by leveraging the publicity of our event sponsorships to increase the public awareness of our products, we can further raise our profile and increase our product sales to target consumers.

Moreover, we plan to expand our marketing channels alongside our expanding sales and distribution network. To emphasize our product features and to further extend our marketing reach in second- as well as third-tier cities, we plan to intensify our advertisement efforts on television networks, newspapers and magazines, billboards and the Internet. We believe that the expansion of our creative and targeted marketing channels should enable us to effectively market our products to a broader consumer base and strengthen our image as a professional indoor sportswear brand.

Perception of our retail channels is also critical to our brand's recognition. We intend to intensify our customers' experience of our brand culture by solidifying the *Hosa*<sup>TM</sup> signature style in our product designs and by creating a uniform appearance and atmosphere at Hosa retail outlets to reflect our slogan of "Let exercise touch your heart" ("讓運動更心動"). In particular, we intend to continue leveraging the professional retail channels of Hosa Fitness Gyms as well as other sports and recreational facilities to build our brand recognition as an authority on professional indoor sportswear. We also plan to establish a flagship store in Beijing in 2011 and more flagship stores at prime locations in the next few years. The flagship stores are to showcase our latest products and immerse customers in a complete experience of *Hosa*<sup>TM</sup> brand culture. We believe our flagship stores, by serving both retail and marketing functions, will raise the profile of our brand. We also plan to enhance our training programs for our distributors, sub-distributors and retail outlet staff to improve their capabilities in operations management, sales and customer service, which we believe should help to enhance the purchase experience of our customers and lead to increased sales at our retail outlets.

***Strengthen our research, design and development capabilities and optimize our product mix***

We believe that research, design and development capabilities are key factors in maintaining our competitive advantages as well as in sustaining our future development and growth. To further strengthen our existing product design and development capabilities, we aim to commence the establishment of a new in-house research, design and development center headquartered in Beijing in 2011 and by expanding our research, design and development work force to include additional professional designers and research, design and development staff. In addition, we plan to conduct research projects with external collaborators to develop new technologies for improving our products in their functionality, quality and style. Through internal reinforcement and external collaboration, we aim to lead our competitors in our research, design and development capabilities.

We believe that our strengthened research, design and development capabilities will also bolster our efforts to optimize our product variety and augment our product differentiation. We plan to utilize the results of our market research to optimize our product mix so that our product offerings can better match consumer demand and increase in their overall profitability. Through timely collection and analysis of market information that supports our continuously improved product design capabilities, we expect to be able to design and develop new products that better cater to our consumers' actual needs, while at the same time reflect our *Hosa*<sup>TM</sup> brand culture and lead market trends.

***Enhance our operating and cost efficiencies by implementing integrated supply chain and information management systems***

As we expand our sales and distribution network and the scales of our operations, we expect to leverage the economies of scale to improve our competitiveness. To ensure effective coordination among various aspects of our business during our rapid expansion, we intend to further enhance our operating and cost efficiencies by implementing integrated supply chain and information management systems. We plan to commence trial operations of the DRP system, which would serve to automate the flow of sales information within our sales and distribution network, by the end of 2011. On the basis of the DRP system, we also plan to introduce the enterprise resource planning, or ERP, system, which allows for the integration of information throughout our supply chain, from procurement to production. We believe the ERP system will decrease our production lead time, reduce logistics bottlenecks, strengthen our supply chain management and improve the overall efficiency of our operations and costs. We also intend to

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establish the client relationship management, or CRM, system, which will enable us to record and analyze data related to the consumption history and patterns of our consumers. We believe the CRM system will allow us to more effectively segment our products according to consumer preferences, market to our target customers and enhance brand loyalty.

### OUR PRODUCTS

#### *Overview*

We aim to promote our *Hosa*<sup>TM</sup> brand as a symbol for active, fashionable and healthy lifestyles. In line with our goal, we develop and produce indoor sportswear and accessories that focus on functionality, comfort and style. We currently offer a wide range of *Hosa*<sup>TM</sup> brand products through our swimwear, fitness wear, sports underwear and accessories product lines. We believe that by offering a comprehensive indoor sportswear product portfolio, we will accelerate the development of brand loyalty among consumers.

We conduct our business in the following operating segments, representing our different product categories:

- **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, such as body-sculpting yoga suits, loose-fitting yoga suits, track suits, general training suits, performance shirts and jackets, shape-enhancing fitness leggings and dance apparel;
- **Sports underwear:** professional sports underwear and casual sports underwear for women and men; and
- **Accessories:** accessories that complement our swimwear and fitness wear products, including swim goggles and caps, beach sandals and beach bags, as well as yoga mats, dance shoes, gym bags, sport towels, wristbands, headbands and water bottles, among others.

The table below sets out the revenue generated from each of the operating segments representing different product categories from our continuing operations for the years ended 31 December 2008, 2009 and 2010:

	Year ended 31 December					
	2008		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%
Swimwear . . . . .	59,836	29.2	70,631	44.4	143,477	41.3
Fitness wear . . . . .	87,321	42.7	31,316	19.7	73,806	21.2
Sports underwear . . . . .	54,536	26.7	52,873	33.2	111,582	32.1
Accessories . . . . .	2,950	1.4	4,349	2.7	18,922	5.4
<b>Total . . . . .</b>	<b>204,643</b>	<b>100.0</b>	<b>159,169</b>	<b>100.0</b>	<b>347,787</b>	<b>100.0</b>



### *Product Categories*

#### **Swimwear**

In 2010, we outperformed all domestic and multinational brands in our sales of swimwear products in China, particularly in the mid-to-high end swimwear segment, where we captured the largest market share of 23.5% in terms of ex-factory sales in China in 2010, according to Frost & Sullivan. Our swimwear products are fashionable, functional and of high quality. We conduct thorough market research and feature the latest global fashion trends into our swimwear designs. We also select premium fabrics and incorporate the latest technologies in fabrics and patterns into our designs. For example, we utilize imported Nylon and Lycra combination fabrics for some of our swimwear products, which are comfortably tight-fitting and highly resistant to wear and tear, UV radiation, saltwater and sweat. In 2008, our *Hosa*<sup>TM</sup> brand was recognized as an exemplary brand in China's swimwear industry and we became the exclusive provider of swimwear products at the National Aquatics Center, more commonly known as the Water Cube, or the site of aquatic events during the 2008 Olympics. Our swimwear products accounted for 29.2%, 44.4% and 41.3% of our total revenue from continuing operations in the years ended 31 December 2008, 2009 and 2010, respectively.

Our *Hosa*<sup>TM</sup> swimwear products include swimsuits and beachwear for women, men and children, such as:



According to Frost & Sullivan, a brand belongs to the mid-to-high end segment of China's swimwear market if the majority of its women's swimwear product models sold in China had suggested retail prices of above RMB295 per set in 2010. In 2010, approximately 69% of our women's swimwear product models sold in China had suggested retail prices of above RMB295 per set. The average suggested retail price of our swimwear products for women, men and children in China was approximately RMB151, RMB131 and RMB320 per set for the years ended 31 December 2008, 2009 and 2010, respectively. The overall increase in the average suggested retail price of our swimwear products during the Track Record Period was primarily due to our optimization of our product mix and product positioning toward higher-end swimwear products, especially in 2010.

#### **Fitness wear**

Due to the increased availability of indoor exercise facilities as a result of urbanization, greater public health awareness and rising income levels in China, we broadened our product offering to include products for various sport activities, such as yoga, gym and dance. According to Frost & Sullivan, we outperformed all domestic and multinational brands in our sales of fitness wear products in China in 2010, particularly in the mid-to-high end fitness wear segment, where we captured the largest market share of

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19.4% in terms of ex-factory sales in China in 2010. We carefully design and select the appropriate fibers and fabrics for our fitness wear products to ensure that each product incorporates functionality, comfort and style. For example, we utilize bamboo charcoal modal, which has excellent moisture-absorbing, breathable and anti-microbial properties, for some of our soft-textured yoga apparel, and Coolmax, which dries five times faster than pure cotton fabrics and retains its shape after repeated wash, for some of our moisture-wicking fitness wear products. Our fitness wear products accounted for 42.7%, 19.7% and 21.2% of our total revenue from continuing operations in the years ended 31 December 2008, 2009 and 2010, respectively. The sales of our fitness wear products decreased significantly from RMB87.3 million in 2008 to RMB31.3 million in 2009, primarily due to the significant decrease in the overseas sales of our fitness wear products as affected by the global economic downturn since late 2008.

Our *Hosa*<sup>™</sup> fitness wear products include apparel for women and men for indoor fitness activities including yoga, gym and dance, such as:



According to Frost & Sullivan, a brand belongs to the mid-to-high end segment of China's fitness wear market if the majority of its women's fitness wear product models sold in China had suggested retail prices of above RMB200 per unit in 2010. In 2010, approximately 74% of our women's fitness wear product models sold in China had suggested retail prices of above RMB200 per unit. The average suggested retail price of our fitness wear products in China was approximately RMB176, RMB193 and RMB260 per unit for the years ended 31 December 2008, 2009 and 2010, respectively. The increase in the average suggested retail price of our fitness wear products during the Track Record Period was primarily due to our optimization of our product mix and product positioning toward higher-end fitness wear products.

### **Sports underwear**

In 2010, we outperformed all domestic and multinational brands in our sales of sports underwear products in China, particularly in the mid-to-high end sports underwear segment, where we captured the largest market share of 42.7% in terms of ex-factory sales in China in 2010, according to Frost & Sullivan. Our sports underwear product line is comprised of professional sports underwear and casual sports underwear. As the leader in China's sports underwear market, we have significant expertise in product design which caters to the preferences and body types of Chinese consumers. Our sports underwear products are designed to offer superior performance, fit and comfort to users both during exercise and for everyday casual wear. We produce our products using fabrics composed of functional fibers and fabrics, such as Lycra, Coolmax, Modal and thermal fibers, which have elastic, breathable and moisture management and thermal properties. Our sports underwear products accounted for 26.7%, 33.2% and 32.1% of our total revenue from continuing operations in the years ended 31 December 2008, 2009 and 2010, respectively.

Our *Hosa*<sup>TM</sup> sports underwear products include professional sports underwear and casual sports underwear for women and men, such as:



According to Frost & Sullivan, a brand belongs to the mid-to-high end segment of China's sports underwear market if the majority of its sports underwear product models sold in China had suggested retail prices of above RMB75 per unit in 2010. In 2010, approximately 87% of our sports underwear product models sold in China had suggested retail prices of above RMB75 per unit. The average suggested retail price of our sports underwear products in China was approximately RMB148, RMB150 and RMB255 per unit for the years ended 31 December 2008, 2009 and 2010, respectively. The increase in the average suggested retail price of our sports underwear products during the Track Record Period was primarily due to our optimization of our product mix and product positioning toward higher-end sports underwear products, especially in 2010.

### **Accessories**

To complement our swimwear and fitness wear product lines and to supplement our target customers' various sporting needs, we also offer accessories such as goggles, swimming caps, beach bags and sandals for water sports, as well as yoga mats, dance shoes, gym bags, sport towels, wristbands, headbands and water bottles for general exercise. Our accessories accounted for 1.4%, 2.7% and 5.4% of our total revenue from continuing operations in the years ended 31 December 2008, 2009 and 2010, respectively.

Our *Hosa*<sup>TM</sup> accessories include:



For the years ended 31 December 2008, 2009 and 2010, the average suggested retail price of our accessories products in China was approximately RMB84, RMB61 and RMB120 per unit, respectively.

## **BRANDING AND MARKETING**

We place great emphasis on brand-building. We aim to promote our *Hosa*<sup>TM</sup> brand as a symbol for active, fashionable and healthy lifestyles and as the premier brand for indoor sportswear products. Our slogan “Let exercise touch your heart” (“讓運動更心動”) represents our mission to improve the consumers’ attitude towards health and exercise. Our primary target retail consumers are urban, white collar professionals between the age of 20 and 40 with rising health consciousness and spending power. We effectively promote our *Hosa*<sup>TM</sup> brand to consumers via creative and diverse marketing channels that include event sponsorships, marketing at sports and recreational facilities and retail outlets and media advertising. We spent approximately RMB8.3 million, RMB4.8 million and RMB9.2 million on our advertising and promotion activities from continuing operations for the years ended 31 December 2008, 2009 and 2010, respectively, accounting for approximately 33.9%, 20.1% and 31.5% of our total selling and distribution expenses from continuing operations and approximately 4.0%, 3.0% and 2.6% of our total revenue from continuing operations for such respective periods.

