



hosa

HOSA INTERNATIONAL LIMITED

浩沙國際有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 02200



GLOBAL OFFERING

Sole Global Coordinator, Sole Bookrunner, Sole Lead Manager and Sole Sponsor

BofA Merrill Lynch

IMPORTANT

If you are in any doubt about this Prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional advisers.



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GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	400,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	:	40,000,000 Shares (subject to adjustment)
Number of International Placing Shares	:	360,000,000 Shares (subject to adjustment and the Over-allotment Option)
Offer Price	:	Not more than HK\$4.10 per Hong Kong Offer Share, plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	:	HK\$0.01 per Share
Stock code	:	02200

Sole Global Coordinator, Sole Bookrunner, Sole Lead Manager and Sole Sponsor

BofA Merrill Lynch

Hong Kong Exchanges and Clearing Limited, the Stock Exchange of Hong Kong Limited and the Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus.

A copy of this prospectus (this "Prospectus"), having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VII to this Prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this Prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between the Sole Global Coordinator (on behalf of the Underwriters) and us on or before 23 June 2011 or such later date as may be agreed by the Sole Global Coordinator and us, but in any event not later than 26 June 2011. The Offer Price will not be more than HK\$4.10 per Offer Share and is currently expected to be not less than HK\$2.88 per Offer Share unless otherwise announced. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (on behalf of the Underwriters) and us on or before 26 June 2011, the Global Offering will not proceed and will lapse.

The Sole Global Coordinator (on behalf of the Underwriters), with our consent, may reduce the indicative Offer Price range stated in this Prospectus and/or the number of Offer Shares being offered pursuant to the Global Offering at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, a notice will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

The Offer Shares have not been and will not be registered under the US Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, except that Offer Shares may be offered, sold or delivered to QIBs in reliance on an exemption from registration under the US Securities Act provided by, and in accordance with the restrictions of, Rule 144A or another exemption from the registration requirements of the US Securities Act. The Offer Shares are being sold outside the United States in offshore transactions in accordance with Rule 903 or 904 of Regulation S.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this Prospectus, including the risk factors set out in the section headed "Risk Factors" in this Prospectus.

The Sole Global Coordinator (on behalf of the Underwriters), has the right in certain circumstances to terminate the obligations of the Underwriters pursuant to the Underwriting Agreements at any time prior to 8:00 am (Hong Kong time) on the Listing Date. See the section headed "Underwriting" in this Prospectus for further details.

EXPECTED TIMETABLE

The Company will issue an announcement in Hong Kong to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) if there is any change in the following expected timetable¹ of the Hong Kong Public Offering.

- Latest time to complete electronic applications under
White Form eIPO service through the designated
website at www.eipo.com.hk² 11:30 a.m. on Wednesday, 22 June 2011
- Application lists of the Hong Kong Public Offering open³. 11:45 a.m. on Wednesday, 22 June 2011
- Latest time for lodging **WHITE** and **YELLOW**
Application Forms and giving electronic application
instructions to HKSCC⁴. 12:00 noon on Wednesday, 22 June 2011
- Latest time to complete payment for **White Form eIPO**
applications by effecting internet banking transfer(s)
or PPS payment transfer(s). 12:00 noon on Wednesday, 22 June 2011
- Application lists of the Hong Kong Public Offering close 12:00 noon on Wednesday, 22 June 2011
- Expected Price Determination Date⁵. Thursday, 23 June 2011
- Announcement of the Offer Price, the indication of the
levels of interest in the International Placing, the level
of applications in the Hong Kong Public Offering and
the basis of allocation under the Hong Kong Public
Offering to be published in the South China Morning Post
(in English) and the Hong Kong Economic Times
(in Chinese) and on the websites of the Stock Exchange
at www.hkexnews.hk and our Company at
www.hosa.cn on or before. Wednesday, 29 June 2011
- Results of allocations in the Hong Kong Public Offering
(with successful applicants' identification document
numbers, where appropriate) to be available through a
variety of channels (see the section headed "How to
Apply for Hong Kong Offer Shares") from Wednesday, 29 June 2011
- Results of allocations in the Hong Kong Public Offering
will be available at www.iporesults.com.hk
with a "search by ID" function from. Wednesday, 29 June 2011
- Despatch of share certificates in respect of wholly or
partially successful applications expected on or before⁶ Wednesday, 29 June 2011

EXPECTED TIMETABLE

Despatch of **White Form** e-Refund payment instructions/

refund cheques (if applicable) in respect of wholly

successful (where applicable) or wholly or partially

unsuccessful applications on or before⁶ Wednesday, 29 June 2011

Dealings in Shares on the Stock Exchange expected

to commence on Thursday, 30 June 2011

Notes:

- (1) All times refer to Hong Kong local time. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this Prospectus.
- (2) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 22 June 2011, the application lists will not open and close on that day. Further information is set out in the section headed “How to Apply for Hong Kong Offer Shares — When may applications be made — Effect of bad weather on the opening of application lists”. If the application lists do not open and close on Wednesday, 22 June 2011, the dates mentioned in this section headed “Expected Timetable” may be affected. A press announcement will be made by us in such event.
- (4) Applicants who apply by giving electronic application instructions to HKSCC should refer to “How to Apply for Hong Kong Offer Shares — Applying by giving electronic application instructions to HKSCC”.
- (5) We expect to determine the Offer Price by agreement with the Sole Global Coordinator (on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or around Thursday, 23 June 2011 and, in any event, not later than Sunday, 26 June 2011. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (on behalf of the Underwriters) and us by Sunday, 26 June 2011, the Hong Kong Public Offering and the International Placing will not proceed.
- (6) **Share certificates for the Hong Kong Offer Shares will only become valid certificates of title provided that (i) the Global Offering has become unconditional, and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details before the receipt of share certificates or before the share certificates becoming valid certificates of title do so entirely at their own risk.** e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications, and also in respect of successful applications if the Offer Price is less than the price payable on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may lead to delay in encashment of, or may invalidate, the refund cheque.

Further information in relation to the Hong Kong Public Offering is set out in the section headed “How to Apply for Hong Kong Offer Shares”.

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IMPORTANT NOTICE TO INVESTORS

This Prospectus is issued by Hosa International Limited solely in connection with the Hong Kong Public Offering and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares offered by this Prospectus pursuant to the Hong Kong Public Offering. This Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this Prospectus in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this Prospectus and the Application Forms to make your investment decision. Our Company has not authorized anyone to provide you with information that is different from what is contained in this Prospectus. Any information or representation not made in this Prospectus must not be relied on by you as having been authorized by our Company, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Sole Sponsor, any of the Underwriters, any of their respective directors, or any other person involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this Prospectus. Since it is a summary, it does not contain all the information that may be important to you. You should read the Prospectus in its entirety before you decide to invest in the Offer Shares.

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.

There are risks associated with any investment. You should read “Risk Factors” of this Prospectus carefully before you decide to invest in the Offer Shares.

OVERVIEW

We own and operate *Hosa*TM, the largest indoor sportswear brand in terms of 2010 ex-factory sales⁽¹⁾ 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*TM 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*TM 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*TM brand has been recognized annually as one of China’s 500 Most Valuable Brands since 2008. In 2008, our *Hosa*TM 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*TM brand image.

Note (1): According to Frost & Sullivan, the majority of indoor sportswear manufacturers conduct both wholesales through distributors and direct retail sales at varying ratios. In wholesales through distributors, indoor sportswear manufacturers sell their products at ex-factory prices, whereas the same products are sold at marked-up retail prices in direct retail sales to end-consumers. In order to ensure the comparability of sales information among indoor sportswear manufacturers, Frost & Sullivan has chosen to report market size and market share information in terms of ex-factory revenue, which it believes better represents the value of the goods that the manufacturers produced. For each manufacturer, its ex-factory revenue consists of its revenue generated from wholesales to distributors and, if applicable, its direct retail sales revenue discounted by the wholesale discount given by the manufacturer to distributors. Unless otherwise indicated, all market size information below refers to domestic ex-factory revenue in China.

SUMMARY

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*TM 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).

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.

SUMMARY

OUR COMPETITIVE STRENGTHS

We believe that our success is attributable to the following competitive strengths:

- We are a leading indoor sportswear enterprise in China.
- We have an efficiently managed nationwide sales and distribution network.
- We effectively promote our brand through creative and diverse marketing channels.
- We have the capabilities to swiftly respond to market trends using our streamlined design and production workflow.
- We offer a comprehensive portfolio of high-quality indoor sportswear products.
- We have an experienced and committed management team.

OUR BUSINESS STRATEGIES

Our long-term goal is to reinforce our leading position in the PRC indoor sportswear market by pursuing the following strategies:

- Solidify our leading position by expanding our sales and distribution network.
- Further strengthen our marketing activities to promote our products and enhance *Hosa*TM brand culture.
- Strengthen our research, design and development capabilities and optimize our product mix.
- Enhance our operating and cost efficiencies by implementing integrated supply chain and information management systems.

OUR CONTROLLING SHAREHOLDERS

Upon completion of the Global Offering and the Capitalization Issue, our Controlling Shareholders will control the exercise of voting rights of 61.488% of the Shares eligible to vote in general meeting of our Company (assuming the Over-allotment Option is not exercised). Our Controlling Shareholders are Mr. Shi Hongliu, chairman and executive Director of our Company, Mr. Shi Hongyan, vice chairman, chief executive officer and executive Director of our Company, Mr. Wu Changda, the brother-in-law of Mr. Shi Hongyan, and Ho Born Investment and Well Born Industrial. Ho Born Investment and Well Born Industrial are the entities through which the foregoing individuals own interests in our Company. In addition, two of our Controlling Shareholders, namely, Mr. Shi Hongliu and Mr. Shi Hongyan, also directly own Haosha Garments, a company established in the PRC, which is a connected person of our Company. Haosha Garment is primarily engaged in the manufacture and sale of fabric products, and provides dyeing and printing services to apparel manufacturing enterprises. We have entered into certain transactions with Haosha Garments and these transactions will continue after the Listing, thereby constituting continuing connected transactions of our Company under the Listing Rules. For more information, please refer to “History and Corporate Structure — Corporate Reorganization”, “Relationship with Controlling Shareholders” and “Connected Transactions” in this Prospectus.

SUMMARY

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*TM 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*TM 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*TM brand products. Prior to late 2007, all sales of *Hosa*TM 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*TM 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*TM 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 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, 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. By the end of July 2010, we completed our business model transition 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, who consisted of our only domestic customer group. For more details, see the sections headed “History and Corporate Structure — Our history and development” and “Business — Sales and distribution — Our business model”.