### ***Event Sponsorships***

We strategically select and sponsor international, national and regional events to promote our *Hosa*<sup>TM</sup> brand name to the general public, particularly our target consumers. We sponsor pageants and contests with international exposure. We have sponsored the Miss Bikini International pageant and the Asia Super Model Contest every year since 2005, as well as other contests such as Miss Asia, the Aerobic Gymnastics World Championships, Miss Tourism Queen International and Miss Leisure World. We primarily provide such events with our products, which are modeled by contestants during the events. We believe the international publicity surrounding these events has significantly raised the profile of our *Hosa*<sup>TM</sup> brand.

At the national and regional levels, we coordinate with professional associations and sports administrative authorities to sponsor events that encourage active and healthy lifestyles. We have been the exclusive sponsor of the Hosa Cup National Aerobic Gymnastics Contest (浩沙杯全國萬人健美操大賽) every year since 2004. This event is hosted by the Chinese Aerobic Gymnastics Association (中國健美操協會) and promoted by the relevant sports administrative authorities to encourage healthy exercise in the public, and attracts over 100,000 participants annually. We believe our sponsorship of this contest, with its numerous selective rounds that begin at over 20 districts and culminate in the national final competition, has significantly contributed to the nationwide recognition of our brand. In addition, since 2003, we have been collaborating with the China Fashion Designer Association (中國服裝設計師協會) every year to co-host the Hosa Cup China Swimwear Design Contest (浩沙杯中國泳裝設計大賽). The extensive media and press coverage surrounding such events reinforces our *Hosa*<sup>TM</sup> brand image. In line with our mission

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to promote healthy lifestyles, we also sponsor the Five-Minute Fitness (健美五分鐘) program on the sports channel of China Central Television, or CCTV, which is one of the most widely viewed TV networks in China, and the National Fitness Walk (全民健身萬里行), which invites participation from and promotes health awareness in the general public. We believe that the diversity and scale of the events we sponsor have enabled us to reach a wide audience and to effectively market our *Hosa*<sup>TM</sup> brand to target consumers nationwide.

As we continue our sponsorship of various international, national and regional events, we aim to fully leverage the publicity surrounding such events to promote our products. In addition to simply showcasing our products during our sponsored events, such as the Miss Bikini International pageant and the Hosa Cup China Swimwear Design Contest, we intend to actively conduct accompanying product promotion events and subsequently engage pageant contestants as spokespersons of our *Hosa*<sup>TM</sup> brand products. We believe that by leveraging the publicity of our event sponsorships to increase the public awareness of our products, we can further raise our profile and increase our product sales to target consumers.

### *Marketing at Sports and Recreational Facilities and Retail Outlets*

We strategically place advertisements, promotional materials and/or our products for sale at sports and recreational facilities, such as professional sports stadiums and fitness gyms. We fully leverage the promotion channel of Hosa Fitness Gyms, which are controlled by our Controlling Shareholders. As of 31 December 2010, our products were sold at the majority of Hosa Fitness Gyms, which consisted of 66 fitness gyms located in seven major cities in China, including 37 gyms in Beijing. The majority of the fitness gyms had floor areas of 2,000 square meters or above. Our distributors and their sub-distributors conduct concessionary sales of our products to end-consumers at Hosa Fitness Gyms. We place our products for sale at the gyms only through distributors and sub-distributors mainly so that we maintain the efficiency of our distributorship business model and avoid competition with our distributor customers. We do not enter into formal cooperation agreements with Hosa Fitness Gyms, but only with selected fitness trainers to serve as spokespersons for our brand. We also conduct promotional events and showcase our fitness wear products during professional demonstrations by fitness trainers staged at fitness gyms and recreational clubs. In addition, we market and sell our products at aquatic facilities, such as professional swimming pools, and at vacation resorts. In 2008, we were chosen to be the sole provider of swimwear products at the National Aquatics Center (Water Cube), the site of aquatic events during the 2008 Olympics. We believe that we are able to effectively market our *Hosa*<sup>TM</sup> brand as an authority on professional indoor sportswear to our target consumers via these marketing channels. Going forward, we intend to continue leveraging the professional retail channels of Hosa Fitness Gyms as well as other sports and recreational facilities to build our brand recognition.

We recognize that our retail outlets are crucial to consumers' perception of our brand and experience of our products. We have detailed guidelines for retail outlet design to achieve a uniform style that reflects our slogan of "Let exercise touch your heart" ("讓運動更心動"). All displays at retail outlets require our approval so that they contribute to our brand image. The displays focus on the functionality, comfort and style of our indoor sportswear products. To give consumers a more memorable and personal shopping experience, we often show exercise tips and product testimonies given by fitness trainers on televisions in our stores. We also regularly distribute promotional products and conduct sales promotions at our retail outlets to increase brand awareness. Furthermore, we intend to open a flagship store in Beijing in 2011 and more flagship stores at prime locations in the next few years. Flagship stores will showcase our latest

products on *Hosa*<sup>TM</sup>-inspired floor space, thereby immersing consumers in a complete experience of *Hosa*<sup>TM</sup> brand products and culture and serving both retail and marketing functions, which we believe should help to raise the profile of our brand.

### ***Media Advertising***

In addition to the significant media exposure that our sponsorships provide us, we also place advertisements in fitness, fashion and shopping magazines, on popular sports, entertainment and lifestyle channels of major national and regional television networks in China, and on major media websites. We intend to intensify our advertisement efforts on television networks, newspapers and magazines, billboards and the Internet to emphasize the features of our *Hosa*<sup>TM</sup> brand products. We believe that the expansion of our creative and targeted advertising efforts will enable us to effectively further extend our marketing reach to a broader target consumer base, especially in second- and third-tier cities.

## **SALES AND DISTRIBUTION**

### ***Our Business Model***

#### **Prior direct sales operations by Haosha Garments**

Prior to 2006, Haosha Garments, a private company controlled by our Controlling Shareholders, operated the *Hosa* indoor sportswear business and sold substantially all *Hosa*<sup>TM</sup> brand products to end-consumers through concessionary retail outlets at department stores. Such retail outlets were directly operated by three retail management companies, namely Beijing Aiya, Shanghai Xingchi and Guangzhou Huayuan, which were then owned by Mr. Shi Hongliu, Mr. Shi Hongyan and/or Ms. Xu Jinfeng, the spouse of Mr. Shi Hongyan. As such, Haosha Garments was in the view that it was conducting “direct sales” of *Hosa*<sup>TM</sup> brand products through such three retail management companies.

In 2006, Haosha Garments also began to develop and engage third-party distributors in second- and third-tier cities in China to further extend the reach of *Hosa*<sup>TM</sup> brand products. Prior to late 2007, all sales of *Hosa*<sup>TM</sup> indoor sportswear products were made by Haosha Garments through direct sales or to distributors. In 2007, our core operating subsidiary, Haosha Industry, entered into a series of transactions with Haosha Garments, including a lease agreement for operational properties and the transfer of production facilities, to acquire the *Hosa* indoor sportswear business. After such transactions, Haosha Garments ceased the *Hosa* indoor sportswear business and Haosha Industry has since then served as the principal manufacturing and marketing entity for *Hosa*<sup>TM</sup> brand products. For more details, please refer the paragraph headed “History and Corporate Structure — Establishment of Haosha Industry”.

#### **Our transition to the distributorship business model**

In late 2007, our core operating subsidiary, Haosha Industry, began to operate the *Hosa* indoor sportswear business and continued to sell *Hosa*<sup>TM</sup> brand products through the three retail management companies and third-party distributors. As we sought to improve the management and accelerate the development of our sales network, we considered adopting a formal distributorship business model. As trial operations of our new distributorship business model, we established three distributor subsidiaries of Haosha Industry, namely Beijing Yasha, Guangzhou Yingchang and Shanghai Haote, in 2008, to directly

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develop and operate Hosa retail outlets. By directly monitoring and analyzing the operations of such distributor subsidiaries, we aimed to optimize our management of the distributorship business model and to catalyze our business model transition.

Given the success of the trial operations, we decided to fully transition to a distributorship business model and our distributor subsidiaries Beijing Yasha and Guangzhou Yingchang gradually took over parts of the operations of the retail management companies Beijing Aiya and Guangzhou Huayuan, respectively. The retail operations of Beijing Aiya were transferred to Beijing Yasha by January 2010, after which Beijing Aiya shifted its focus to the operations of the Hosa Fitness Gyms. To eliminate connected transactions, Mr. Shi Hongliu and Mr. Shi Hongyan and/or Ms. Xu Jinfeng disposed of their interests in Shanghai Xingchi and Guangzhou Huayuan to Independent Third Parties in July 2010. The transfer of retail operations from Guangzhou Huayuan to Guangzhou Yingchang and other third-party distributors was completed by 31 December 2010. Shanghai Xingchi continued to be our distributor after Mr. Shi Hongliu and Mr. Shi Hongyan disposed of their interests in such company to an Independent Third Party in 2010. By the end of July 2010, we concluded our trial operations of the distributorship business model and disposed of our three then distributor subsidiaries and their unsold inventories to Independent Third Parties. Since then, all domestic sales have been made to our third-party distributors. Our transition to the distributorship business model did not materially influence the gross profit margin from our continuing operations related to domestic sales during the Track Record Period, as we maintained the same pricing policies for our then related-party retail management companies, our then distributor subsidiaries and our third-party distributors.

During the Track Record Period, we continuously developed our network of third-party distributors and made increasing sales to third-party distributors and decreasing sales to the retail management companies owned by Mr. Shi Hongliu, Mr. Shi Hongyan and/or Ms. Xu Jinfeng. The following table sets forth the breakdown of our revenue from continuing operations generated from domestic sales to the retail management companies, our then distributor subsidiaries and third-party distributors and others during the Track Record Period:

	Year ended 31 December					
	2008		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%
Domestic sales						
To retail management companies <sup>(1)</sup> . . . . .	113,336	55.4	50,209	31.5	16,627	4.8
To our then distributor subsidiaries <sup>(2)</sup> . . . . .	1,051	0.5	32,581	20.5	22,938	6.6
To third-party distributors and others . . . . .	<u>17,572</u>	<u>8.6</u>	<u>42,354</u>	<u>26.6</u>	<u>257,233</u>	<u>73.9</u>
Total . . . . .	<u><u>131,959</u></u>	<u><u>64.5</u></u>	<u><u>125,144</u></u>	<u><u>78.6</u></u>	<u><u>296,798</u></u>	<u><u>85.3</u></u>

*Notes:*

- (1) Owned by Mr. Shi Hongliu, Mr. Shi Hongyan and/or Ms. Xu Jinfeng.
- (2) The retail sales directly made by our then distributor subsidiaries to end-consumers are included in the results of our discontinued operations and are not included in this table.

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On 30 July 2010, we disposed of our interests in our three distributor subsidiaries, Beijing Yasha, Shanghai Haote and Guangzhou Yingchang, to Independent Third Parties. The results of the retail operations operated by such subsidiaries are included in the results of our discontinued operations in our financial information during the Track Record Period. For more details, see below and the section headed “Financial Information — Description of discontinued operations”.

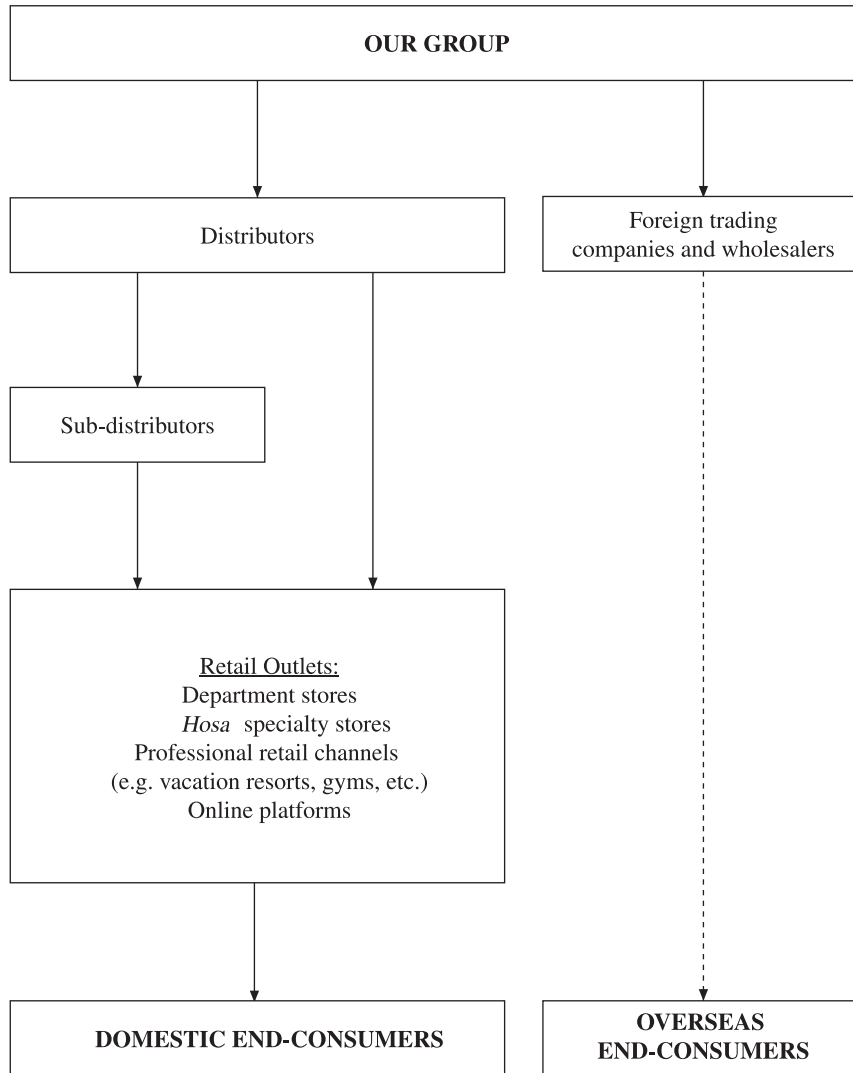
### **Our present distributorship business model**

As of 31 December 2010, our distribution network mainly consisted of 13 distributors, who engaged a total of 47 sub-distributors to collectively manage 666 retail outlets across 26 provinces and municipalities as well as online sales platforms in China. In 2011, our sales and distribution network further expanded to include 27 distributors, who along with their sub-distributors operated 904 retail outlets as well as online sales platforms in China as of 31 May 2011. Our distributors manage and develop sub-distributors and retail outlets within specified geographical regions according to our guidelines. We believe that our present distributorship business model enables us to achieve higher growth and operational efficiency. We have commenced to extend our sales coverage to China’s second- and third-tier cities, and we are poised to further penetrate and capture these growing markets through our distributors. We leverage the financial and management resources of our distributors to manage our overall retail network and to help ensure that sub-distributors and retail outlets operate according to our guidelines. Our sales and distribution model also allows us to focus our resources on the development of our brand and the design and marketing of new and innovative products, thus enabling us to respond to the increased market demand for indoor sportswear products in China. See the section below for more information.



***Our Distribution Network***

Following a series of reforms and improvements to our business model, as of the Latest Practicable Date, we mainly sold our products to distributors, who placed our products to retail outlets for final sales either directly or through their sub-distributors. The following chart illustrates the structure of our distribution channel:



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While we primarily conduct our business operations in China, during the Track Record Period we also sold our *Hosa*<sup>TM</sup> brand products to Europe, the Middle East, North and South America, Asia and Africa, with sales to Europe accounting for over 50% of our total overseas sales every year. We sold our *Hosa*<sup>TM</sup> brand products overseas based on purchase orders we received from foreign trading companies or wholesalers. We did not enter into distribution agreements with such trading companies or wholesalers and only supplied them with our products on a purchase order basis.

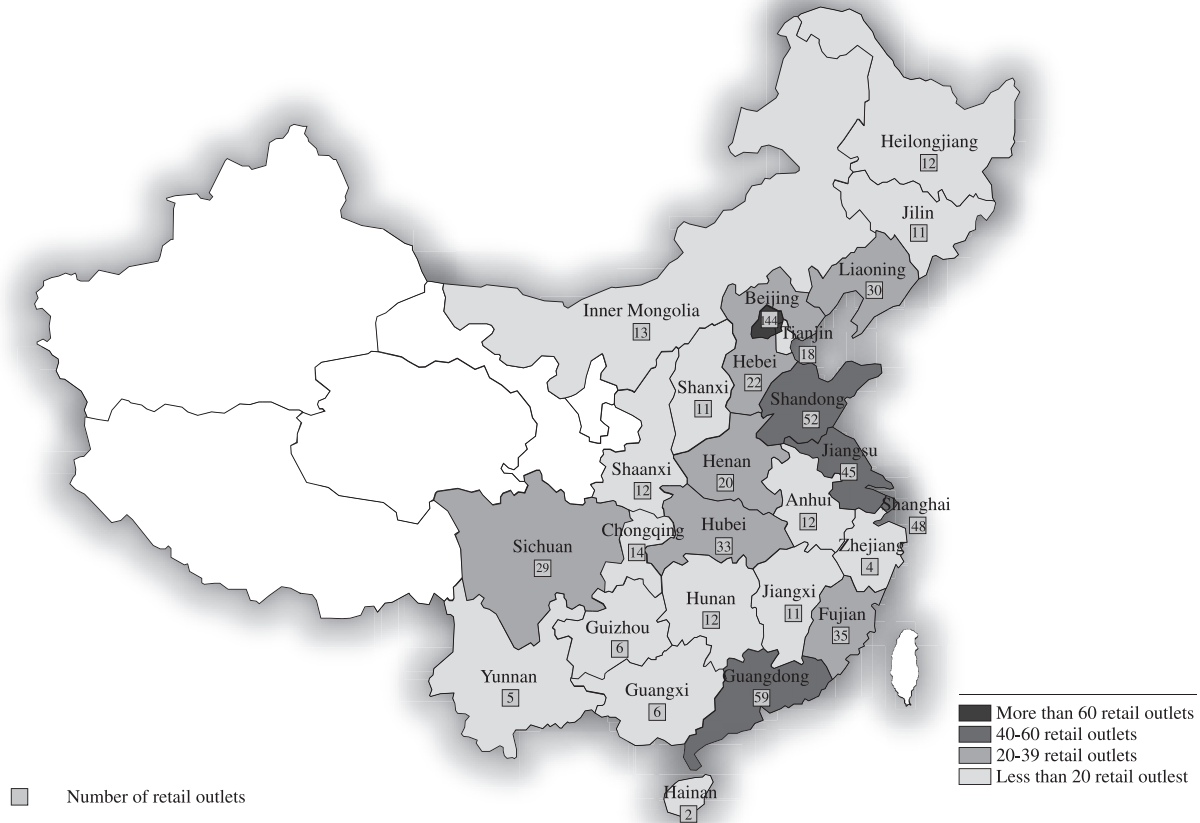
The following table sets forth the geographical breakdown of our revenue and the respective percentage to our total revenue generated from our continuing operations for the periods indicated:

	Year ended 31 December					
	2008		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%
Domestic sales . . . . .	131,959	64.5	125,144	78.6	296,798	85.3
Overseas sales . . . . .	72,684	35.5	34,025	21.4	50,989	14.7
<b>Total</b> . . . . .	204,643	100.0	159,169	100.0	347,787	100.0

Our past overseas sales accounted for 35.5%, 21.4% and 14.7% of total sales from continuing operations in the years ended 31 December 2008, 2009 and 2010, respectively. 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. Going forward, our overseas sales will be limited to our fulfillment of selected overseas purchase orders on a case-by-case basis.

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We further divide our domestic sales and distribution network into six geographical regions and assign a regional sales team to specifically develop strategies, oversee and provide training and support to each region. The following map illustrates the market allocation and sales coverage of our domestic sales and distribution network as of 31 December 2010:



Domestic region	Provinces, municipalities and autonomous regions	No. of distributors <sup>(1)</sup>	No. of sub-distributors	No. of retail outlets	Sales made to our distributors and customers through continuing operations in <sup>(1)(2)</sup>		
					2008	2009	2010
					RMB'000	RMB'000	RMB'000
Northern China . . . . .	Beijing, Tianjin, Hebei, Shanxi, Shandong and Inner Mongolia	3	17	260	49,017	32,156	68,620
North Eastern China . . . . .	Liaoning, Jilin and Heilongjiang	1	8	53	360	3,640	25,305
Eastern China . . . . .	Shanghai, Zhejiang, Jiangsu and Anhui	2	8	109	51,268	43,368	46,652
Western China . . . . .	Sichuan, Chongqing, Guizhou, Shaanxi and Yunnan	1	2	66	3,058	15,887	34,962
Central China . . . . .	Hubei, Henan, Hunan and Jiangxi	1	8	76	1,282	2,794	30,124
Southern China . . . . .	Guangdong, Fujian, Hainan and Guangxi	4	4	102	26,974	27,299	65,306
<b>Total . . . . .</b>		<b>12</b>	<b>47</b>	<b>666</b>	<b>131,959</b>	<b>125,144</b>	<b>270,969</b>

*Notes:*

- (1) In addition to the above, we have engaged one distributor since late 2010 to launch the online sales of our products. Our sales made to such distributor in the year ended 31 December 2010 were RMB25,829,000.
- (2) Included sales to Beijing Yasha, Shanghai Haote and Guangzhou Yingchang, which were disposed of during our Corporate Reorganization

The number of our distributors increased from 38 as of 31 December 2008 to 42 as of 31 December 2009. In 2010, in order to enhance the management of our distribution network, we concentrated our sales to 13 large-scale distributors, who in turn engaged 47 sub-distributors, as of 31 December 2010. In 2011, our sales and distribution network further expanded to include 27 distributors, who along with their sub-distributors operated 904 retail outlets as well as online sales platforms in China as of 31 May 2011. We anticipate the number of our retail outlets to reach over 1,200 retail outlets by the end of 2011, based on the individual expansion plans we set out for each distributor in its respective distribution agreement after conducting our own market analysis of, for example, regional population composition and consumer spending. We believe that our distribution network will enable us to expand our business and accelerate sales growth at lower costs and lower operational risks as well as strengthen our brand recognition throughout China. For the description of certain risks associated with our growth strategy, please refer to “Risk Factors — Risks relating to our business operations — We may fail to execute our growth strategy or manage our expanded business”.

### **Distributors**

We enter into distribution agreements with our distributors. We authorize our distributors to develop and extend our network of sub-distributors and operate authorized retail outlets. We believe that our distributors are reputable and have extensive local experience, know-how and contacts in the respective regions that they cover.

#### *Criteria for selection of distributors*

We strategically select distributors that we believe will best represent our *Hosa*<sup>TM</sup> brand in their respective regions. We believe that the distributors will help us to increase awareness of our brand in a positive manner. We have stringent procedures for distributor selection. Before we engage a distributor, we assess its sales channels, local recognition and business network. We also consider factors such as managerial capabilities, capital resources, industry and retail experience and ability to secure appropriate retail locations for our *Hosa*<sup>TM</sup> products while assessing a candidate.

#### *Distribution agreements*

We enter into a distribution agreement with each of our distributors, which generally includes the following principal terms:

- *Product and regional authorization.* Distributors are required to sell only authorized *Hosa*<sup>TM</sup> brand products at their *Hosa* retail outlets or *Hosa* online shops. Unless approved by us in writing, they are prohibited from promoting or carrying products other than our *Hosa*<sup>TM</sup> brand products at their *Hosa* retail outlets or *Hosa* online shops. Furthermore, distributors are prohibited from directly or indirectly selling *Hosa*<sup>TM</sup> brand products outside their designated regions.
- *Purchase targets.* Distributors agree with us on minimum purchase targets for each season and for the duration of the agreement. Such purchase targets are determined based on the scale of the distributors and ranged from RMB15 million to RMB60 million for the duration of agreements which commenced in 2010. Following the sales fair for a new season, our distributors’ initial purchase order must account for at least 70% of their purchase target for the

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season. Purchase orders confirmed by our distributors and us are deemed part of the distribution agreement and are non-cancellable. Any cancellation of such purchase order constitutes a breach of the distribution agreement.

- *Wholesale discount.* The wholesale discount at which we sell our products to each distributor is separately negotiated and agreed upon with each distributor and specified in the distribution agreement or purchase order.
- *Development and management of sub-distributors and retail outlets.* Distributors are often required to meet targets for developing sub-distributors and retail outlets within specified regions. Before they establish new retail outlets, distributors are required to submit written requests to us for prior approval. They are also responsible for ensuring the conformity of the operations of sub-distributors and retail outlets to our guidelines and for protecting our intellectual property and brand image. In addition, distributors are responsible for all disputes and debts between the distributors and their respective sub-distributors.
- *Transportation and insurance.* Our distributors are generally responsible for bearing the transportation expenses and insurance costs associated with the delivery of our products to them.
- *Sales support.* We agree to provide sales support to our distributors by providing them with strategic guidance and training, including information on products, relevant market information and training materials.
- *Undertakings.* To build consistent brand image and management nationwide, distributors undertake to comply with our sales and pricing policies, adhere to our customer service policies and adopt our standardized outlet design and promotional materials. We further require our distributors to regularly submit sales reports and to collect such reports from their respective sub-distributors for our review.
- *Product exchange and sales return.* Distributors are allowed to exchange or return to us products with quality defects caused by us.
- *Confidentiality.* Distributors are required to indefinitely maintain the confidentiality of our sales and management policies, corporate strategies, pricing terms and discount as well as various information and guidelines, even after the termination of the agreement.
- *Agreement renewal.* The term of our distribution agreement is generally one year. If distributors wish to renew the distribution agreement, they must submit written renewal requests to us at least one month prior to the expiration of the present agreement term.
- *Termination rights.* We are entitled to terminate the agreement in certain circumstances, for instance, breaches of the agreement by the distributors which are not remedied, disclosure of our trade secrets, damage to our image by the distributors, or failure to meet our minimum standards. Our distributors are entitled to terminate the agreement if we cease our operations or cease the supply of products to the distributors without valid cause. Upon termination, we can

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choose to either refund the distributors for their unsold inventory of our products, or require the distributors to continue selling the unsold inventory according to our pricing policy for a period of no longer than 60 days after the termination date of the agreement.