SUMMARY

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 as well as from overseas sales during the Track Record Period:

	Year ended 31 December					
	2008		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%
Domestic sales						
To retail management companies ⁽¹⁾	113,336	55.4	50,209	31.5	16,627	4.8
To our then distributor subsidiaries ⁽²⁾	1,051	0.5	32,581	20.5	22,938	6.6
To third-party distributors and others	17,572	8.6	42,354	26.6	257,233	73.9
Subtotal	131,959	64.5	125,144	78.6	296,798	85.3
Overseas sales ⁽³⁾	72,684	35.5	34,025	21.4	50,989	14.7
Total	204,643	100	159,169	100	347,787	100

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.
- (3) During the Track Record Period, we conducted overseas sales based on purchase orders we received from foreign trading companies and wholesalers.

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⁽¹⁾	505	522	666

Note:

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

SUMMARY

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 were included in the results of our discontinued operations in our financial information during the Track Record Period. For the years ended 31 December 2008, 2009 and 2010, the revenue generated from retail sales through our three distributor subsidiaries were RMB1.2 million, RMB47.2 million and RMB35.2 million respectively. The gross profit generated from such retail sales before the elimination of intra-group sales were RMB0.2 million, RMB14.6 million and RMB12.3 million, respectively. For more details, 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 headed “Business — Sales and distribution” for more information.

SUMMARY

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

Combined Statements of Comprehensive Income

The table below sets forth our summary combined statements of comprehensive income for the years ended 31 December 2008, 2009 and 2010:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Continuing operations			
Revenue	204,643	159,169	347,787
Cost of sales	(142,383)	(96,253)	(178,382)
Gross profit	62,260	62,916	169,405
Other revenue	240	664	1,928
Other net income/(loss)	142	64	(379)
Selling and distribution expenses	(24,431)	(23,737)	(29,122)
Administrative and other operating expenses	(10,655)	(10,041)	(26,695)
Profit from operations	27,556	29,866	115,137
Finance costs	(921)	(2,640)	(6,382)
Profit before taxation	26,635	27,226	108,755
Income tax benefit/(expense)	1,596	1,382	(14,380)
Profit for the year from continuing operations	28,231	28,608	94,375
Discontinued operations			
Profit from discontinued operations	734	79	4,135
Net gain on disposal of subsidiaries, machinery and equipment	—	—	17,596
Profit and total comprehensive income for the year	28,965	28,687	116,106

Combined Balance Sheets

The table below sets forth our summary combined balance sheets as of 31 December 2008, 2009 and 2010:

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

SUMMARY

Combined Cash Flow Statements

The table below sets forth our summary combined cash flow statements for the years ended 31 December 2008, 2009 and 2010:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Net cash (used in)/generated from operating activities	(35,105)	(68,445)	107,366
Net cash used in investing activities	(14,965)	(17,960)	(66,787)
Net cash generated from financing activities	59,594	84,413	27,603
Cash as of 1 January	8,113	17,637	15,645
Cash as of 31 December	<u>17,637</u>	<u>15,645</u>	<u>83,827</u>

Selected Historical Operating Data from Continuing Operations

Revenue by geographical regions and operating segments

During the Track Record Period, we generated our revenue from the domestic and overseas sales of indoor sportswear products, including swimwear, fitness wear, sports underwear and accessories products. The following table sets forth the sources of our revenue for the periods indicated:

	Year ended 31 December					
	2008		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%
Domestic sales						
Swimwear	32,722	16.0	41,708	26.2	97,937	28.2
Fitness wear	41,759	20.4	26,528	16.7	68,387	19.6
Sports underwear	54,536	26.7	52,873	33.2	111,582	32.1
Accessories	<u>2,942</u>	<u>1.4</u>	<u>4,035</u>	<u>2.5</u>	<u>18,892</u>	<u>5.4</u>
Subtotal	<u>131,959</u>	<u>64.5</u>	<u>125,144</u>	<u>78.6</u>	<u>296,798</u>	<u>85.3</u>
Overseas sales ⁽¹⁾						
Swimwear	27,114	13.2	28,923	18.2	45,540	13.1
Fitness wear	45,562	22.3	4,788	3.0	5,419	1.6
Accessories	<u>8</u>	<u>0.00</u>	<u>314</u>	<u>0.2</u>	<u>30</u>	<u>0.01</u>
Subtotal	<u>72,684</u>	<u>35.5</u>	<u>34,025</u>	<u>21.4</u>	<u>50,989</u>	<u>14.7</u>
Total	<u>204,643</u>	<u>100.0</u>	<u>159,169</u>	<u>100.0</u>	<u>347,787</u>	<u>100.0</u>

Note:

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

SUMMARY

Gross profit and gross profit margin by geographical regions and operating segments

The following table sets forth the breakdown of our gross profit and gross profit margin by geographical regions and our operating segments during the Track Record Period:

	Year ended 31 December					
	2008		2009		2010	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%
Domestic sales						
Swimwear	13,672	41.8	19,326	46.3	57,612	58.8
Fitnesswear.	18,879	45.2	12,077	45.5	34,222	50.0
Sports underwear. .	20,270	37.2	21,376	40.4	52,559	47.1
Accessories.	1,746	59.3	690	17.1	10,460	55.4
Subtotal	54,567	41.4	53,469	42.7	154,853	52.2
Overseas sales ⁽¹⁾						
Swimwear	4,485	16.5	7,464	25.8	12,956	28.4
Fitness wear	3,208	7.0	1,718	35.9	1,573	29.0
Accessories.	—	—	265	84.4	23	76.7
Subtotal	7,693	10.6	9,447	27.8	14,552	28.5
Total	62,260	30.4	62,916	39.5	169,405	48.7

Note:

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

PROFIT FORECAST

We believe that on the basis and assumptions set forth in Appendix III to this Prospectus, and in the absence of unforeseen circumstances set forth in Rule 11.17 of the Listing Rules, our forecasted consolidated profit attributable to our equity holders for the year ending 31 December 2011 is expected to be not less than RMB280.7 million.

On a pro forma basis, and on the assumption that the Global Offering had been completed, and a total of 1,600,000,000 Shares were issued and outstanding (and not taking into account any Share that may be issued pursuant to the exercise of the Over-allotment Option), the unaudited pro forma forecast earnings per Share is expected to be not less than RMB0.175.

SUMMARY

GLOBAL OFFERING

This Prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering.

The Global Offering consists of:

- the Hong Kong Public Offering of 40,000,000 Shares (subject to adjustment as mentioned below) in Hong Kong as described under “Structure of the Global Offering — The Hong Kong Public Offering”; and
- the International Placing of 360,000,000 Shares (subject to adjustment as mentioned below and the Over-allotment Option) (i) in the United States to QIBs in reliance on Rule 144A or another applicable exemption under the US Securities Act; and (ii) outside the United States in offshore transactions in accordance with Regulation S.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Placing respectively may be subject to reallocation as described under “Structure of the Global Offering — Pricing of the Global Offering”.

Merrill Lynch International is the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager and Merrill Lynch Far East Limited is the Sole Sponsor of the Global Offering.

OFFER STATISTICS

	<u>Based on an Offer Price of HK\$2.88 per Share</u>	<u>Based on an Offer Price of HK\$4.10 per Share</u>
Market capitalization of our Shares ⁽¹⁾	HK\$4,608 million	HK\$6,560 million
Prospective price/earnings multiple on a pro forma basis ⁽²⁾	14.0 times	19.9 times
Unaudited pro forma adjusted net tangible asset per Share ⁽³⁾	HK\$0.89	HK\$1.19

(1) The calculation of market capitalization is based on 1,600,000,000 Shares expected to be issued and outstanding after completion of the Global Offering and does not take into account any Shares which may be (i) issued upon the exercise of the Over-allotment Option, (ii) issued upon exercise of options granted under our Pre-IPO Share Option Scheme or which may be granted under the Share Option Scheme, (ii) issued or repurchased under the general mandates given to our Directors to issue and repurchase Shares.

(2) The calculation of the prospective price/earnings multiple on a pro forma basis is based on the unaudited pro forma forecast earnings per Share for the year ending 31 December 2011 and the respective Offer Prices of HK\$2.88 and HK\$4.10.

(3) The unaudited pro forma adjusted net tangible asset per Share is calculated after making the adjustments referred to in Appendix II and based on 1,600,000,000 Shares expected to be issued and outstanding after completion of the Global Offering.

If the Over-allotment Option is exercised in full, the unaudited pro forma adjusted net tangible asset per Share would be approximately HK\$0.96 per Share (based on an Offer Price of HK\$2.88) or approximately HK\$1.29 (based on an Offer Price of HK\$4.10), while the unaudited pro forma forecast earnings per Share would be approximately HK\$0.199.

SUMMARY

DIVIDEND POLICY

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

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

Subject to the factors described above, our Board of Directors currently intends to recommend at the relevant shareholders meetings an annual dividend of no less than 30% of our net profit available for distribution to the shareholders in the foreseeable future.

PRE-IPO SHARE OPTION SCHEME

We have adopted the Pre-IPO Share Option Scheme on 7 June 2011. The purpose of the Pre-IPO Share Option Scheme is to give our Directors, senior management, employees and distributors an opportunity to have a personal stake in our Company and help motivate our Directors, senior management, employees and distributors to optimize their performance and efficiency to our Group and/or to reward them for their past contributions, and also to retain or otherwise maintain on-going relationships with them as their contributions are important to the long-term growth and profitability of our Group.

The total number of Shares which may be issued upon the exercise of options granted under the Pre-IPO Share Option Scheme is 20,500,000 Shares, representing (i) approximately 1.2813% of the issued share capital of our Company immediately following the completion of the Global Offering (without taking into account any Shares which may be allotted and issued upon the exercise of any options which have been granted under the Pre-IPO Share Option Scheme or which may be granted under the Share Option Scheme or the exercise of the Over-allotment Option); and (ii) approximately 1.2650% of the issued share capital of our Company immediately following the completion of the Global Offering and assuming that all options granted under the Pre-IPO Share Option Scheme are exercised at the same time (without taking into account any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme or the exercise of the Over-allotment Option). If all options under the Pre-IPO Share Option Scheme are exercised, this would have a dilutive

SUMMARY

effect on the shareholdings of our Shareholders of approximately 1.265% and a dilutive effect of approximately HK\$0.0026 on earnings per Share such that the forecast earnings per Share for the financial year ending 31 December 2011 will be diluted from HK\$0.2062 to HK\$0.2036.

A breakdown of options granted under the Pre-IPO Share Option Scheme by category of grantees is set out below:

Category of grantees	Number of grantees	Number of Shares to be issued upon full exercise of all options granted under the Pre-IPO Share Option Scheme
Directors	2	6,410,000
Senior management members of our Group	5	3,400,000
Other employees of our Group	42	8,690,000
Shareholders of our distributors	12	2,000,000
	<u>61</u>	<u>20,500,000</u>

Save as disclosed above, no options have been granted or will be granted under the Pre-IPO Share Option Scheme.

Pursuant to the Pre-IPO Share Option Scheme and the relevant offer letters in respect of the grant of options:

- (i) the exercise price of each of such options shall be at a 20% discount to the Offer Price; and
- (ii) the options granted under the Pre-IPO Share Option Scheme may be exercised by the grantees at any time during the option period which is 5 years commencing from 7 June 2011 and (a) in relation to 30.0% of the total number of options granted, any time after the first anniversary of the Listing Date; (b) in relation to another 30.0% of the total number of options granted, any time after the second anniversary of the Listing Date; and (c) in relation to the remaining 40.0% of the total number of options granted, any time after the third anniversary of the Listing Date. No option holder shall in any way sell, transfer, assign, charge, mortgage, encumber or create any interest in favor of any third party over or in relation to any options or purport to do so.

Our Directors have undertaken to our Company that they will not exercise options granted under the Pre-IPO Share Option Scheme to such extent that the Shares held by the public (as defined in the Listing Rules) after the Global Offering will fall below the required percentage set out in Rule 8.08 of the Listing Rules or such other percentage as approved by the Stock Exchange from time to time.

Further details of the Pre-IPO Share Option Scheme are set out in the section headed “Appendix VI — Statutory and General Information” of this Prospectus.

SUMMARY

USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK\$1,324.0 million from the Global Offering, assuming that the Over-allotment Option is not exercised, after deducting the underwriting commissions and other estimated offering expenses payable by us and assuming the initial public Offer Price of HK\$3.49 per Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this Prospectus.

We intend to use the proceeds from the Global Offering for the purposes and in the amounts set out below:

- approximately 35%, or HK\$463.4 million, is expected to be used for the expansion of our distribution network and supporting our distributors in opening new retail outlets as well as upgrading existing retail outlets by the end of 2015. Through such support, we plan to open over 600 new Hosa retail outlets operated by our distributors and increase the number of Hosa retail outlets to over 1,200 spanning 30 provinces, autonomous regions and municipalities by the end of 2011. Also see “Risk Factors — Risks relating to our business operations — We may fail to execute our growth strategy or manage our expanded business”;
- approximately 25%, or HK\$331.0 million, is expected to be used to further enhance our brand image through marketing and promotion;
- approximately 15%, or HK\$198.6 million, is expected to be used for the expansion of our production capacity;
- approximately 10%, or HK\$132.4 million, is expected to be used for research, design and development activities;
- approximately 5%, or HK\$66.2 million, is expected to be used for further developing and upgrading our supply chain and information management systems; and
- the remaining approximately 10%, or HK\$132.4 million, is expected to be used to fund our working capital and general corporate purposes.

To the extent that the net proceeds from the Global Offering are not immediately applied to the above purposes, we intend to deposit the proceeds into interest-bearing bank accounts with financial institutions.

In the event that the Offer Price is set at the high-end or low-end of the proposed Offer price range and the Over-allotment Option is not exercised at all, the net proceeds of the Global Offering will increase or decrease by approximately HK\$237.3 million. Under such circumstances, our intended use of proceeds will be increased or decreased on a pro-rata basis.

For more information about our intended use of the proceeds from the Global Offering, please see the section headed “Future Plans and Use of Proceeds”.

SUMMARY

RISK FACTORS

Risks Relating to Our Business Operations

- We rely heavily on our *Hosa*TM brand and any failure to effectively promote or maintain our *Hosa*TM brand may materially and adversely affect our future success.
- Our success depends on our ability to anticipate and respond in a timely manner to the rapid changes in consumer tastes and advances in technologies.
- 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.
- Our limited operating experience with a distributorship business model and our failure to effectively handle the risks associated with our distributorship arrangement may materially and adversely affect our business.
- 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.
- We rely primarily on our distributors to expand our retail network and oversee sub-distributors and their failure to do so may materially and adversely affect our business.
- Our ability to accurately track the sales and inventory levels of our distributors and sub-distributors may be limited.
- Our distributors and sub-distributors primarily operate *Hosa* retail outlets through department stores. Failure to secure retail spaces within the department stores on commercially reasonable terms could have a material and adverse effect on us.
- 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.
- We recorded negative operating cash flows in 2008 and 2009, and recorded positive operating cash flows in 2010, and we cannot assure you that we will record positive operating cash flows again in the future.
- Disruption of our manufacturing operations could have a material and adverse effect on us.
- Expansion of our production capacity may not be successful.
- We are dependent on suppliers for our raw materials and on our contract manufacturers for the production of a portion of our indoor sportswear and all of our accessories products.
- We may be materially and adversely affected by increases in the market prices of raw materials.
- We are subject to certain risks relating to the transportation and warehousing of our products.

SUMMARY

- If we are unable to optimize and adjust our product mix, our sales may fluctuate and our profit margins may decline substantially.
- Our leased property in the PRC may be subject to legal irregularities.
- Our historical financial performance should not be used as an indicator for future financial performance.
- We may fail to execute our growth strategy or manage our expanded business.
- Our ability to obtain additional financing may be limited, which could delay or prevent the completion of one or more of our strategies.
- Our overseas sales may not be successful or profitable.
- The decline in popularity of indoor sports or the number of indoor sports facilities and gymnasiums in China could have a material and adverse effect on us.
- End-consumers' demand for our products are subject to seasonality and weather conditions, which could cause our results of operations to fluctuate.
- We rely on our key personnel and our ability to attract and retain qualified personnel. Failure to attract, retain and motivate qualified personnel could have a material and adverse effect on us.
- Our business relies on the proper performance of our information management systems, and any malfunction for extended periods of time could have a material and adverse effect on us.
- We may be required to make additional contributions of social insurance under PRC national laws and regulations.
- We may not be able to adequately protect our intellectual property rights, which could materially and adversely harm our *Hosa*TM brand and our business.
- We may be required to defend ourselves against claims of third parties for possible infringement of their intellectual property rights.
- Our insurance coverage may not be sufficient to cover the risks related to our operations.
- Our *Hosa*TM brand may be damaged if our contract manufacturers or suppliers violate any relevant laws, rules or regulations, particularly in respect of labor and environmental protection.
- We are a holding company and rely on dividend payments from our subsidiaries to fund our cash and financing requirements, including funding dividend payments to our Shareholders.
- Any change in our tax treatment, including preferential corporate tax rates, in the PRC may have a negative impact on our operating results.

SUMMARY

- We may experience a shortage of labor or an increase in labor costs, which could have a material adverse effect on our business and results of operations.
- Natural disasters, acts of war, political unrest and epidemics, which are beyond our control, may cause damage, loss or disruption to our business.

Risks Relating to Conducting Business in the PRC

- Changes in the economic, political and social conditions in the PRC as well as policies adopted by the PRC Government may have a material and adverse effect on China's overall economic growth, which could in turn affect our business, financial condition, results of operations and prospects.
- Fluctuations in consumer spending caused by changes in macro-economic conditions and economic downturn in the PRC may materially and adversely affect our business operations and financial performance.
- Restrictions by the PRC Government on foreign exchange may limit the liquidity of our Company.
- Fluctuations in foreign exchange rates may materially and adversely affect our financial condition and results of operations.
- We may be deemed a PRC resident enterprise under the EIT Law and be subject to PRC taxation on our worldwide income.
- Gains on the sales of our Shares by foreign investors and dividends on our Shares payable to foreign investors may become subject to PRC income taxes.
- The PRC legal system is not fully developed and has inherent uncertainties which could limit the legal protections available to us and materially and adversely affect our business operations.
- It may be difficult to effect service of process on, or to enforce any judgments obtained outside the PRC against, our Company or our Directors or senior management members who reside in the PRC.
- Failure to comply with the SAFE regulations relating to the establishment of offshore special purpose companies by PRC residents may materially and adversely affect our business operations.
- As a foreign company, our acquisitions of PRC domestic companies may require a longer period of time and be subject to higher levels of scrutiny by the PRC Government.

Risks Relating to the Global Offering and Our Shares

- There has been no prior public market for our Shares and an active trading market for our Shares may not develop.

SUMMARY

- The liquidity, trading volume and trading price of our Shares may be volatile, which could result in substantial losses for Shareholders.
- Prior dividend distributions are not an indication of our future dividend policy.
- The interests of our Controlling Shareholders may not always coincide with the interests of our Company and our other Shareholders, and the Controlling Shareholders may exert significant control or substantial influence over us and may take actions that are not in, or may conflict with, our and public Shareholders' best interests.
- Potential investors will experience immediate and substantial dilution as a result of the Global Offering and could face future dilution as a result of future equity financings.
- Sales or the availability for sales of substantial amounts of our Shares in the future could materially and adversely affect the prevailing market price of our Shares.
- The costs of share options granted under the Pre-IPO Share Option Scheme and to be granted under the Share Option Scheme may materially and adversely affect our results of operations and any exercise of the options granted will result in dilution to our Shareholders.
- Investors may face difficulties in protecting their interests because we are incorporated under Cayman Islands law and protection for minority shareholders under Cayman Islands law may be different from those under the laws of Hong Kong and other jurisdictions.
- We cannot guarantee the accuracy of certain facts, forecasts and other statistics with respect to China, the economy and the Chinese indoor sportswear industry supplied by other parties contained in this Prospectus.