Our distributors generally meet the purchase targets specified in their respective distribution agreements. During the Track Record Period, we did not provide any rebate, commissions or incentives to our distributors for meeting the stipulated minimum purchase targets. We did not receive any material cancellations of purchase orders during the Track Record Period. None of our distributors had breached the distribution agreement during the Track Record Period.

### *Relationship with distributors*

As of 31 May 2011, we had maintained business relationships with our 27 distributors for periods ranging from two months to four years. Our relatively short history of relationships with our distributors is mainly due to the transition of our business model and the integration of our distribution network in the past few years. See “Risk Factors — Risks relating to our business operations — We rely on a small number of customers for a significant portion of our sales and our failure to maintain good relationships with our distributors may adversely affect our business.”

The following table sets forth the changes in the number of our distributors during the Track Record Period:

	Years ended 31 December			Five months ended 31 May
	2008	2009	2010	2011
Distributors at the beginning of the period . . . .	20	38	42	13
Addition of new distributors . . . . .	21	18	5	15
Termination of existing distributors <sup>(1)</sup> . . . . .	(3)	(14)	(34)	(1)
Net change in distributors . . . . .	18	4	(29)	14
Distributors at the end of the period <sup>(2)</sup> . . . . .	38	42	13	27

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*Notes:*

- (1) We discontinued our cooperation with many of our small-scale distributor customers in 2010 as part of our plan to optimize our sales and distribution network by directly engaging only a small number of large-scale distributors. In 2010, 10 such terminated customers became sub-distributors to our large-scale distributor customers.
- (2) During the Track Record Period, distributors included the three retail management companies controlled by Mr. Shi Hongliu, Mr. Shi Hongyan and/or Ms. Xu Jinfeng, our then distributor subsidiaries and third-party distributors.

Our termination of relationships with distributors during the Track Record Period was primarily due to our optimization of our sales and distribution network. Following the expansion of our distributor network, we began to optimize our network in 2010 by concentrating our sales to a smaller number of large-scale distributors, who in turn sold our products to their sub-distributors and/or to end-consumers at their self-operated retail outlets. Consequently, many of our small-scale distributor customers from 2009 were terminated, including 10 such customers which became sub-distributors of our large-scale distributor customers in 2010. Other reasons for our termination of relationships with distributors during the Track Record Period included our regular evaluation of the qualification, suitability, performance and service

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quality as well as expiration of distribution agreements with some distributors. There was no write-off or provision of inventories and receivables related to such terminations during the Track Record Period. We had not experienced any significant disputes with our distributors or their sub-distributors during the Track Record Period.

### Retail channels

As of 31 December 2008, 2009 and 2010, our products were sold at 505, 522 and 666 retail outlets, respectively. The following table sets forth the breakdown of Hosa retail outlets controlled by Mr. Shi Hongliu, Mr. Shi Hongyan and/or Ms. Xu Jinfeng, operated by us, operated by our distributors and operated by sub-distributors as of 31 December 2008, 2009 and 2010:

	As of 31 December		
	2008	2009	2010
Controlled by Mr. Shi Hongliu,			
Mr. Shi Hongyan and/or Ms. Xu Jinfeng . . .	365	125	0
Directly operated by us . . . . .	11	228	0
Operated by distributors . . . . .	129	169	497
Operated by sub-distributors . . . . .	0	0	169
Total <sup>(1)</sup> . . . . .	505	522	666

*Note:*

(1) Does not include online sales or temporary counters.

The number of retail outlets controlled by Mr. Shi Hongliu, Mr. Shi Hongyan and/or Ms. Xu Jinfeng decreased from 365 in 2008 to 125 in 2009, primarily due to the transfer of retail operations from the retail management companies Beijing Aiya and Guangzhou Huayuan to our then distributor subsidiaries Beijing Yasha and Guangzhou Yingchang, respectively, in 2009, after which Beijing Aiya shifted its focus to the operation of Hosa Fitness Gyms. The transfer of the remaining retail operations of Guangzhou Huayuan to Guangzhou Yingchang and to other third-party distributors was completed in 2010. In addition, we disposed of our interests in our then distributor subsidiaries, including Beijing Yasha and Guangzhou Yingchang, to Independent Third Parties, and Mr. Shi Hongliu, Mr. Shi Hongyan and/or Ms. Xu Jinfeng also disposed of their interests in Shanghai Xingchi and Guangzhou Huayuan to Independent Third Parties in July 2010. Furthermore, as we aimed to optimize and expand our sales and distribution network in 2010, our large-scale distributor customers began to engage and develop sub-distributors to manage a portion of the growing network of Hosa retail outlets and some of our distributors in 2008 and 2009 became sub-distributors of these large-scale distributors in 2010, thereby resulting in the significant increase in the number of Hosa retail outlets operated by sub-distributors in 2010. By the end of July 2010, we had completed our transition to the distributorship business model and, since then, all Hosa retail outlets have been operated by our third-party distributors or their sub-distributors.

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As of the Latest Practicable Date, our distributors and their sub-distributors primarily place our products to end-consumers through the following retail channels:

- *Department stores.* A department store is a retail establishment which specializes in offering the consumer a choice of multiple merchandise lines, at variable price points, in all product categories. Some of our distributors and sub-distributors enter into concessionaire agreements with department stores to secure a retail floor area for selling our products. As of 31 December 2010, the average size of our retail outlets at department stores was approximately 30 square meters. From time to time, our distributors and sub-distributors may also set up temporary counters at department stores for short-term sales and promotions. Temporary counters mainly include seasonal counters, which generally last for three to six months, and special display and sales counters, which generally last for a period from one day to one month.
- *Professional retail channels.* Our distributors and sub-distributors also market our products to professional retail channels, including club stores, gyms, swimming pools and vacation resorts, which may have high concentrations of our target consumers. As of 31 December 2010, the average size of our retail outlets at professional retail channels was approximately 35 square meters.
- *Hosa specialty stores.* Hosa specialty stores are stores that specialize in the sales of our product lines. The stores are stand-alone shops operated by our distributors and sub-distributors. As of 31 December 2010, the average size of Hosa specialty stores was approximately 70 square meters.
- *Online sales.* We engaged one distributor in late 2010 to operate the online sales of our products through Hosa online shops, which are established on third-party online sales platforms. We expect to further develop our online sales, all of which will be operated by distributors and sub-distributors, in the next few years.

The following table sets forth the number of Hosa retail outlets by retail channel as of 31 December 2008, 2009 and 2010:

	As of 31 December		
	2008	2009	2010
Department stores . . . . .	499	516	562
Professional retail outlets . . . . .	1	1	62
Hosa specialty stores . . . . .	5	5	42
Total <sup>(1)</sup> . . . . .	505	522	666

*Note:*

(1) Does not include online sales or temporary counters.



In addition to the foregoing, we plan to diversify our retail channels to include the following:

- *Flagship store(s).* We plan to open one flagship store in Beijing in 2011 and more flagship stores at prime locations in the next few years. Flagship stores will showcase our latest products on *Hosa*<sup>TM</sup>-inspired floor space, thereby immersing customers in a complete experience of *Hosa*<sup>TM</sup> brand products and culture. We may directly operate flagship stores given their important marketing function to raise the profile of our brand. The expected floor space area of our flagship store will be approximately 300 to 400 square meters.

We also intend to diversify our retail channels by developing more online sales channels, professional retail channels, and *Hosa* specialty stores to be owned and operated by distributors and sub-distributors. We plan to optimize our product offering at *Hosa* specialty stores based on our analysis of each store's location, consumer base and historical performance in order to maximize sales. We believe that, by broadening our sales and distribution coverage and by diversifying our retail channels, we will be able to more effectively penetrate the growing target consumer market for indoor sportswear, increase our market share and further solidify our leading position in the indoor sportswear market in China.

### ***Sales Channel Management***

We have a dedicated and experienced sales work force that oversees the management of our sales and distributors network. We assign a regional sales team to each of our six sales regions in China, so that we can effectively address region-specific market needs. Our regional sales teams closely monitor the inventory and performance of our distributors and provide them with various training and support. While we do not enter into contracts with sub-distributors, we contractually require our distributors to manage their respective sub-distributors according to our standard sales management manual. We also closely monitor the development and performance of our network of retail outlets opened by our distributors and their sub-distributors. We believe our systematic sales channel management strategy, which leverages the resources of our distributors, enables us to effectively oversee our sales and distribution network.

### **Management of distributors**

We visit our distributors on a monthly basis to ensure that they comply with the terms of the distribution agreement. We closely monitor the inventory and performance of our distributors by requiring them to submit weekly and monthly sales reports. We also provide our distributors with various training and support. During the product ordering process, we work together with each distributor to develop a structured expansion plan that requires each distributor to establish a minimum number of new outlets during the term of the distribution agreement. We also provide guidance to our distributors on optimizing their product mix and offer them various tools and training in inventory management. In addition, we offer frequent training regarding our products, brand image, sales and marketing strategies and company policies, and we support our distributors during their marketing efforts. We believe that such support motivates our distributors and improves the operational efficiency of our sales and distribution network.

Each of the distributors is subject to an annual review of its operating results, ability to maintain our brand image, retail expansion capacity, and compliance with our operation standards. In particular, we perform annual reviews of the operating results of our distributors by consolidating and analyzing data from the regular sales reports provided by each of our distributors. We assess our distributors' retail expansion capacity by reviewing their performance in opening and operating new retail outlets. If a distributor's inability to open the target number of new retail outlets leads to its inability to meet the

minimum purchase requirement, we reserve the right to terminate our relationship with such distributor. We negotiate with our distributors the minimum purchase requirement before renewing the distribution agreements. During each of the sales fairs, we discuss with our distributors their progress and work closely with them to ensure that the minimum purchase requirement will be satisfied.

To avoid dependence on any one distributor or sub-distributor, we do not grant geographical exclusivity to any of our distributors for the sales of our products, nor do we allow our distributors to grant geographical exclusivity to their sub-distributors. To minimize competition among our distributors, we require our distributors and their sub-distributors to submit a written application to us before they establish a new retail outlet. We then approve or deny such application based on our evaluation of the local market conditions and our determination of whether the new retail outlet would compete with existing retail outlets in the region. Without our approval, distributors are prohibited from establishing new retail outlets or allowing their sub-distributors to establish new retail outlets.

### *Distributors' management of sub-distributors*

While we do not enter into any contractual relationship with sub-distributors, we provide our distributors with a sub-distribution agreement template outlining our standards and requirements for their reference. Our distributors are required to manage their respective sub-distributors according to our standard sales management manual to ensure that they follow our pricing policies, adhere to our customer service policies and adopt our standardized retail outlet design and promotional materials. We believe these policies strengthen our brand recognition and help to build a consistent brand image nationwide.

### **Management of retail outlets**

We closely monitor the development and performance of our network of retail outlets opened by our distributors and their sub-distributors. We require them to submit written applications to us before they establish new Hosa retail outlets. Our regional sales teams inspect the majority of Hosa retail outlets every month and every retail outlet at least once every three months, in order to track their inventories and performance. We have a policy of encouraging retail outlets to clear their out-of-season inventory. At the end of a season, distributors and sub-distributors may attempt to sell any excess inventory through regular and special end-of-season sales at retail outlets that they operate. We believe this policy prevents the accumulation of inventory by distributors, sub-distributors and retail outlets, which may adversely affect the volume of their orders of our products for upcoming seasons.

We also perform frequent inspections of Hosa retail outlets operated by distributors and sub-distributors to ensure that they follow our guidelines for retail outlet design, customer service and sales policies. In order to convey a uniform brand image, we have strict guidelines regarding the appearance and operations of our retail outlets. To provide quality services consistently across the retail network, we enforce or contractually require our distributors to enforce uniform standards for, among other things, store displays, marketing activities and daily operations at all retail outlets. To the best knowledge of our Directors, all of the retail outlets have complied with our retail policies in all material respects. We believe Hosa retail outlets are efficiently operated and provide a pleasant experience to our consumers.