DEFINITIONS

In this Prospectus, unless the context otherwise requires, the following expressions have the following meanings:

“affiliate(s)”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Application Form(s)”	WHITE, YELLOW and GREEN application form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
“Articles” or “Articles of Association”	the articles of association of our Company adopted on 7 June 2011 (with effect from the Listing Date), and as amended, supplemented or otherwise modified from time to time, a summary of which is set out in Appendix V to this Prospectus
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Beijing Aiya”	Haosha Aiya (Beijing) Fitness Service Co., Ltd.* (浩沙艾雅(北京)健身服務有限公司), (formally known as Beijing Haosha Apparel Co., Ltd.* (北京浩沙服飾有限公司)), a limited liability company established under the laws of the PRC on 20 August 1997, which is owned as to 50% by Mr. Shi Hongliu (施洪流) and 50% by Mr. Shi Hongyan (施鴻雁)
“Beijing Yasha”	Beijing Yasha Apparel Co., Ltd.* (北京雅莎服飾有限公司), a limited liability company established on 26 June 2008 under the laws of the PRC and a directly wholly-owned subsidiary of Haosha Industry prior to the Corporate Reorganization
“Board” or “Board of Directors”	the board of Directors of our Company
“Business Day”	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	British Virgin Islands
“CAGR”	compound annual growth rate
“Capitalization Issue”	the issue of 1,119,800,000 Shares upon capitalization of certain sums standing to the credit of the share premium account of our Company referred to in the section headed “Appendix VI — Further information about our Company — Written resolutions of our Shareholders passed on 7 June 2011” in this Prospectus
“CCASS”	Central Clearing and Settlement System established and operated by HKSCC

DEFINITIONS

“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant(s)”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China” or “PRC”	People’s Republic of China, and unless the context requires, references in this Prospectus to the PRC or China do not include Hong Kong, Macau and Taiwan
“Companies Law”	Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	Hosa International Limited (浩沙國際有限公司), an exempted company incorporated under the laws of the Cayman Islands with limited liability on 2 September 2010
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and, unless the context requires otherwise, refers to each of Ho Born Investment, Well Born Industrial, Mr. Shi Hongliu, Mr. Shi Hongyan and Mr. Wu Changda, who will in aggregate control the exercise of voting rights of approximately 61.488% of the Shares eligible to vote in general meetings of our Company immediately following the Global Offering and the Capitalization Issue (assuming that the Over-allotment Option is not exercised and no options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme are exercised)
“Corporate Reorganization”	the corporate reorganization of our Group conducted in preparation for the Listing, details of which are set out in the section headed “History and Corporate Structure — Corporate Reorganization” in this Prospectus
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the securities markets in the PRC

DEFINITIONS

“Deed of Indemnity”	a deed of indemnity dated 7 June 2011 entered into between our Controlling Shareholders and our Company for itself and as trustee for its present subsidiaries, under which our Controlling Shareholders have given certain indemnities in favor of our Group containing, among others, the indemnities referred to in the section headed “Appendix VI — Other information — Estate duty, tax and other indemnity” in this Prospectus
“Deed of Non-Competition”	a deed of non-competition dated 7 June 2011 entered into by our Controlling Shareholders in favor of our Company, details of which are set out in the section headed “Relationship with Controlling Shareholders” in this Prospectus
“Director(s)”	the directors of our Company
“DRP”	distribution resource planning
“ERP”	enterprise resourcing planning
“first-tier cities”	generally include direct-controlled municipalities, the highest level of cities under the direct administration of the PRC central government, and provincial capital cities, including but not limited to Beijing, Shanghai, Chongqing and Guangzhou. Also included are some prefecture-level cities, the administrative division ranking below a province and above a county in China’s administrative structure, including but not limited to Dalian, Xiamen and Shenzhen. As there is no official classification, such classification is determined based on our Directors’ knowledge and experience
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc.* (弗若斯特沙利文(北京)諮詢有限公司), an international market research and consulting company, an Independent Third Party
“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offering and the International Placing
“government authority(ies)”	any public, regulatory, taxing, administrative or governmental agency or authority (including, without limitation, the Stock Exchange, the SFC and the United States Securities and Exchange Commission), other authority and any court at the national, provincial, municipal or local level
“GREEN Application Form(s)”	the application form(s) to be completed by White Form eIPO service provider, Computershare Hong Kong Investor Services Limited

DEFINITIONS

“Group”, “our Group”, “we” or “us”	our Company and its subsidiaries or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors
“Guangzhou Huayuan”	Guangzhou Huayuan Apparel Co., Ltd.* (廣州華源服飾有限公司), (formally known as Guangzhou Haosha Enterprise Development Co., Ltd.* (廣州市浩沙企業發展有限公司)), a limited liability company established under the laws of the PRC on 22 May 2000, which was previously owned as to 60% by Mr. Shi Hongyan (施鴻雁) and 40% by Ms. Xu Jinfeng (許金鳳) (the spouse of Mr. Shi Hongyan), and is currently wholly-owned by Mr. Xu Liangang (許煉鋼). Mr. Xu Liangang is an Independent Third Party
“Guangzhou Yingchang”	Guangzhou Yingchang Apparel Co., Ltd.* (廣州穎昌服飾有限公司), (formally known as Guangzhou Haosha Apparel Co., Ltd.* (廣州浩沙服飾有限公司)), a limited liability company established under the laws of the PRC on 10 June 2008 and a directly wholly-owned subsidiary of Haosha Industry prior to the Corporate Reorganization
“Haosha Garments”	Fujian Province Jinjiang City Haosha Garments Co., Ltd.* (福建省晉江市浩沙製衣有限公司), a limited liability company established under the laws of the PRC on 24 October 1996, which held 25% equity interests in Haosha Industry prior to the Corporate Reorganization
“Haosha H.K.”	Haosha International (H.K.) Limited (浩沙國際(香港)有限公司), a company incorporated under the laws of Hong Kong on 3 November 1997, which held 75% equity interests in Haosha Industry prior to the Corporate Reorganization
“Haosha Industry”	Haosha Industry (Fujian) Co., Ltd.* (浩沙實業(福建)有限公司), a limited liability company established under the laws of the PRC on 25 October 2005 which was owned as to 75% by Haosha H.K. and 25% by Haosha Garments prior to the Corporate Reorganization, and an indirectly wholly-owned subsidiary of our Company
“HK\$”, “HK dollars” and “cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards (including HKAS and Interpretations) issued by Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited

DEFINITIONS

“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Ho Born Investment”	Ho Born Investment Holdings Limited (浩邦投資控股有限公司), a company incorporated under the laws of the BVI with limited liability on 10 August 2010, the entire issued share capital of which is owned as to 49.851% by Mr. Shi Hongliu, 26.233% by Mr. Shi Hongyan and 23.916% by Mr. Wu Changda
“Hong Kong” or “HK”	Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	the 40,000,000 Shares being initially offered by our Company for subscription under the Hong Kong Public Offering at the Offer Price (subject to adjustment as described in the section headed “Structure of the Global Offering” in this Prospectus)
“Hong Kong Public Offering”	the offer by our Company of the Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price (plus brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.003%) on the terms and subject to the conditions described in this Prospectus and the Application Forms, as further described in the section headed “Structure of the Global Offering — Hong Kong Public Offering” in this Prospectus
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering named in the section headed “Underwriting — Hong Kong Underwriters” in this Prospectus
“Hong Kong Underwriting Agreement”	the conditional underwriting agreement dated 16 June 2011 relating to the Hong Kong Public Offering and entered into by, among others, the Sole Global Coordinator, the Hong Kong Underwriters and us, as further described in the section headed “Underwriting — Hong Kong Public Offering” in this Prospectus
“Hosa brand” or “ <i>Hosa</i> TM ”	our brand as represented by our trademark  and certain of our trademarks listed in the section headed “Appendix VI — Intellectual property rights of our Group — Trademarks” in this Prospectus, as the context requires
“Hosa Fitness Gyms”	Hosa Fitness Gyms (浩沙健身俱樂部), a fitness gym chain owned by two of our Controlling Shareholders, Mr. Shi Hongliu and Mr. Shi Hongyan through Beijing Aiya
“Hosa Group”	Hosa Group Holdings Limited (浩沙集團控股有限公司), a company incorporated under the laws of Hong Kong on 30 August 2010 and an indirectly wholly-owned subsidiary of our Company

DEFINITIONS

“Hosa Investment”	Hosa Investment Holdings Limited (浩沙投資控股有限公司), a company incorporated under the laws of the BVI with limited liability on 1 September 2010 and a directly wholly-owned subsidiary of our Company
“IFRS”	International Financial Reporting Standards
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial shareholders (within the meaning of the Listing Rules) of our Company, its subsidiaries or any of their respective associates
“International Placing”	the conditional offering of the International Placing Shares (a) in the United States to QIBs in reliance on Rule 144A under the US Securities Act or another exemption from the registration requirement under the US Securities Act, and (b) outside the United States in offshore transactions in reliance on Regulation S under the US Securities Act, including to professional investors in Hong Kong, as further described in the section headed “Structure of the Global Offering” in this Prospectus
“International Placing Shares”	the 360,000,000 Shares being initially offered for subscription under the International Placing together, where relevant, with any additional Shares that may be issued pursuant to any exercise of the Over-allotment Option, subject to adjustment as described in the section headed “Structure of the Global Offering” in this Prospectus
“International Placing Agreement”	the conditional international placing agreement relating to the International Placing to be entered into on or about the Price Determination Date by, among others, the Sole Global Coordinator, the International Underwriters and us, as further described in the section headed “Structure of the Global Offering — International Placing” in this Prospectus
“International Underwriters”	the underwriters of the International Placing which are expected to enter into the International Placing Agreement
“Jinjiang Sanxie”	Jinjiang Sanxie Apparel Co., Ltd.* (晉江三協服裝有限公司), a limited liability company established under the laws of the PRC on 24 March 1992, which is owned as to 55% by Mr. Shi Hongliu and 45% by Mr. Shi Hongyan
“Latest Practicable Date”	10 June 2011 being the latest practicable date prior to the printing of this Prospectus for the purpose of ascertaining certain information contained in this Prospectus prior to its publication

DEFINITIONS

“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Date”	the date, expected to be on or about 30 June 2011, on which dealings in the Shares first commence on the Main Board of the Stock Exchange
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Lock-up period”	the period commencing from the Latest Practicable Date up to and including the date falling six months after the Listing Date
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock exchange operated by the Stock Exchange before the establishment of the Growth Enterprise Market of the Stock Exchange (excluding the option market) and which continues to be operated by the Stock Exchange in parallel with the Growth Enterprise Market of the Stock Exchange
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company
“Ministry of Commerce” or “MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%) at which the Hong Kong Offer Shares are to be subscribed under the Hong Kong Public Offering, and at which the International Placing Shares are to be offered under the International Placing, to be determined as described in the section headed “Structure of the Global Offering — Pricing of the Global Offering” in this Prospectus
“Offer Shares”	the Hong Kong Offer Shares and the International Placing Shares
“Over-allotment Option”	the option to be granted by our Company to the International Underwriters exercisable by the Sole Global Coordinator on behalf of the International Underwriters under the International Placing Agreement, pursuant to which our Company may be required to allot and issue up to 60,000,000 additional Shares, representing 15% of the Shares initially available under the Global Offering at the Offer Price, to, among other things, cover over-allocations in the International Placing (if any), as further described in the section headed “Structure of the Global Offering”

DEFINITIONS

“PBOC”	People’s Bank of China (中國人民銀行), the central bank of China
“PRC Government” or “State”	the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof
“PRC Shareholders”	Mr. Shi Hongliu, Mr. Shi Hongyan, Mr. Wu Changda, Mr. Xu Zehui and Mr. Zeng Shaoxiong
“Pre-IPO Share Option Scheme”	the share option scheme for the directors, senior management, employees and distributors of our Group approved and adopted by our Company pursuant to a resolution passed by our Shareholders on 7 June 2011, the principal terms of which are summarized under the section headed “Appendix VI — Pre-IPO Share Option Scheme” in this Prospectus
“Price Determination Date”	the date expected to be on or about Thursday, 23 June 2011 at which time the Offer Price is determined, or such later time as our Company and the Sole Global Coordinator (on behalf of the Underwriters) may agree, but in any event not later than Sunday, 26 June 2011
“province(s)”	include provinces, autonomous regions and municipalities under the direct administration of the central government of the PRC
“QIBs”	qualified institutional buyers within the meaning of Rule 144A
“Regulation S”	Regulation S under the US Securities Act
“retail outlet(s)”	retail outlet(s) operated by one of our distributors or sub-distributors selling exclusively our <i>Hosa</i> TM products (such retail outlet(s) is/are owned and operated by Independent Third Party(ies))
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Rule 144A”	Rule 144A under the US Securities Act
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國外匯管理局)
“SAIC”	State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“SAT”	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)

DEFINITIONS

“SASAC”	State-owned Assets Supervision and Administration Commission of the PRC (中華人民共和國國務院國有資產監督管理委員會)
“second-tier cities”	generally include prefecture-level cities, the administrative division ranking below a province and above a county in China’s administrative structure, including but not limited to Dongguan, Foshan and Nanyang. As there is no official classification, such classification is determined based on our Directors’ knowledge and experience
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shanghai Haote”	Shanghai Haote Apparel Co., Ltd.* (上海浩特服飾有限公司), a limited liability company established under the laws of the PRC on 8 July 2008 and a directly wholly-owned subsidiary of Haosha Industry prior to the Corporate Reorganization
“Shanghai Xingchi”	Shanghai Xingchi Apparel Co., Ltd.* (上海興馳服飾有限公司), (formally known as Shanghai Haosha Apparel Co., Ltd.* (上海浩沙服飾有限公司)), a limited liability company established under the laws of the PRC on 21 April 1999, which was previously owned as to 80% by Mr. Shi Hongliu (施洪流) and 20% by Mr. Shi Hongyan (施鴻雁) and is currently owned as to 80% by Mr. Xu Tianshi (許天室) and 20% by Ms. Hong Meiqin (洪美勤). Both Mr. Xu Tianshi and Ms. Hong Meiqin are Independent Third Parties
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.01 each in the capital of our Company, which are to be subscribed for and traded in Hong Kong dollars and listed on the Stock Exchange
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 7 June 2011, the principal terms of which are summarized under the section headed “Appendix VI — Share Option Scheme” in this Prospectus
“Shareholder(s)”	holder(s) of the Share(s)
“Sole Bookrunner” and “Sole Global Coordinator”	Merrill Lynch International
“Sole Lead Manager”	Merrill Lynch Far East Limited for the Hong Kong Public Offering; Merrill Lynch International for the International Placing

DEFINITIONS

“Sole Sponsor” or “Merrill Lynch”	Merrill Lynch Far East Limited, a licensed corporation under the SFO for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between Merrill Lynch Japan Securities Co., Ltd. and Ho Born Investment on or about the Price Determination Date, pursuant to which Merrill Lynch Japan Securities Co., Ltd. may borrow up to 60,000,000 Shares from Ho Born Investment to cover any over-allotment under the International Placing
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto in section 2 of the Companies Ordinance
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“third-tier cities”	generally refer to county-level cities, the county-level administrative divisions of the PRC, including but not limited to Jingjiang, Xiantao and Xinghua. As there is no official classification, such classification is determined based on our Directors’ knowledge and experience
“Track Record Period”	the three financial years ended 31 December 2010
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Placing Agreement
“United States” or “US”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US dollars” or “US\$”	United States dollars, the lawful currency of the United States
“US Securities Act”	the United States Securities Act of 1933, as amended from time to time
“Warrantors”	our Company, Ho Born Investment, Well Born Industrial, Zehui Investment, Yixin Investment, Mr. Shi Hongliu, Mr. Shi Hongyan, Mr. Wu Changda, Mr. Xu Zehui and Mr. Zeng Shaoxiong

DEFINITIONS

“Well Born Industrial”	Well Born Industrial Group Limited (偉邦實業集團有限公司), a company incorporated under the laws of the BVI with limited liability on 10 August 2010, the entire issued share capital of which is owned as to 49.851% by Mr. Shi Hongliu, 26.233% by Mr. Shi Hongyan and 23.916% by Mr. Wu Changda
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name through the designated website of White Form eIPO www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Yixin Investment”	Yixin Investment Holdings Limited (奕鑫投資控股有限公司), a company incorporated under the laws of the BVI with limited liability on 10 August 2010, the entire issued share capital of which is owned by Mr. Zeng Shaoxiong
“Zehui Investment”	Zehui Investment Holdings Limited (澤輝投資控股有限公司), a company incorporated under the laws of the BVI with limited liability on 10 August 2010, the entire issued share capital of which is owned by Mr. Xu Zehui
“%”	per cent

Certain amounts and percentage figures included in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

If there is any inconsistency between the Chinese names of the entities or enterprises established in China and their English translations, the Chinese names shall prevail. The English translation of company names in Chinese or another language which are marked with “” and the Chinese translation of company names in English which are marked with “*” are for identification purpose only.*

Unless otherwise specified, all relevant information in this Prospectus assumes no exercise of the Over-allotment Option.

FORWARD-LOOKING STATEMENTS

This Prospectus contains forward-looking statements that are based on the judgement and assumptions of our management as well as information currently available to our management, and are by their nature subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and plan of operations;
- our capital expenditure plans;
- the amount and nature of, and potential for, future development of our business;
- our operations and business prospects;
- our dividend policy;
- projects under construction or planning;
- the regulatory environment of our industry in general; and
- future development in our industry.

When used herein, the words “anticipate”, “believe”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “seek”, “will”, “would” and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. The Directors confirm that these forward-looking statements are made after due and careful consideration. These forward-looking statements, which reflect our current views with respect to future events based on currently available information, are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including without limitation the risk factors described under the section headed “Risk Factors” in this Prospectus. One or more of these risks or uncertainties may materialize, or underlying assumptions may prove incorrect.

Subject to the requirements of the Listing Rules, we do not intend to publicly update or otherwise revise the forward-looking statements in this Prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this Prospectus are qualified by reference to this cautionary statement as well as the risks and uncertainties disclosed under the section headed “Risk Factors” of this Prospectus.

RISK FACTORS

Investing in the Shares involves a high degree of risk. You should carefully consider each of the risks described below and all of the other information contained in this Prospectus before deciding to purchase the Shares. You should be aware that our subsidiaries in China are governed by a legal and regulatory environment that differs significantly from that in other countries. If any of the following risks occur, our business, financial condition, results of operations and prospects could be materially and adversely affected. In that case, the trading price of the Shares could decline, and you may lose all or part of your investment. Additional risks and uncertainties not presently known to us, or not expressed or implied below, or that we deem immaterial, could also harm our business, financial condition, results of operations and prospects.

There are certain risks involved in our operations and many of these risks are beyond our control, which can be characterized as: (i) risks relating to our business operations; (ii) risks relating to conducting business in the PRC; and (iii) risks relating to the Global Offering and our Shares.

RISKS RELATING TO OUR BUSINESS OPERATIONS

We rely heavily on our Hosa™ brand and any failure to effectively promote or maintain our Hosa™ brand may materially and adversely affect our future success.

We sell our products under our Hosa™ brand. Our Hosa™ brand is critical for our success as we believe that market perception and consumer acceptance of a brand is a determining factor of consumers' purchase decisions for indoor sportswear products. We have established and maintained our Hosa™ brand as an indoor sportswear brand that aims to provide complete satisfaction in the functionality, comfort and style of our products, primarily targeting the fast-growing, up-and-coming consumer group between the ages of 20 and 40 with rising health consciousness and spending power. 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 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. If we are unsuccessful in promoting our Hosa™ brand or fail to maintain our brand position and market perception, consumer acceptance of our Hosa™ brand may erode, and our business, financial condition, results of operations and prospects may be materially and adversely affected. In addition, as we promote our Hosa™ brand and image through sponsorships of various expositions, pageant events and contests, we are dependent on market perception and consumer acceptance of these events, over which we have no full control. In addition, we are currently entitled to use  trademarks under 14 categories under China's trademark classification system while such trademark is used by Hosa Fitness Gyms under the category relating to gymnasium and club operations. The use of such trademark by Hosa Fitness Gyms may subject our Hosa™ brand to potential dilution or damage and the resemblance of brand name and trademark between us and Hosa Fitness Gyms may cause confusion among the consumers, which may also have a negative impact on the market perception of our Hosa™ brand and our reputation.

Any negative publicity or disputes relating to our Hosa™ brand, products, sponsorship activities or management, the loss of any award or accreditation associated with our Hosa™ brand or products or the use of the "Hosa" trademark or brand name by other businesses could materially and adversely affect our business, financial condition, results of operations and prospects.

RISK FACTORS

Our success depends on our ability to anticipate and respond in a timely manner to the rapid changes in consumer tastes and advances in technologies.

Our success depends on the market perception and consumer acceptance of our Hosa™ brand and our products, which in large part, rely on our ability to anticipate and respond to different consumer tastes in a timely manner. We strive to do so by incorporating the latest global fashion trends, fabric and pattern technologies and consumer preferences into our designs and introducing new products within a short lead time. This requires us to continuously create new products and modify existing products in order to attract and retain consumers. If we are unable to utilize new technologies and processes, anticipate and respond to market and fashion trends and consumer preferences in a timely manner, demand for our Hosa™ products may decrease. Our business would also suffer if our product creations or modifications do not respond to the needs of our customers, are not appropriately timed with market opportunities or are not effectively brought to market. Any failure by us to offer products that respond to changing market and fashion trends and consumer preferences, or any shift in market or fashion trends and consumer preferences away from our Hosa™ brand and our products, could adversely affect consumer interest in our products. As a result, our business, financial condition, results of operations and prospects could be materially and adversely affected.

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.