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The following table sets forth the changes in the number of Hosa retail outlets during the Track Record Period:

	Year ended 31 December		
	2008	2009	2010
Retail outlets at the beginning of the period . . . . .	498	505	522
Addition of new retail outlets . . . . .	38	56	241
Termination of existing retail outlets . . . . .	(31)	(39)	(97)
Net change in retail outlets . . . . .	7	17	144
Retail outlets at the end of the period <sup>(1)</sup> . . . . .	505	522	666

*Note:*

(1) Does not include online sales or temporary counters.

### ***Proposed Expansion of Our Distribution Network***

Going forward, we intend to actively expand our sales and distribution network by supporting our distributors in opening new retail outlets and upgrading existing retail outlets. We plan to use a portion of the proceeds from the Listing to support our distributors in their efforts to open new retail outlets, such as by providing store decoration expenses, promotion materials and rental subsidies for selected specialty stores. We also plan to support our distributors in their efforts to upgrade the store space and expand the product offering at existing retail outlets, such as by providing renovation expenses, store display materials and advertisement billboards. Through such supports, we aim to open over 600 new Hosa retail outlets to be operated by our distributors and sub-distributors and expand our sales coverage into four new provinces and autonomous regions, including Gansu, Ningxia, Qinghai and Xinjiang, in 2011.

While we continue to maintain steady growth in first-tier cities, we aim to focus on further penetration of Hosa retail outlets in Northern China, North East China, Eastern China and Central China and on enhancing our presence in the second- and third- tiers cities in such geographical regions. As of 31 May 2011, we had 27 distributors who along with their sub-distributors operated over 904 retail outlets. We have discussed an expansion plan with each distributor and included a target range for the number of new retail outlets to be established by each distributor in the respective distribution agreement. We expect the number of Hosa retail outlets to reach over 1,200 retail outlets that span 30 provinces, municipalities and autonomous regions by the end of 2011.

To effectively manage this rapid anticipated growth, we plan to proportionately expand the size of our sales work force and our distributor base and further leverage on our distributors' management and supervision resources, which we believe will enable us to closely monitor and efficiently manage our expanded retail outlet network.

After the Global Offering, we plan to enhance our expenditure on the expansion of our distribution network and the support of our distributors in opening new retail outlets and upgrading existing retail outlets, and our total expenditure in this regard is expected to be no less than RMB28.0 million and RMB80.0 million by the end of 2011 and 2012, respectively. We also expect our spending on the expansion of our distribution network to continue to increase in 2013 to 2015 and may reach up to RMB450.0 million in the same period, consisting of (i) our subsidies and support for our distributors to

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establish new retail outlets, (ii) the rental subsidies for selected specialty stores as well as (iii) the support for our distributors to continue to renovate and improve existing retail outlets. Such expenditure is primarily related to the enlarged and recurring rental subsidies and renovation expenses, which will increase correspondingly with the increasing number of our total retail outlets. We anticipate that the foregoing expenditure will be funded by cash generated from our operations and the net proceeds from the Global Offering.

For the description of certain risks associated with our growth strategy, please refer to “Risk Factors — Risks relating to our business operations — We may fail to execute our growth strategy or manage our expanded business.”

### *Seasonal Sales Fairs and Ordering Process*

Most of our new products are launched for sales to our customers through sales fairs, which we conduct twice a year for the spring/summer and fall/winter seasons. For each season, our sales fairs consist of one national sales fair followed by regional sales fairs. Our distributors, their sub-distributors and retail outlets’ personnel are invited to attend these sales fairs, where they review our products for the upcoming season. Our distributors, after collecting orders from their respective sub-distributors, will place orders with us following the sales fairs.

In addition to introducing our new products to distributors and sub-distributors at the sales fairs, we also present our sales management policies, retail outlet image, and sales targets for the season. We finalize contracts with distributors and offer training in sales, marketing and product knowledge. We also collect feedback from our distributors and sub-distributors and exchange ideas with them regarding the market and fashion trends during the sales fairs.

Based on orders we receive following the sales fairs, we formulate production schedules for the upcoming season. Our senior management team reviews orders received, discusses internally and finalizes the production quantity, types and schedule, and then confirms with distributors before mass production.

### *Pricing Policies*

We price our products based on several factors, including the demands of our target consumers and the prices of similar products offered by other mid-to-high end domestic and multinational brands in China. Any price adjustments are based on factors such as production costs, prices set by competitors, inventory levels, market response to our existing retail prices and anticipated market trends and expected customer demand.

We sell our products to our distributors at a discount to their suggested retail price. During the Track Record Period, we maintained the same pricing policies for our then related-party retail management companies, our then distributor subsidiaries and our third-party distributors and our sales made to such related parties, subsidiaries as well as third parties were all on arm’s length basis. 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 the suggested retail price. Retail outlets are contractually bound by their agreements with our distributors or sub-distributors to follow our pricing policy. In

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addition, our distributors are responsible for enforcing the adherence of our pricing policy by their respective sub-distributors. Our regional sales teams conduct inspections of the retail outlets of our *Hosa*<sup>TM</sup> products.

### *Credit Policy*

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 shall be settled within 60 to 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 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. We do not have direct contractual relationships with the sub-distributors developed by our distributors. As such, we do not extend credit terms to these sub-distributors.

In determining the impairment of trade and bill receivables, our management takes into account the credit history and payment pattern of our distributors as well as their on-going relationship with us. The policy of recognizing loss relating to our trade and bill receivables and making relevant provisions or write-off has been consistently applied during the Track Record Period. For the years ended 31 December 2008, 2009 and 2010, we made adequate provisions for allowance of doubtful debts and there was no material write-off of our trade and bill receivables during the same periods.

Going forward, we intend to enhance our credit control policy. In April 2011 when we began the new annual contracts with most of our distributors, we commenced to establish 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 overdue 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.

For the description of certain risks associated with collecting trade and bill receivables, please refer to "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."

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### *Return Policy*

We generally do not accept sales returns from distributors except for products with quality defects caused by us. Our distributors and sub-distributors generally do not allow end-consumers to return our products, except where such products are defective.

Our Directors confirm that there was no material amount of sales returns in any year during the Track Record Period and up to the Latest Practicable Date.

### **CUSTOMERS**

During the Track Record Period, our customer group consisted primarily of distributors and foreign wholesalers and trading companies. To a lesser extent, we also sold our products to other small businesses and individuals in China. For the year ended 31 December 2008, 2009 and 2010, sales to our top five customers accounted for approximately 66.5%, 56.4% and 43.0%, respectively, of our total revenue from continuing operations. Sales to our largest customer of each year accounted for 23.7%, 23.1% and 10.1% of our total revenue from continuing operations for the same periods. See the section “— Sales and distribution” for more details.

Given that we only enter into distribution contracts with our distributors, who subsequently distribute our products to end-consumers or their sub-distributors, we do not have any contractual relationships with any sub-distributors and we rely on our distributors to engage, administrate and oversee sub-distributors.

Our PRC legal advisers, Jingtian & Gongcheng, have advised that all of our 27 distributors as of 31 May 2011 hold valid business registration licences and have obtained all necessary permits and approvals for purchasing, distributing and selling our products in the PRC. We are not responsible for breach of laws, rules and regulations by our distributors and sub-distributors. Furthermore, our Directors have confirmed that we have not been held liable for breach of laws, rules and regulations by our distributors or sub-distributors during the Track Record Period.

As of the Latest Practicable Date, to the knowledge of our Directors, none of our Directors, our chief executive, or any person who owns more than 5% of our issued share capital or any of our subsidiaries, or any of their respective associates, had any interest in any of our five largest customers.

### **MANUFACTURING**

We manufacture our products at our own manufacturing facilities as well as outsource part of the production to contract manufacturers.

#### *In-house Manufacturing*

Our workflow for in-house manufacturing is streamlined to maximize production efficiency and product quality. We pre-treat fabrics using our pre-shrinking machine, which enhances the stability of its shape and size. A computer program is then used to lay out the fabric cut patterns, which maximizes the area of fabric to be utilized during the fabric cutting process. Our computer-automated cutting machine can cut up to 90 layers of fabric at once and without allowing the fabric to slip. Members of each sewing and stitching group then manufacture the cut fabric pieces into our clothing products in a process with

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clear division of labor. Products that pass inspection are ironed, packaged and stored until their delivery to our customers. We repeatedly inspect the fabrics, products-in-progress and final products throughout the manufacturing process.

### Production facilities

Our production facilities are located in Jinjiang, Fujian Province. The factory complex occupies 24,243 square meters of land and contains an office building, a clothing plant, a sewing and stitching plant, storage space and dormitories for employees and management. As of 31 December 2008, 2009 and 2010, our production staff consisted of 664, 665 and 627 workers, respectively. We efficiently allocate our production work force to manufacture our different product categories and regularly adjust the allocation based on our production needs.

We have 36,762 square meters of production floor space. The following table sets forth the actual production volume, designed capacity and utilization rate of our production facilities by product category during the Track Record Period:

Product category	Year ended 31 December								
	2008			2009			2010		
	Designed Capacity <sup>(1)</sup>	Actual Volume	Utilization Rate <sup>(2)</sup>	Designed Capacity <sup>(1)</sup>	Actual Volume	Utilization Rate	Designed Capacity <sup>(1)</sup>	Actual Volume	Utilization Rate
	(pieces)	(pieces)	(%)	(pieces)	(pieces)	(%)	(pieces)	(pieces)	(%)
Swimwear . . . . .	2,164,232	2,085,922	96.4	2,934,631	2,768,882	94.4	2,508,380	2,435,415	97.1
Fitness wear. . . . .	3,186,477	3,104,050	97.4	1,346,916	871,881	64.7	1,348,686	1,047,053	77.6
Sports underwear. . . . .	1,371,962	1,377,538	100.4	2,250,833	1,670,447	74.2	2,840,492	2,009,936	70.8
<b>Total . . . . .</b>	<b>6,722,671</b>	<b>6,567,510</b>	<b>97.7</b>	<b>6,532,380</b>	<b>5,311,210</b>	<b>81.3</b>	<b>6,697,558</b>	<b>5,492,404</b>	<b>82.0</b>

Notes:

- (1) Designed capacity for the in-house manufactured products of each product category is calculated by assuming that production is carried out for 10 hours per day, 28 days per month and 12 months a year.
- (2) Utilization rate is calculated by taking our actual production volume divided by our designed capacity during the relevant periods.

For the year ended 31 December 2010, we had an annual aggregate designed production capacity of approximately 6.7 million pieces of swimwear, fitness wear and sports underwear products. During the same period, we produced approximately 2.4 million pieces of swimwear, 1.0 million pieces of fitness wear and 2.0 million pieces of sports underwear, yielding an overall utilization rate of approximately 82.0% for our in-house production facilities. Our designed capacity for swimwear products decreased in 2010 as compared to 2009 mainly due to increases in the orders we received for sports underwear products in 2010, given which we allocated some production lines used to produce swimwear products in 2009 to produce sports underwear products in 2010.

Our production facilities host a variety of automatic and semiautomatic machinery, such as our pre-shrinking machines, computerized fabric cutting machine, computerized bartacking machines, electric tailoring and sewing machines, four-track overcast machines, seaming machines and overlock machines. We repair and maintain our machinery, equipment and facilities on a regular basis to increase their useful life span. We implement a maintenance system that minimizes down-time while preserving the operating

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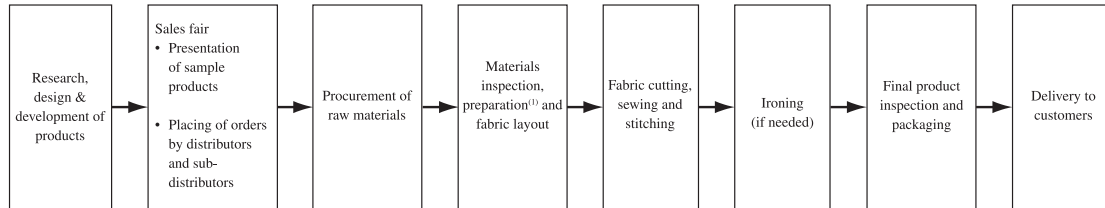
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efficiency of our machinery and equipment in order to operate at optimal capacity. We believe our existing production facilities are adequate for meeting our current requirements and, in anticipation of the increasing demand for our products, we plan to expand production capacity by adding new production lines for our products, upgrading our existing manufacturing facilities by acquiring additional equipment and machinery as well as investing in new production facilities in the next five years.