Currently, our swimwear, fitness wear and sports underwear products face different levels of competition in their respective market sector. In particular, the swimwear market is facing intense competition from both international and domestic brands given the high homogeneity of swimwear products and a number of large manufacturers with strong brand recognition and high-quality products. As the indoor sportswear market is ever-evolving and competitors with similar brand positioning may emerge and intensify the current competition, there can be no assurance that we will be able to compete effectively against competitors who may have greater financial resources, greater scales of production, superior technology, better brand recognition and a wider, more diverse and established distribution network. To compete effectively and maintain our market share, we may be forced to, among other actions, reduce prices, provide more sales incentives to our distributors, and increase capital expenditures, which may in turn negatively affect our profit margins, business and financial conditions and results of operations.

Our limited operating experience with a distributorship business model and our failure to effectively handle the risks associated with our distributorship arrangement may materially and adversely affect our business.

Prior to 2006, Haosha Garments operated the Hosa™ brand indoor sportswear business and sold substantially all Hosa™ products directly to end-consumers through concessionary retail outlets at department stores. Since late 2007, Haosha Industry, our core subsidiary, began to operate the Hosa™ indoor sportswear business and we gradually shifted our business model to distributorship. Under the new distributorship business model, we sell our Hosa™ products on a wholesale basis to distributors who subsequently sell our products to end-consumers through Hosa retail outlets directly operated by our distributors or to sub-distributors. As our distributorship business model is relatively new to us, our limited experience using this model may make it difficult for us to identify and address all the challenges that we may encounter in the different stages of developing and implementing this new business model.

RISK FACTORS

In addition, in 2010 we engaged a distributor to distribute our products through online sales. Our sales to this distributor in 2010 were RMB25.8 million. We plan to develop more online shopping channels in the next few years that would be operated by our distributors. Though online shopping has become increasingly popular worldwide, it falls under a less-regulated and disputable area in the PRC. As a result, we may not be successful in implementing online distribution channels and our efforts may not be profitable.

Our business and prospects should be considered in light of the risks and difficulties we may face, given our limited operating experience with the distributorship business model, including online distributorship. Furthermore, the significant growth and expansion of our distribution network and our results of operations during the Track Record Period may not be indicative of our future growth and financial performance and we cannot assure you that the significant growth we experienced during the Track Record Period, particularly in 2010, will be sustainable or achieved at all in the future. If we are unable to successfully handle these risks and difficulties, our business, financial condition, results of operations and prospects could be materially and adversely affected.

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.

During the Track Record Period, we have been gradually shifting our business model to distributorship under distributorship agreements which generally have a term of one year. As of 31 December 2011, our customers included 13 distributors and, as of 31 May 2011, we have increased the number of our distributors to 27. 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 in each year accounted for 23.7%, 23.1% and 10.1% of our total revenue from continuing operations for the same period, respectively. As we do not have long-term agreements with our distributors, it is possible that their agreements with us will not be renewed on favorable terms or at all. In addition, due to the transition of our business model and the integration of our distribution network in the past few years, the history of our relationship with our current 27 distributors is relatively short and limited. If any of our distributors terminates or does not renew its distribution agreement with us, we may not be able to replace such distributor with a new and effective distributor in a timely manner, on terms acceptable to us, or at all. Furthermore, any new replacement distributor may not be able to oversee the same network of retail outlets on a similar scale as the replaced distributor. In addition, the distributorship agreements require our distributors to meet minimum purchase targets, but there is no assurance that such target will be met. If our distributors do not place orders at historical levels, that meet the minimum purchase targets agreed to or at all, or if any major distributor substantially reduces its volume of purchases from us or ceases its business relationship with us, our business, financial condition, results of operations and prospects could be materially and adversely affected.

RISK FACTORS

We rely primarily on our distributors to expand our retail network and oversee sub-distributors and their failure to do so may materially and adversely affect our business.

We intend to expand our distribution network to include additional cities in urban areas throughout China. To accomplish this, we require each distributor to establish a minimum number of new Hosa retail outlets during the term of its distribution agreement with us. As a result, we rely on our distributors to implement our expansion plans. If our distributors fail to satisfy their expansion requirements, we may be unable to meet our expansion goals and achieve our desired growth.

As of the Latest Practicable Date, we mainly sold our products to distributors, who subsequently distributed our products to sub-distributors or end-consumers. The sub-distributors enter into separate agreements with our distributors and are specifically authorized by our distributors, with our consent, to exclusively sell our *Hosa*TM products in retail outlets. While we do not maintain direct contractual relationships with sub-distributors and therefore have no direct control over sub-distributors, we rely on our distributors to oversee and ensure sub-distributors' adherence to our policies with respect to operational requirements, exclusivity, customer service, store image, promotional plan and pricing. The sub-distributors' failure to comply with our policies, such as aggressive discounting of the retail price of our products, could result in the erosion of goodwill, a decrease in the market value of our *Hosa*TM brand and an unfavorable public perception about the quality of our products, which in turn could result in a material adverse effect on our business, financial condition, results of operation and prospects.

Our ability to accurately track the sales and inventory levels of our distributors and sub-distributors may be limited.

We plan to commence trial operations of our DRP system by the end of 2011, the implementation of which will enable us to automate and integrate the flow of sales information in our sales and distribution network. As we have not launched our DRP system yet or implemented such system for our distributors and sub-distributors or at retail outlets of our products, our current ability to track the sales by our distributors and sub-distributors, and consequently their respective inventory levels, may be limited. As we do not have contractual relationships with our sub-distributors, our distributors are responsible for tracking the sales and inventory levels at Hosa retail outlets operated by themselves or their sub-distributors and submitting regular sales reports to us. In addition, we have six regional sales teams which regularly conduct on-site inspections at our distributors and Hosa retail outlets from time to time. Also, by tracking inventory levels of our distributors, we gather information and data regarding the market acceptance of our products, and such information and data enable us to reflect consumer preferences in the design and development of our products and to adjust our marketing strategy if needed. However, such arrangement requires the cooperation of our distributors in accurately and timely reporting the relevant data to us, and we may not be able to ensure the accuracy of the data provided by them or collected by us. In light of the foregoing, we may not be able to accurately track their sales and inventory levels, or identify or prevent any excessive inventory build-up at these retail outlets, any of which could materially and adversely affect our business, financial condition, results of operations and prospects.

RISK FACTORS

Our distributors and sub-distributors primarily operate Hosa retail outlets through department stores. Failure to secure retail spaces within the department stores on commercially reasonable terms could have a material and adverse effect on us.

As of 31 December 2010 and 31 May 2011, our distributors or sub-distributors operated 562 and 762 retail outlets within department stores nationwide, comprising approximately 84.4% and 84.3% of our total retail outlets, respectively. Since we have no control over our distributors or sub-distributors' practice of obtaining retail spaces within department stores, we cannot assure you that they will be able to secure such retail spaces on commercially acceptable terms or at all. Nor can we assure you that they will be able to renew the existing concessionaire agreements with department store operators upon expiry or on acceptable terms and conditions. If such agreements are not renewed, our distributors and sub-distributors may not be able to find alternative locations in areas that offer similar business environments, and our competitors may move into such retail spaces previously occupied by our customers. As a result, our sales performance may be materially and adversely affected.

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.

During the Track Record Period, we had sold the majority of our *Hosa*TM products to our distributors. 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. Since April 2011, the credit period we have been granting to our distributors is generally 90 days. The exact terms of payment period are determined on a distributor by distributor basis, based on, among others, credit history, market conditions, prior year's purchases and estimated purchases for the coming year as well as the funding needs of the distributor in expanding its sales network. In addition, there were instances when we granted payment extensions to certain of our distributors with good credit history and larger operational scale, which resulted in payments being made to us up to 180 days after the date of delivery of our *Hosa*TM products. We perform ongoing credit evaluations of our distributors' financial condition and generally require no collateral from them to secure their payment obligations. As of 31 December 2008, 2009 and 2010, approximately 2.9%, 5.5% and 3.7% of our trade and bill receivables, net of allowance for doubtful debts, had been outstanding for more than six months but within one year and approximately 0.8%, nil and 0.001% of our trade and bill receivables, net of allowance for doubtful debts, had been outstanding for more than one year, respectively. As our sales increase, we expect that the amount of trade receivables from our distributors will increase. In addition, as we implement our expansion plans and require our distributors to increase the number of retail outlets, we may decide to lengthen the credit periods we grant to our distributors. If our trade and bill receivables cycles or collection period lengthen further or if we encounter a material default of payment, our liquidity, cash flows from operations and financial condition could be materially and adversely affected.

We recorded negative operating cash flows in 2008 and 2009, and recorded positive operating cash flows in 2010, and we cannot assure you that we will record positive operating cash flows again in the future.

We recorded negative operating cash flows of RMB35.1 million and RMB68.4 million in 2008 and 2009, respectively, and positive operating cash flows of RMB107.4 million in 2010. The primary reasons for our negative operating cash flows in 2008 and 2009 were the increase in inventories as a result of an

RISK FACTORS

increase in purchases of raw materials, and the increase in trade and bill receivables as we made more sales to our distributors, both of which were primarily due to the expansion of our business operations in 2008 and 2009. Following the improvement of our inventory management and trade receivables collection, we recorded positive operating cash flows in 2010. However, we cannot assure you that we will continue to record positive operating cash flows in the future. Our liquidity and working capital sufficiency may be materially and adversely affected by any future negative operating cash flows. For details of our indebtedness and liquidity, financial resources and capital structure, please refer to the section headed “Financial Information” in this Prospectus.

Disruption of our manufacturing operations could have a material and adverse effect on us.

Our ability to meet the demand of, and our contractual obligations with, our distributors, as well as our ability to grow our business, is heavily dependent on efficient, proper and uninterrupted operations at our facilities. Problems may arise during the manufacturing process for a variety of reasons, including power failures or disruptions, the breakdown, failure or substandard performance of equipment, the improper installation or operation of equipment and the destruction of buildings, equipment and other facilities due to fire or natural disasters such as typhoons or earthquakes, and would severely affect our ability to continue our operations. We could also experience labor disputes or strikes in the future which could negatively affect or even halt our operations. As of the Latest Practicable Date, we did not have any business interruption insurance and our insurance policies may not be sufficient to compensate us for the actual cost of replacing such buildings, equipment and infrastructure. Any such events and any losses or liabilities that are not covered by our current insurance policies could have a material and adverse effect on our business, financial condition, results of operations and prospects.

Expansion of our production capacity may not be successful.

Our future growth depends on whether we are able to expand our production capacity and our ability to meet the increasing demand for our products. Our current production facilities are located in Jinjiang, Fujian Province and had an annual production capacity of approximately 6.7 million pieces of swimwear, fitness wear and sports underwear products for the year ended 31 December 2010. We plan to gradually increase our production capacity by adding new production lines for our swimwear, fitness wear and sports underwear products, as well as upgrading our existing manufacturing facilities by acquiring advanced equipment and machinery. Through our increased production capacity, we expect to continue to produce *Hosa*TM indoor sportswear products at our own facilities to meet the growing demand for our products and to benefit from related economies of scale. However, our new production lines may not operate at full capacity immediately and may not be able to produce all of our products in the short term to meet growing demand, and as such, we may have to rely on our contract manufacturers more than we have in the past for the production of a portion of our indoor sportswear and accessories products. During the Track Record Period, we outsourced part of our production processes for swimwear, fitness wear and sports underwear products to contract manufacturers and procured a small portion of finished indoor sportswear and accessories products from external sources and, as a result, our production capacity is reliant on these relationships. If we are not able to maintain stable relationships with our contract manufacturers or fail to find alternative sources for production services and certain finished products, we may not be able to deliver our products on time to meet market demand, particularly given our substantial growth plans. As a result of the foregoing factors, if we are unable to continue to successfully increase our

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production capacity due to, among other things, insufficient financial resources, a shortage of labor or the inability to engage suitable contract manufacturers to supplement our production capacity, our future business prospects and results of operations may be materially and adversely affected.

We are dependent on suppliers for our raw materials and on our contract manufacturers for the production of a portion of our indoor sportswear and all of our accessories products.

During the Track Record Period, we obtained the majority of our raw materials from domestic suppliers and to a lesser extent from overseas 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. Also, certain production procedures of our indoor sportswear products were carried out by our outsourced contract manufacturers and a small portion of our swimwear, fitness wear and sports underwear products and all of our accessories products were procured from external sources.

As we expect that our business and revenue will continue to grow in 2011, our need for raw materials and our reliance on contract manufacturers will also continue. Therefore, any issue associated with the production facilities or processes of our raw materials suppliers or contract manufacturers could result in our failure to produce an adequate number of products meeting the required quality standards. If any such event occurs, we could be required to recall products previously dispatched, delay delivery of products, or be unable to supply products at all. Defective products could also materially and adversely affect our reputation and brand image. In addition, we may need to record periodic losses associated with manufacturing failures or other production-related costs that are not absorbed into inventory, or incur costs to secure additional sources of capacity.

A number of factors could cause prolonged interruptions in the operations of our raw material suppliers and contract manufacturers' production facilities, including:

- equipment obsolescence, malfunction or failure;
- damage to a facility, including warehouses and distribution facilities due to natural disasters;
- a raw material supplier's or a contract manufacturer's going out of business or failing to provide raw materials or manufactured products as contractually required;
- the inability of a supplier to provide raw materials used to manufacture our products;
- changes in the law that require modifications to manufacturing processes;
- labor disputes; and
- other similar factors.

Difficulties or delays in our raw material suppliers and contract manufacturers' supply and manufacture of existing or new raw materials and products could increase our costs, cause us to lose revenue or market share and damage our reputation, any of which could have a material and adverse effect on us.

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In addition, we do not enter into long-term supply agreements with our raw material suppliers or contract manufacturers. We enter into separate purchase contracts with our contract manufacturers, in which we set out the terms regarding the price, purchase quantity, delivery, payment, settlement and confidential obligations regarding our proprietary design and technology when applicable. Therefore, we can give no assurance that our existing raw material suppliers or contract manufacturers will continue to accept our future purchase orders on the same or similar terms (including prices and quantities), or at all. We can also give no assurance that we would be able to find other raw material suppliers or contract manufacturers to supply the same or similar types and quantities of raw materials or finished products should we lose the services of any of our existing raw material suppliers and contract manufactures. Any disruption to the supply of, or unfavorable changes in the prices or quality of, the raw materials or finished products we source from, or terms of agreement with, our raw materials suppliers or contract manufacturers could have a material and adverse effect on our business, financial condition, results of operations and prospects.

We may be materially and adversely affected by increases in the market prices of raw materials.

The principal raw materials used in the production of our indoor sportswear products are fabrics, threads and ancillary clothing materials. The costs of our raw materials are subject to fluctuation and are affected by several factors, such as fluctuations in commodity prices (including crude oil prices, in the case of polyamide fibers and terylene fabrics, and cotton), our purchase volume, market demand for the raw materials and availability of substitute materials. As increased costs for raw materials result in increased production costs for our products, we strive to pass through increased costs to our customers. Fluctuations in the costs of our raw materials and our inability to pass on any increases in raw material costs to our customers may materially and adversely affect our cost of sales, gross profit margins and profitability. Furthermore, even if we do successfully pass along these costs, demand for our products may decline as a result of the increased costs, which may materially and adversely affect us.

We are subject to certain risks relating to the transportation and warehousing of our products.

The delivery of finished products from our headquarters to the leased/owned warehouses of our distributors is carried out by third-party transport operators. Such delivery services could be suspended and thus interrupt the supply of our finished products if unforeseen events occur which are beyond our control, such as poor handling and damage to our finished products, transportation bottlenecks, natural disasters or labor strikes. If our finished products are not delivered to specified warehouses on time, or are delivered in a damaged state, we may experience a delay in delivery of the products to our distribution channels. Although we may not be required to pay compensation for such delayed deliveries, our market reputation and profitability could be materially and adversely affected.

In addition, we typically store our raw materials in the warehouses of our headquarters for subsequent manufacturing. Likewise, finished products are also stored in our warehouses before being delivered. If fire or other accidents occur, thus causing damage to our raw materials and finished products, we may be unable to supply finished products to our distribution channels on time, and our market reputation and profitability could be materially and adversely affected.

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If we are unable to optimize and adjust our product mix, our sales may fluctuate and our profit margins may decline substantially.

Our ability to achieve and maintain increased profitability depends on our ability to optimize and adjust our product mix. We offer a wide range of branded indoor sportswear products, including swimwear, fitness wear, sports underwear and accessories. We continuously monitor and improve our product mix and develop new products that we believe will generate higher customer demand and increase our revenue and profit margin. During the Track Record Period, we underwent an improvement of our product mix and positioning in all product categories and increased the selling prices of selected products, thereby increasing our overall revenue and profit margins. We will continue to adjust our product mix and enhance our product positioning in an effort to increase our revenue and gross profit. As we adjust our product mix, our gross profit may be affected both by any change in revenue and by any change in cost of sales attributable to each operating segment representing different product categories. If we are unable to optimize and adjust our product and business mix, our sales may fluctuate and our profit margins may not meet expectations.

Our leased property in the PRC may be subject to legal irregularities.

As of Latest Practicable Date, we 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. Details of the property are set out in no. 2 in the section headed “Appendix IV — Group II — Property leased by the Group in the PRC” in this Prospectus. 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 did not 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 or the lessor has obtained approval from the land use right owner for the lease, the lease is valid and binding; otherwise, the lease agreement may not be valid and binding under the PRC laws and regulations and may be subject to challenge by third parties and 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 operation 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. Please see the section headed “Business — Properties” in this Prospectus for more details.

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Our historical financial performance should not be used as an indicator for future financial performance.

We have experienced revenue and profit growth during the Track Record Period, particularly in 2010, due to the successful promotion of our *Hosa*TM brand, rapid expansion of our distribution network, improved product design, expansion of our range of product offerings, and our new distributorship business model. The number of our retail outlets grew from 505 as of 31 December 2008 to 522 as of 31 December 2009 and to 666 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. Increasing market demand for indoor sportswear products and improving economic conditions in the PRC also contributed to our growth. The 2008 Beijing Olympic Games (2008北京奧運會) and the 2010 Asian Olympic Games (2010亞洲運動會), which increased the PRC public's interest in and awareness of sports and fitness, slightly contributed to our growth in the past three years. We provide no assurance that we will be able to sustain similar financial growth or our historical expansion rate in the future.

We believe we currently enjoy relatively high profit margins due to our competitive cost structure and ability to charge higher prices for our products as compared to similar products offered by our competitors. We can provide no assurance that we will continue to maintain our profit margins if our cost structure increases as a result of, among other factors, increased labor, manufacturing (in-house and outsourced), raw materials or transportation costs. Our profit margins may also be materially and adversely affected if we must, in the face of increasing competition, provide more favorable terms to our distributors, such as higher sales discounts.

We may fail to execute our growth strategy or manage our expanded business.

We plan to continue the active expansion of our sales and distribution network nationwide and to develop and expand our sales coverage in second- and third-tier cities, which are rapidly growing markets for indoor sportswear. As of 31 December 2010, our products were sold at 666 retail outlets nationwide and, as of 31 May 2011, our products were sold at 904 *Hosa* retail outlets as well as online sales platforms. We aim to increase the number to over 1,200 *Hosa* retail outlets by the end of December 2011. Our continued growth will impose significant additional responsibilities on our management, including the needs to identify, recruit, train and integrate additional employees, to manage the expansion of our production facilities and to oversee our distribution network. In addition, if we are not able to secure additional funding and financial resources when required, we may not be able to finance our expansion plans. Furthermore, rapid and significant growth may place a strain on our administrative and operational infrastructure, in particular on our internal accounting and financial reporting processes and systems. As our operations expand, we expect that additional resources will be required to manage and oversee new relationships with additional distributors and other parties, including contract manufacturers, raw material suppliers, equipment providers, consultants and others. Our expansion plans will also require us to manufacture and supply more *Hosa*TM products to meet the product supply needs of the growing number of our retail outlets. If we are unable to increase our production capacity commensurate with our growing number of retail outlets, it may be difficult for us to execute our growth strategy. Our ability to manage our operations and growth will require us to continue to improve our operational, financial and management controls, reporting systems and procedures. If we are unable to effectively manage our growth, including the rapid expansion of the distribution network, it may be difficult for us to execute our growth strategy. A decrease in market demand for our products, and a corresponding drop in the sales of

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our products could result in an accumulation of inventory in our distribution network and may materially and adversely affect our business, financial condition, results of operations and prospects. In addition, we may fail to execute our growth strategy due to other factors such as an inability to obtain adequate funding and regulatory limitations, many of which are beyond our control.

Our ability to obtain additional financing may be limited, which could delay or prevent the completion of one or more of our strategies.