### **In-house production process**

The following diagram outlines our in-house production process:



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*Note:*

- (1) We outsource some of the processing steps, which primarily include fabric manufacturing, printing and dyeing, and cutting, sewing and stitching, to our contract manufacturers. For more details, see the section headed “— Outsourced manufacturing” below.

Product concepts normally take three to six months to go through our design and production process. When necessary, our efficient production workflow can turn out products in as few as 15 days.

### ***Outsourced Manufacturing***

Our outsourced manufacturing includes the processing of some fabric materials as well as the procurement of certain finished products.

We engage contract manufacturers to perform various processing steps, which primarily include fabric manufacturing, printing and dyeing, and cutting, sewing and stitching, for some of our swimwear, fitness wear and sports underwear products. We provide yarn to our contract fabric manufacturers for the manufacturing of certain fabric materials used in our production. We also provide our designs and fabric materials to contract manufacturers for fabric printing and dyeing services, after which the fabric materials are returned to us for manufacturing the finished products at our production facilities. Furthermore, we engage contract manufacturers to perform certain fabric cutting, sewing and stitching steps according to designs provided by us, following which the final clothing products are returned to us. For the years ended 31 December 2008, 2009 and 2010, we engaged 49, 27 and 54 contract manufacturers, respectively, to perform various processing services for us. The outsourced processing and service fees for our continuing and discontinued operations we paid to our contract manufacturers for the years ended 31 December 2008, 2009 and 2010 as a percentage to our actual production costs incurred for our continuing and discontinued operations during the same years were 15.9%, 16.2% and 22.3%, respectively. Such contract manufacturers included Haosha Garments. See the sections headed “— Raw materials and suppliers” and “Connected Transactions — Continuing connected transactions” for more information.



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In addition, we also purchase all of our accessories products and a small portion of our swimwear, fitness wear and sports underwear products from external contract manufacturers, who design and produce such products we purchase. We conduct final packaging for the finished products at our production facilities before their distribution to the market. We may also engage nationally accredited quality inspection facilities to examine product samples provided by contract manufacturers before their first large-scale production and on a regular basis afterwards. For the years ended 31 December 2008, 2009 and 2010, the procurement costs of such finished products accounted for 1.1%, 8.8% and 5.7% of our total cost of sales for the same periods, respectively. We purchased finished products from 25, 24 and 27 such contract manufacturers in the years ended 31 December 2008, 2009 and 2010, respectively.

After obtaining purchase orders at our sales fairs, we enter into a separate production service or purchase contract with contract manufacturers for each order. When applicable, contract manufacturers are required to keep confidential our proprietary design and technology. Our agreements with our contract manufacturers generally include the following terms and conditions:

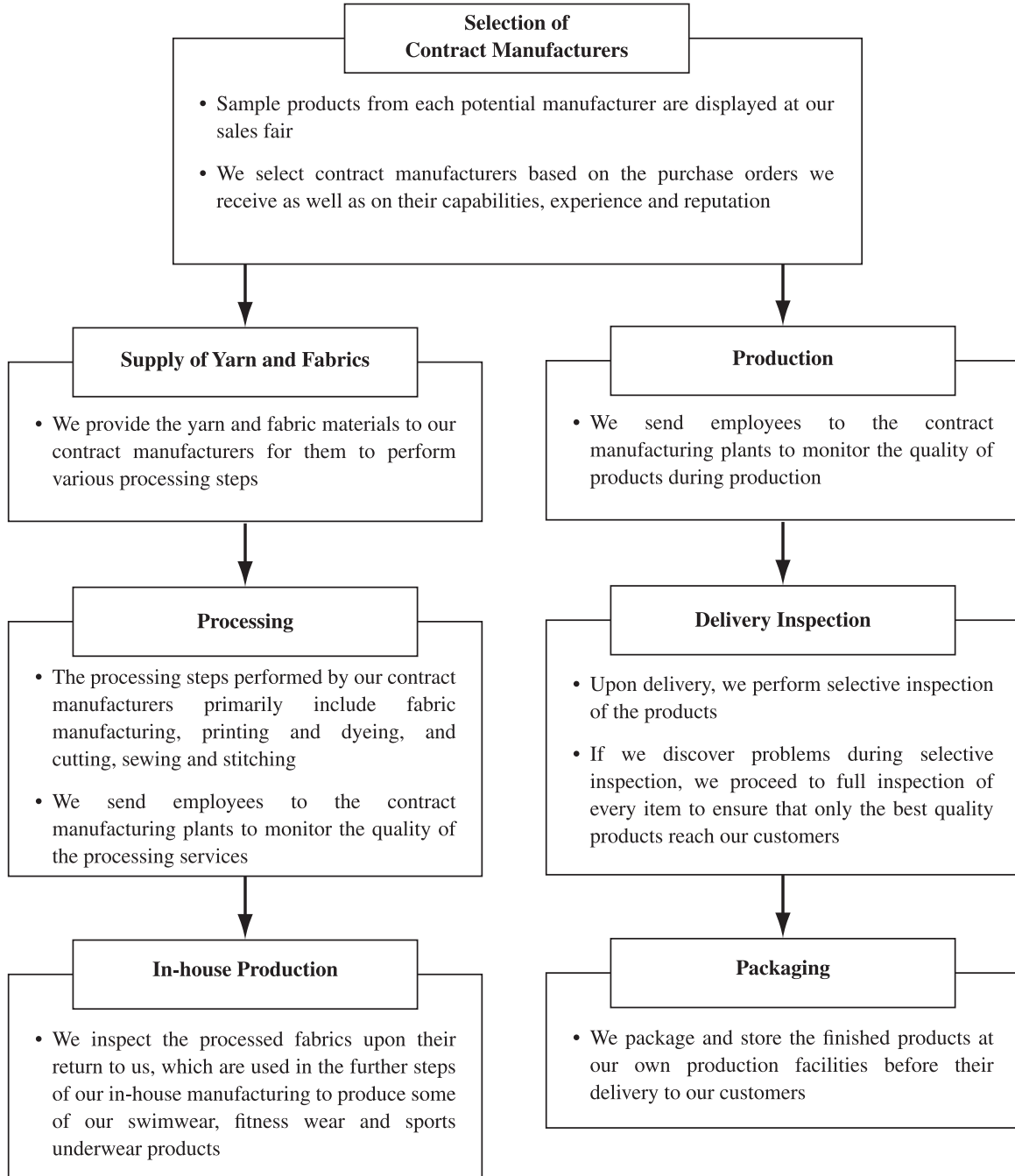
- *Product specifications and quality.* Contract manufacturers are required to provide products which conform to the specifications required by us. We perform selective inspection of such products according to the previously agreed specifications as well as to national industrial standards. We reserve the right to return products with quality defects;
- *Delivery.* Contract manufacturers are required to deliver products within a certain period of time, usually 15 days, after we make the purchase order, failing which the contract manufacturers are typically required to pay certain damages and penalties;
- *Payment.* We specify the payment arrangement, including the amount and settlement period, in the agreement, the details of which are determined based on our negotiations with each contract manufacturer on a case-by-case basis; and
- *Transportation.* We set out the party responsible for transportation expenses in the agreement, which may be us or the contract manufacturer based on individual negotiations.

Our contract manufacturers are carefully selected by us, and we require each of them to satisfy certain criteria. We evaluate the contract manufacturers' product designs, ability to produce high-quality products according to our specifications and contracted volumes, performance, pricing and experience, among other factors, in determining whether to engage or continue engaging their services. Before we engage a contract manufacturer, our procurement team conducts an assessment to inspect its business license and confirm that the contract manufacturer's operations are in compliance with relevant national laws and regulations. During the Track Record Period and as of the Latest Practicable Date, we were not aware of any violation of laws or regulations by our contract manufacturers that would have a material adverse effect to our operation and financial position.

We believe that our use of both internal and external production capacity has enabled us to fulfill our customers' orders in a timely manner during the Track Record Period. We expect production outsourcing to increase in the next three years as we aim to expand our product lines. We also intend to engage a greater number of third-party contract manufacturers to maintain the flexibility of our overall production capacity when responding to increased consumer demand.

**Outsourced manufacturing workflow**

The diagram below illustrates the outsourced manufacturing workflow for products supplied by contract manufacturers:



**RAW MATERIALS AND SUPPLIERS**

The principal raw materials used in the production of our indoor sportswear products are fabrics, threads and ancillary clothing materials. We make large-scale procurements of raw materials from domestic and overseas suppliers at least twice a year, based on the needs of our product designs. The fabrics we utilize generally have properties of elasticity, moisture management and breathability. Examples of such fabrics include high-performance Nylon and Lycra combination fabrics for our swimwear products, Coolmax for our fitness wear products and fabrics containing Lycra and thermal fibers for our sports underwear products. We also use premium fabrics with various functional properties, such as biodegradable and UV-resistant fabrics, thermal insulation fabric and shark skin imitation fabric, to enhance the performance of our diverse products.

Our suppliers include raw material suppliers and contract manufacturers. For the years ended 31 December 2008, 2009 and 2010, we engaged 38, 45 and 46 raw materials suppliers, respectively. We also engaged 74, 51 and 81 contract manufacturers for the same respective periods. See “— Manufacturing — Outsourced manufacturing” for more details.

We have developed solid and steady relationships with many of our key suppliers, who have been supplying to us for two to four years. Given our solid and steady relationships with our suppliers, we believe that our suppliers generally make supplying to us a priority and we did not experience any material shortage or delays in receiving supplies or services from our suppliers during the Track Record Period. We have been granted credit periods of between one to six months by our suppliers. We may also be required to make deposits and advance payments to suppliers. For the years ended 31 December 2008, 2009 and 2010, our five largest suppliers accounted for approximately 42.5%, 24.7% and 64.6% of our total purchases from suppliers, respectively, and our largest supplier for each year accounted for approximately 25.5%, 6.9% and 32.9% of our total purchases from suppliers, respectively. For the three years ended 31 December 2008, 2009 and 2010, the payment we made to Haosha Garments, one of our fabric products suppliers, amounted to approximately RMB16.2 million, RMB1.7 million and RMB1.2 million, respectively, and accounted for approximately 10.0%, 1.2% and 1.0% of our total procurement of such raw materials during the respective periods.

Despite the historic concentration of our largest and five largest suppliers over the Track Record Period, particularly in 2010, our Directors believe that we are not dependent on a few suppliers for raw materials. As of the Latest Practicable Date, with the exception of Haosha Garments, none of our Directors, our chief executive, or any person who owns more than 5% of our issued share capital or any of our subsidiaries, or any of their respective associates, had any interest in any of our five largest suppliers. See the section headed “Connected Transactions — Continuing connected transactions” for more information.

**INVENTORY AND LOGISTICS*****Inventory Control***

We believe that maintaining appropriate levels of inventory is critical to our overall profitability. Our brand and product departments manage our inventory according to unified procedures. Our products in inventory include raw materials, products in progress and finished products. To further minimize the risk of building up aged inventories, it is our policy to regularly review the obsolescence of inventories based on the expected future sales and the age of the inventories. We also carry out physical stock counts from

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time to time to identify obsolete or damaged goods 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. However, we did not have any obsolete or out-of-season stock arrangements with our distributors during the Track Record Period and up to the Latest Practicable Date.

We track the inventory levels of our distributors through our analysis of the monthly inventory reports provided by them and through inspections of their inventory and warehouses to assess the level of slow-moving inventory. To understand the sales and inventory of the retail outlets operated by distributors and their respective sub-distributors, we perform inspections on the majority of Hosa retail outlets every month and inspect every retail outlet at least once every three months. The tracking of inventory level also provides useful information to us as to the market recognition of our products in a particular region so that we could realign our sales strategy and product offering. We also communicate with our distributors regarding their purchase orders and inventory levels to improve their inventory turnover as well as our allocation of products to regions where demand is stronger. See the section headed “— Sales and distribution — Sales channel management” for details. In addition, we expect to commence trial operations of the distribution resource planning, or DRP, system by the end of 2011, which we expect to enable real-time flow and integration of operating data among Hosa retail outlets, sub-distributors, our distributors and us, and thus enhance the efficiency of our inventory management. See the section headed “— Information management systems” for further details.

It is also important that we are able to anticipate the inventory composition of ourselves, our distributors, sub-distributors and retail outlets that will most closely reflect future sales patterns. We typically analyze past sales performance, the specifications of production orders, any planned promotional activities and general consumer trends, in order to forecast the composition of inventory required to meet future demand.

### *Logistics*

We believe that an effective logistics management system is essential to our business performance and enables efficient product replenishment. We have close partnerships with express logistics companies and have rush delivery arrangements with them for our products.

We print computerized logistics bar codes on the packaging material of our products to facilitate the tracking of our sales and inventory levels. In addition, we aim to introduce the enterprise resource planning, or ERP, system, which allows for the integration of information throughout our supply chain, from procurement to production. We believe the system would enable real-time data flow through the supply chain to decrease production lead time, reduce logistics bottlenecks and improve the overall efficiency of our operations and costs. See the section headed “— Information management systems” for further details.

## QUALITY CONTROL

We recognize the importance of quality control over our products and believe that our continued commitment to high quality is crucial to our success. Our quality control department has implemented strict quality control procedures with multiple points of cross-checks. Our quality control personnel closely

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monitor both the in-house production and outsourced manufacturing processes. As of 31 December 2010, our quality control team had 50 full time employees who carried out inspections at each of the production stages.

### *Procurement*

We only purchase raw materials from approved suppliers that meet our rigorous standards. Physical inspections are conducted on purchased fabrics and any identified defective materials are rejected. We strictly follow the compulsory national standards (GB18401-2003) for basic safety of textile products.

### *In-house Production*

We have implemented multiple points of quality control during our internal clothing manufacturing process. We inspect fabrics before they can be used, manually inspect cut fabric pieces, conduct group inspections following sewing and stitching and perform a final round of inspection before finished products are packaged and stored. Our quality control staff receive training on the proper methods for each type of inspection mentioned above. Our production facilities have received the ISO9001 quality control certification. During the Track Record Period, we also regularly sent samples of our swimwear, fitness wear and sports underwear products to nationally accredited quality inspection facilities once or twice a year to ensure that our products meet certain government-regulated standards for product quality and safety. For more details, see the section headed “— Manufacturing — In-house manufacturing”.

### *Outsourced Manufacturing*

We have strict quality control procedures to ensure the quality of our products supplied by contract manufacturers. We send product samples provided by contract manufacturers to nationally accredited quality inspection facilities prior to their first large-scale production and on a regular basis afterwards to ensure that they meet certain government-regulated standards for product quality and safety. During the Track Record Period, we regularly sent samples of substantially all of the products provided by contract manufacturers, including swim goggles, yoga mats, seamless underwear and socks, among others, to the relevant inspection facilities for quality inspection once or twice a year. We also send employees to the production plants of our contract manufacturers to monitor the quality of the products during production. Our employees examine the quality and quantity of such products according to previously agreed specifications and quality standards. We also perform selective inspection of products upon their delivery by contract manufacturers. If we discover problems with the products during selective inspection, then we conduct a full inspection of every item. In addition, we require our contract manufacturers to guarantee that their products meet relevant industry standards.

Our Directors confirm that there were no material product recalls due to the failure to meet quality standards during the Track Record Period and up to the Latest Practicable Date.

## **RESEARCH, DESIGN AND DEVELOPMENT**

We believe that product design has been one of the keys to our sustained success and will continue to play an important factor in our continued success and growth. The design process for our products requires careful consideration of not only specific products, but of how they will embody and enhance the image of the *Hosa*<sup>TM</sup> brand.

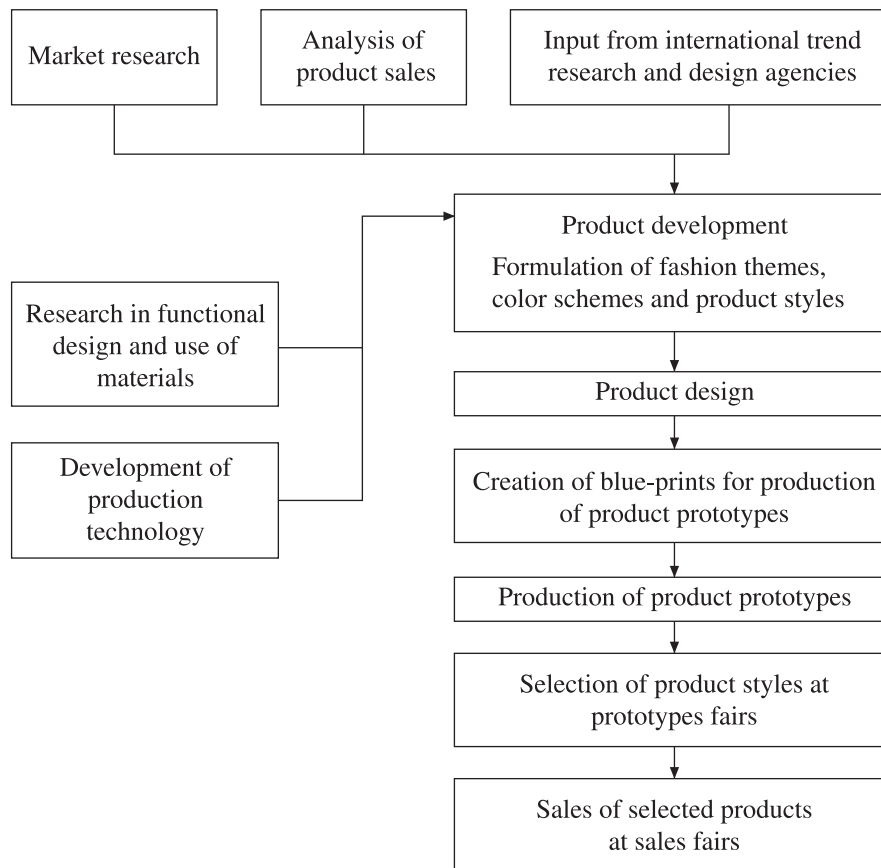
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We have accumulated significant expertise in research and development in the indoor sportswear industry over the year of our operations. For the years ended 31 December 2008, 2009 and 2010, our design, research and development expenses were approximately RMB1.0 million, RMB 1.3 million and RMB2.1 million, respectively, and mainly included compensation for research and development personnel, product testing fees and fees incurred during the design and production of product prototypes. As of 31 December 2010, we employed 43 research, design and development personnel, including clothing designers, pattern designers, style consultants, body function analysts and other personnel for the production of prototypes. Our research, design and development work force is comprised of five teams with clear divisions of labor, including a product design team for each of our swimwear, fitness wear and sports underwear product categories, one team for general design as well as a technology research and development team. We require our research and development personnel to sign confidentiality agreements and regularly provide them with training so that they are up-to-date with the latest research and development information.

Our product design process is divided into several stages and the diagram below illustrates the typical design process for our swimwear, fitness wear and sports underwear products:



Our *Hosa*<sup>TM</sup> product design teams analyze the latest global indoor sportswear trends based on both internal and external data. Our product design and research and development teams are able to analyze market demands and preferences more efficiently. We consider the sales reports and feedback from our distributors and retail outlets in our analysis and prediction of market trends. We also utilize data gathered through market research, sales fairs and international and domestic product exhibitions. We consult

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trainers at indoor fitness facilities to gain information on current fitness trends and experiences. To add an international perspective to our designs, our product design teams visit overseas fashion stores and exhibitions, where fashion trends we believe have been, and will continue to be, influential in determining the fashion sportswear trends in China. We also collaborate with Italian and French fashion consulting firms, who lend their expertise in creating product designs that reflect the message of our *Hosa*<sup>TM</sup> brand.

As an indoor sportswear enterprise, we strive to develop high-performance products that meet the functional needs of our target consumers, which we believe can be achieved through technological innovation. We continuously incorporate the latest technologies into our *Hosa*<sup>TM</sup> products. For example, we utilize biodegradable and UV-resistant fabrics, thermal insulation fabric and shark skin imitation fabric to enhance the performance of our diverse products. Furthermore, we have established long-term collaborative relationships with well-known international suppliers of fiber and fabric products, such as Lycra fibers and Coolmax fabric, so that we have access to their newest products as well as information on the latest technologies in the market. We also plan to conduct research projects with external collaborators. In particular, we aim to establish and utilize a database on body exercise mechanics and incorporate advanced fabrics into the design of new fitness wear products.

Our product design teams formulate fashion themes, color schemes and product styles for each upcoming season and refine their design ideas by considering the functionality and features of the products, as well as the materials used in production. Once a design concept is solidified for a product, our product design teams create a blue-print detailing the product design, production method and size information, which is used to produce product prototypes. Thousands of product prototypes are presented at each semiannual prototypes fair, and approximately half of which are selected for further production. Selected prototype products then undergo modifications in their design based on our seasonal product needs and feedback from our distributors and professional advisers. The finalized products are then introduced at sales fairs for ordering by distributors and sub-distributors.

Our product design teams coordinate closely with our production team to achieve high efficiency for our design and production process. We have the technological capability to rapidly respond to market developments and consumer preferences. Product concepts normally take three to six months to go through the design and production workflow. When necessary, however, we are able to manufacture new products through our efficient design and production process in as few as 15 days.

We believe that our research, design and development team has a proven track record in identifying and responding to indoor sportswear market trends in China. Thorough market research and analysis provide our design teams with a deep understanding of current trends in the indoor sportswear industry. During the Track Record Period, our product design teams were responsible for designing the great majority of our products. Only our accessories products and a small portion of our swimwear, fitness wear and sports underwear products were designed by and purchased from contract manufacturers. During the Track Record Period, our design, research and development expenses mainly included compensation for design, research and development personnel, product testing fees and fees incurred during the design and production of product prototypes, and such expenses were mainly allocated under our selling and distribution expenses and administrative expenses.

We strive to cater to the varying tastes and preferences of consumers in different regions within China, all the while maintaining a unified message of our *Hosa*<sup>TM</sup> brand. Going forward, we aim to develop more extended product lines incorporating the most advanced technologies for product quality and

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performance. In addition, to further strengthen our existing product design and development capabilities, we aim to commence the establishment of a new in-house research, design and development center headquartered in Beijing in 2011 and by expanding our research, design and development work force to include additional professional and research, design and development staff. In recognition for our technological capabilities and innovation, our fitness wear products were recognized in 2010 as one of China's Top Ten Innovative Sports Products (十大體育用品最具創新產品).

### COMPETITION

The demand for indoor sportswear in China has grown rapidly in recent years, in line with economic growth, increasing urbanization and rising health awareness in China. According to Frost & Sullivan, the total ex-factory revenue of China's indoor sportswear market was approximately RMB3.46 billion in 2010 and is expected to reach RMB10.16 billion by 2015, achieving a CAGR of 24.0% from 2010 to 2015. More specifically, each sector of the indoor sportswear industry, namely swimwear, fitness wear and sports underwear, is expected to grow rapidly in the near future, according to Frost & Sullivan.

We own and operate *Hosa*<sup>TM</sup>, the largest indoor sportswear brand in terms of 2010 ex-factory sales in China. In the same year, we also captured the largest market shares of 23.5%, 19.4% and 42.7% in the mid-to-high end swimwear, fitness wear and sports underwear market segments, respectively. Going forward, we expect increased participation in China's indoor sportswear market by international and domestic brands, which compete in, among other things, brand recognition, sales channels and coverage, product quality and functionality, product design, marketing and promotion and price. Our competitors, especially multinational brands, may have greater financial resources, greater production capabilities, superior technology, better brand recognition and a wider, more diverse and established distribution network than us. For more information, see the section headed "Risk Factors — Risks relating to our business operations — We operate in a competitive market and the intensified competition we face may result in a decline in our market share and lower profit margins."

Nevertheless, we believe our many strengths allow us to compete effectively with both international and domestic brands. We have an advantageous understanding of the preferences of Chinese consumers from our years of experience in China's indoor sportswear industry. We are able to design products that tailor specifically to the body types and preferences of Chinese consumers, which enable us to compete effectively against multinational brands with less experience in the Chinese market. Our experienced management team is determined to deliver the highest quality indoor sportswear products that offer superior performance, fit and comfort while incorporating both function and style. In addition, we are able to rapidly respond to market trends and consumer preferences with our strong research, technology, design and production capabilities.

Our recognition as a valuable indoor sportswear brand in China and our extensive and efficiently managed sales and distribution network also enable us to compete against both international and domestic brands as we expand into second- and third-tier cities. Through early market entry and creative marketing and promotion, we aim to solidify our leading position in China's indoor sportswear industry and capture growing market shares.

We thus believe that competition in China's branded indoor sportswear industry will intensify in the near future. However, we also believe that the above competitive advantages will continue to allow us to differentiate ourselves from our competitors. For more details on the indoor sportswear industry, see "Industry Overview" in this Prospectus.



### INTELLECTUAL PROPERTY RIGHTS

We currently use the *Hosa*<sup>TM</sup> brand for the marketing and sales of our *Hosa*<sup>TM</sup> indoor sportswear products. As of the Latest Practicable Date, we have the right to use a total number of 48 trademarks registered in the PRC, Hong Kong, Taiwan, South Korea, Japan, Canada, Australia, the US and the European Union. We are also in the process of applying for registration of one trademark in the PRC. In addition, we use a certain number of domain names in connection with our business. For details, please refer to the section headed “Appendix VI — Further information about our Company — Intellectual property rights of our Group” in this Prospectus.

We recognize the importance of protecting and enforcing our intellectual property rights. Our employees who may have access to our intellectual property rights are bound by confidentiality agreements regarding our *Hosa*<sup>TM</sup> brand and other related intellectual property. During the Track Record Period, there has been no material action taken against any employee for breach of such confidentiality agreement. As of the Latest Practicable Date, we were not aware of any material infringement of our intellectual property rights and we believe that we have taken all reasonable measures to prevent any infringement of our intellectual property rights. As of the Latest Practicable Date, we were also not aware of any pending or threatened claims against us in relation to the infringement of any intellectual property rights of third parties. Our PRC legal advisers, Jingtian & Gongcheng, have advised that, to the best of their knowledge and after due enquiry, they are not aware of any material infringement of our PRC subsidiary’s, namely Haosha Industry’s, intellectual property rights or any pending or threatened claims against our PRC subsidiary, namely Haosha Industry, in relation to the infringement of any intellectual property rights of third parties.

### INFORMATION MANAGEMENT SYSTEMS

We believe that computerized systems are critical to improving the efficiency in our operations. To manage our financial resources, we utilize the U8 Financial Software (用友財務軟件), which enables us to efficiently record financial data, analyze our past financial performance, monitor current conditions and project and plan our future expenditures. We also possess a real-time logistics management system by printing computerized logistics bar codes on the packaging material to facilitate the delivery and retail of our products. Every product that passed our inspection is assigned a bar code before storage and such information is subsequently recorded into our system. Upon receiving purchase orders, we scan all logistics bar codes before delivery of our products. As such, we can track sales and inventory levels more accurately.

In addition, we are currently planning to introduce the following systems:

- Distribution resource planning (“DRP”) system: we plan to commence trial operations of the DRP system by the end of 2011. The implementation of the DRP system would fully automate and integrate the flow of sales information throughout our sales and distribution network. With the information collected via the system, our product research and development teams are able to analyze market demands and preferences more efficiently and accurately, and we can manage our distributors more closely.

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- Client relationship management (“CRM”) system: the introduction of a CRM system will enable us to record the data related to the consumption history and pattern of our consumers and analyze our mid-to-high end-consumers based on sex, location and preferences, as well as conduct promotional activities for and proactively communicate with our identified consumers.
- Enterprise resource planning (“ERP”) system: we currently plan to upgrade our information management systems to establish an ERP system that allows for the integration of operating information among our retail channels. The system would allow real-time data flow through the supply chain to decrease production lead time, reduce logistics bottlenecks and improve our overall efficiency. The ERP system integration is intended to help us to more efficiently gather financial and operational information from our distributors, and further improve our merchandising and product ordering processes.

Further, we intend to invest a portion of the proceeds from the Global Offering to upgrade our information management systems. We believe that robust information management systems will help us by enhancing the exchange of information among our various functional departments, strengthening our supply chain and distribution network management, and shortening our response time to changes in market demands, including the facilitation of movements in inventory from one retail outlet to another.

### EMPLOYEES

As of 31 December 2008 and 2009, we had 964 and 972 full-time employees, respectively. The table below sets forth the number of our full-time employees as of 31 December 2010:

<u>Function</u>	<u>Number of employees</u>
Management and office administration . . . . .	72
Procurement, storage and transport. . . . .	54
Production . . . . .	627
Sales and marketing. . . . .	47
Finance and accounting . . . . .	19
Quality control . . . . .	50
Research and development and product design. . . . .	43
Others <sup>(1)</sup> . . . . .	<u>7</u>
<b>Total.</b> . . . . .	<b><u><u>919</u></u></b>

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*Note:*

(1) Others mainly include human resource staff.

### *Employee Training*

We provide introductory programs and continuous training to our employees to enhance their industrial, technical and product knowledge as well as their knowledge of industry quality standards and work safety standards.

***Our Relationship with Employees***

We believe that we maintain good working relationships with our employees, and we have not experienced significant problems with our employees or disruptions to our operations due to labor disputes.

***Social Welfare***

As confirmed by the relevant PRC authorities, (i) we have made contributions to social insurance funds, including pension insurance, medical insurance, unemployment insurance, maternity insurance and occupational injury insurance for our employees according to the local governmental requirements, and (ii) have fully paid housing accumulation funds for our employees under the PRC laws and regulation.

***Labor and Safety Matters***

Our Directors believe that, the Labor Laws calls for strict requirement in human resources management in terms of signing labor contracts with employees, stipulating probation and violation penalties, dissolving labor contracts, paying remuneration and economical compensation as well as social security premiums. We are requested to take a variety of intensified measurements to improve our employment relationship management and practically fulfill our statutory obligations accordingly. In general, we believe that the Labor Laws will help us to establish more stable and harmonious labor relationships with our employees.

We also make efforts to ensure the safety of our employees. Our Directors confirm that the design, installation, use and maintenance of our equipment all meet national and industrial standards. We implement safety guidelines and operating procedures for our production processes, and provide employees with occupational safety education and training to enhance their awareness of safety issues.

Our Directors have confirmed that, during the Track Record Period and up to the Latest Practicable Date, we complied with all applicable labor and safety laws and regulations in all material respects, and strictly implemented internal safety guidelines and operating procedures. Since the commencement of our business, none of our employees has been involved in any major accident in the course of their employment and we have never been subject to disciplinary actions with respect to the labor protection issues. Our PRC legal advisers, Jingtian & Gongcheng, have advised that, save as disclosed in “Risk Factors — We may be required to make additional contributions of social insurance under PRC national laws and regulations”, our PRC subsidiary, namely Haosha Industry, has complied with applicable labor and safety laws and regulations in all material respects.

Furthermore, our Directors have confirmed that we have not been held liable for breach of laws, rules and regulations by our contract manufacturers and suppliers during the Track Record Period. See the section headed “— Manufacturing — Outsourced manufacturing” above. Our PRC legal advisers, Jingtian & Gongcheng, have confirmed that we will not be responsible for breach of laws, rules and regulations by our contract manufacturers and suppliers.

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### PROPERTIES

As of Latest Practicable Date, we owned five parcels of land in Jinjiang, Fujian Province, where our production facilities and our corporate headquarters are located. We hold the land use rights to the five parcels of land with a total site area of approximately 24,243 sq.m. We held eight buildings thereon with a total gross floor area of approximately 36,762.4 sq.m. and of various ancillary structures, which we use for production and ancillary purposes. Our PRC legal advisers, Jingtian & Gongcheng, have confirmed that we hold valid real estate title certificates with respect to all of our land and buildings.

As of Latest Practicable Date, we also leased two office units in a building in Beijing with a total gross floor area of approximately of 803.8 sq.m. for office use. The property has been leased to us at a monthly rent of RMB152,714.4 for a term of three years expiring on 7 July 2013. The building was mortgaged to a commercial bank before we entered into the lease agreement. Pursuant to a certificate issued by the mortgagee, the mortgagee has agreed that the mortgagor has the right to lease any part of the building conditional upon the mortgagor's compliance with the relevant loan and mortgage agreements. If the mortgagee enforces its right under the mortgage during the lease period and the building is transferred to a third party, the lease agreement will not be held binding against the transferee. Our PRC legal advisers, Jingtian & Gongcheng, have advised that since the lessor didn't provide the land use right certificate, they are not able to ascertain whether the lessor is the land use right owner of the leased property. If the lessor is the land use right owner of the leased property, the lease is valid and binding; otherwise, the lease is valid and binding provided that the lessor has obtained approval from the land use right owner for the lease. We might be required to cease our use and occupation of the leased property, in which case we would need to relocate to an alternative premise. Our Directors believe that since the leased area is relatively small and for office use only, an alternative could be located with reasonable efforts within one month and the estimated cost in relation to relocation amounts to approximately RMB200,000. In the event that such relocation is required, our Directors believe that we would not incur material additional costs and our operations would not be materially affected.

Our Controlling Shareholders have also undertaken to indemnify our Group from and against all damages, losses and liabilities made against any member of our Group as a direct or indirect result of or in connection with any title defects on ownership of the property of our Group as set out in the section headed "Appendix IV — Property Valuation" in this Prospectus.

We have not registered the above lease with local administration of land and property. According to *the Several Provisions of Beijing Municipality on House Lease Administration* (北京市房屋租賃管理若干規定), the lessor is responsible for registration of the lease. If the lessor fails to complete such registration, it may be ordered to make corrections and imposed a fine of not more than RMB500. Our PRC legal advisers, Jingtian & Gongcheng, have advised that given Haosha Industry is the lessee and thus is not responsible for registration of the lease, such non-registration will not affect the legality and validity of the lease under relevant PRC law and regulation. Our Directors are of the view that there will be no material adverse impact on our business operations.

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### INSURANCE

Our insurance provides employee social insurance and property insurance coverage, which includes loss and damage to property, such as our fixed assets and inventories in our warehouses and plants. We believe that our insurance coverage is in line with the general practice in the PRC indoor sportswear industry and is adequate for our operations. As of the Latest Practicable Date, we had not made nor been the subject of any material insurance claims.

As of the Latest Practicable Date, the majority of our products were sold in the PRC. In line with the general industry practice in the PRC, we do not maintain any product liability insurance for any of our *Hosa*<sup>TM</sup> products. We have been advised by our PRC legal adviser, Jingtian & Gongcheng, that we are not required under PRC laws to maintain any product liability insurance. Taking into account the general practice of the indoor sportswear industry in the PRC, our experience in running our business and insurance products available in the PRC, our Directors are of the view that we have sufficient insurance coverage for our current operations. During the Track Record Period, we did not receive any material claim from customers and/or consumers regarding any liability arising from or relating to the use of our *Hosa*<sup>TM</sup> products.

### ENVIRONMENTAL MATTERS

We are subject to PRC environmental laws and regulations, which include *the Environmental Protection Law of the PRC* (中華人民共和國環境保護法), *Law of the PRC on the Prevention and Control of Water Pollution* (中華人民共和國水污染防治法), *Law of the PRC on the Prevention and Control of Atmospheric Pollution* (中華人民共和國大氣污染防治法), *Law of the PRC on the Prevention and Control of Pollution From Environmental Noise* (中華人民共和國環境噪音污染防治法) and *Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste* (中華人民共和國固體廢物污染防治法). These laws and regulations govern a broad range of environmental matters, including air pollution, noise emissions and water and waste discharge. During the Track Record Period, we spent approximately RMB138,191, RMB12,045 and RMB12,645 in respect of regulatory compliance with applicable environment protection requirements in the PRC for the period for the years ended 31 December 2008, 2009 and 2010, respectively. The amount spent for regulatory compliance with environment protection requirements for the year ended 31 December 2008 was relatively high because we incurred expenses in the amount of approximately RMB125,000 related to installation of drainage systems as required by relevant local authorities in the same year. Such cost is expected to be approximately RMB100,000 in 2011 in respect of regulatory compliance with applicable environment protection requirements in the PRC. We intend to allocate operating and financial resources to such compliance as required by PRC laws and regulations.

Although we do not operate in a highly pollutive industry, our manufacturing processes generate solid waste and exhaust gas as well as discharge of waste water, which mainly includes water used for cleaning purposes. We were granted an environmental compliance certificate from the Jinjiang Environmental Protection Bureau for complying with its environmental protection standards. According to the certificate issue by Jinjiang Environmental Protection Bureau, during the Track Record Period, (i) we did not violate any relevant environmental rules and regulations, and (ii) no penalty of any kind was imposed on us.

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Our Directors believe that since our production process does not substantially create polluting materials, our operation is not subject to any future environmental risk. We will ensure compliance with applicable environmental laws and regulations in the future by (i) enhancing the environment protection team to oversee and implement our compliance with environmental protection policies, (ii) conducting on-site inspection regularly and providing relevant training to our staff (including but not limited to providing training to our Directors in respect of the compliance with the PRC environmental laws and regulations), (iii) immediately reporting to our Directors any incident or non-compliance with the relevant PRC environmental laws and regulations, and (iv) immediately reporting to and coordinating with competent authorities in the case any incident or non-compliance arises.

### LEGAL PROCEEDINGS AND COMPLIANCE

As of the Latest Practicable Date, to the best of our knowledge, we are not aware of any pending or threatened litigation, arbitration or administrative proceedings against us or any of our subsidiaries which could have a material and adverse effect on our financial condition or results of operations.

Our PRC legal advisers, Jingtian & Gongcheng, have advised that, to the best of their knowledge, after due enquiry, they are not aware of any pending or threatened litigation, arbitration or administrative proceedings against our PRC subsidiary, namely Haosha Industry, which could have a material and adverse effect on its financial condition or results of operations.