We have, to date, financed our working capital and capital expenditure needs primarily through capital contributions and bank loans from local banking institutions and from operating cash flows. We expect that both our working capital needs and our capital expenditure needs will increase in the future as we continue to grow our business. Our ability to raise additional capital will depend on the financial success of our current business and the successful implementation of our key strategic initiatives, financial, economic and market conditions and other factors, some of which are beyond our control. No assurance can be given that we will be successful in raising the required capital at reasonable costs and at the required times, or at all. Further equity financings may have a further dilutive effect on our stockholders. In addition, we currently have significant levels of short-term debt in the form of bank loans which may materially and adversely affect our ability to obtain future loans or obtain debt financing. If we require additional debt financing, lenders may require us to agree on restrictive covenants that could limit our flexibility in conducting future business activities, and the debt service payments may be a drain on our free capital allocated for our operation activities. If we are unsuccessful in raising additional capital or if new capital funding costs are higher than our prior capital funding costs, we may not be able to continue our business operations, and advance our development programs.

Our overseas sales may not be successful or profitable.

During the Track Record Period, we had overseas sales of our products to Europe, North America and Southeast Asia based on purchase orders we received from foreign trading companies or wholesalers. Our past overseas sales accounted for 35.5%, 21.4% and 14.7% of total sales in the years ended 31 December 2008, 2009 and 2010, respectively. While we expect our overseas sales as a percentage of our total revenue to continue to decrease in the future as we aim to continue our active expansion in the domestic market, the success and profitability of our overseas sales still face challenges associated with selling products overseas, such as government intervention, industry regulation and legislative limitations in the overseas markets. Due to a lack of overseas financial, marketing and strategic relationships and alliances, brand recognition, and customer loyalty compared with existing competitors, we may not possess competitive advantages in the overseas markets. In addition, recent financial difficulties and economic conditions in the United States, Europe and other regions had led to an economic slowdown and caused our customers to delay, defer or cancel their purchases, and as a result, our overseas sales decreased significantly in 2009. We can provide no assurance that such risks will not be exacerbated in the event of a prolonged global economic downturn. Accordingly, we cannot guarantee that our overseas sales will be successful and profitable in the future.

The decline in popularity of indoor sports or the number of indoor sports facilities and gymnasiums in China could have a material and adverse effect on us.

The indoor sports wear market in China is mainly driven by overall economic growth, rising standards of living and increasing disposable income of urban populations. The increasing exposure of Chinese consumers to the western lifestyle, which places great emphasis on health and exercise, has been

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driving domestic demand for our *Hosa*TM products. Rising health awareness and growing demand for indoor sports activities among Chinese consumers have also contributed to an increasing number of sports and recreational facilities, fitness gyms and vacation resorts, especially in first-tier cities and particularly since the 2008 Beijing Olympic Games. These facilities are expected to be a key market driver as they are also sales terminals for indoor sports wear products. As of 31 December 2010, we offered our *Hosa*TM products at 62 professional retail outlets, such as clubstores, gyms, swimming pools and vacation resorts. We also strategically leverage the promotion channels of Hosa Fitness Gyms by conducting promotional events and engaging fitness trainers to serve as spokespersons for our brand. If the popularity of indoor sports and the number of indoor sports facilities in China decline for any reason, including but not limited to any economic downturn or the shutdown of our alliance gyms, the sales of our *Hosa*TM products may decrease and, as a result, our business prospects and results of operation may be materially and adversely affected.

End-consumers' demand for our products are subject to seasonality and weather conditions, which could cause our results of operations to fluctuate.

Consumers' demand of swimwear and sports underwear products have historically reflected a certain degree of seasonality, which we expect to continue. In addition, weather conditions, may affect consumers' purchase cycle of swimwear and sports underwear products. Swimwear products usually achieve higher sales for the spring and summer seasons as compared to autumn and winter seasons. In contrast, consumers tend to purchase more sports underwear products during autumn and winter seasons as compared to spring and summer. During the Track Record Period, the seasonality in the consumption of swimwear and sports underwear products at retail outlets was not reflected in our sales, primarily due to the industry practice that we held sales fairs before the retail sales cycle of the respective products started and due to our distributors spreading their purchases into several orders based on our production capacity and their respective inventory management. However, our results of operations may still fluctuate from period to period due to seasonality and weather conditions and comparisons of our sales and operating results between different periods within a single financial year, or between different periods in different financial years, may not be meaningful in isolation and should not be relied on as indicators of our future performance. Furthermore, we cannot assure you that end consumers' seasonal demand or unusual or severe weather or temperatures will not cause a significant decrease in sales of a particular category of our products, in which case our results of operations and financial condition may be materially and adversely affected.

We rely on our key personnel and our ability to attract and retain qualified personnel. Failure to attract, retain and motivate qualified personnel could have a material and adverse effect on us.

We depend on the continued efforts of our senior management team and other key employees for our success. We can provide no assurance that any of our key employees will not voluntarily terminate his or her employment with us. The loss of service of any of our key management, in particular, Mr. Shi Hongliu, our chairman and executive Director, could impair our ability to operate and make it difficult to execute our growth strategy. We may not be able to replace any of such persons within a reasonable period of time or with another person of equivalent expertise and experience, in which case our business and operations may be severely disrupted and our financial condition and prospects could be impaired.

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Our continued success will also depend on our ability to attract and retain qualified management, administrative, research and design, procurement and retail distribution personnel to manage our existing operations and future growth. Qualified individuals are in high demand and we may not be able to successfully attract, assimilate or retain all the personnel we need. We may also need to offer superior compensation and other benefits to attract and retain key personnel and therefore cannot fully assure you that we will have the resources to fully achieve our staffing needs. Our failure to attract and retain qualified personnel and any increase in staffing costs to retain such personnel could have a negative impact on our ability to maintain our competitive position and to grow. As a result, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Our business relies on the proper performance of our information management systems, and any malfunction for extended periods of time could have a material and adverse effect on us.

Our information management systems comprise computerized systems and contain information relating to production, procurement, distribution, inventory and financial functions. See the section headed “Business — Information management systems” for further details. Currently, our database containing operating data and our database containing financial and accounting data are not fully integrated. We can provide no assurance that our information management systems will always operate with a sufficient back-up system and without interruption, malfunction or security risks. Any long-term breakdown of, or any disaster leading to damage to, our hardware systems or to our software systems, any delays in the reconciliation of information within the databases of our information management systems, or other failure of our information management systems from, among other things, viruses and hacking, may materially and adversely affect our ability to operate and manage our business.

As part of our strategy, we plan to use a portion of the proceeds from the Global Offering to gradually upgrade our current system. Such upgrading procedures may require the current information management system to undergo certain business process re-engineering, which may result in interruptions to our business. Furthermore, there may be inherent risks to the use of new software systems in the future, including our ability to integrate them successfully with our existing network system. If any of our present or future information management systems do not function properly, our performance and profitability may be materially and adversely affected.

We may be required to make additional contributions of social insurance under PRC national laws and regulations.

Under PRC national laws and regulations, our subsidiary in the PRC is required to make mandatory contributions to a number of social insurance schemes, such as pension insurance, for its employees who are eligible for such benefits. We provide social insurance to our employees in accordance with local governmental authorities’ implementation policies, and we have received confirmation letters from the local governmental authorities indicating that we have made all requisite contributions to the social security insurance funds in a timely manner according to the local regulations. Due to the different levels of development in social benefits in different parts of the PRC, the local policies in some places where we operate may be less stringent than the requirements under applicable national laws and regulations. We are not aware of any demands for payment from any PRC authority; however, there is no assurance that claims in respect of social insurance contributions under national laws and regulations will not be brought against us in the future. In addition, if the PRC government or the relevant local authorities implement

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more stringent laws and regulations, or interpret the existing laws and regulations more strictly, we may be required to incur additional expenses to comply with such laws and regulations, which in turn may materially and adversely affect our results of operations.

We may not be able to adequately protect our intellectual property rights, which could materially and adversely harm our HosaTM brand and our business.

We believe our trademarks and other intellectual property rights are crucial to our success. Our principal intellectual property rights include trademarks for our HosaTM brand registered by or licensed to us as well as certain domain names. We primarily depend on the PRC laws to protect our trademarks and domain names. Although we rely on the registration of trademarks and domain names to protect our intellectual property rights, this measure may not be sufficient to prevent any misappropriation of our intellectual property or to prevent our competitors from independently developing designs and technologies that are substantially similar to ours. The legal framework governing intellectual property rights in the PRC is still evolving and the level of protection of intellectual property rights in the PRC differs from those in other more developed jurisdictions such as the United States and the United Kingdom. Third parties may infringe upon our intellectual property rights. Our efforts to enforce or defend our intellectual property rights may not be adequate, may require significant attention from our management and may be costly. The outcome of any legal actions to protect our intellectual property rights is uncertain. If we are unable to adequately protect or safeguard our intellectual property rights, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We may be required to defend ourselves against claims of third parties for possible infringement of their intellectual property rights.

We may face claims from time to time that our products infringe upon the intellectual property rights of third parties, including our competitors, regardless of merit. If any legal proceeding against us for infringement of intellectual property rights is successful, and if we are unable to obtain a license for the usage of such intellectual property rights on acceptable terms, or at all, or are unable to design products around such intellectual property rights, we may be prohibited from manufacturing or selling products which are dependent on the usage of such intellectual property. These types of proceedings and their consequences could divert management's attention from our business, and could have a material and adverse effect on our business, financial condition, results of operations and prospects.

Our insurance coverage may not be sufficient to cover the risks related to our operations.

Our operations are subject to hazards and risks normally associated with manufacturing operations in China, which may cause damage to persons or property. Currently, we maintain insurance policies in respect of damage to our property, equipment and facilities and personal injury to employees. We do not maintain business interruption insurance or third-party liability insurance against claims for property damage or environmental liabilities. The occurrence of any of these events may result in interruption of our operations and subject us to significant losses or liabilities. As of the Latest Practicable Date, the majority of our products were sold in the PRC. We are not required under PRC law to maintain, and we do not maintain, any product liability insurance. We believe that it is normal industry practice in China not to have such insurance. In the event that we are found to be liable for a product liability claim, we may have to expend significant financial and managerial resources to defend against such claims. Any losses or liabilities that are not fully covered by our current insurance policies or are not insured at all may have a material adverse effect on our business, results of operations and financial condition.

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Our Hosa™ brand may be damaged if our contract manufacturers or suppliers violate any relevant laws, rules or regulations, particularly in respect of labor and environmental protection.

We place a great emphasis on brand-building and the promotion of our Hosa™ products. In order to protect the reputation of our Hosa™ brand, we strive to adhere to all relevant laws, rules and regulations, particularly in respect of labor and environmental protection. However, we do not exercise any control over the operations of our contract manufacturers and suppliers and are therefore not able to ensure their compliance with applicable laws and regulations. There is therefore no assurance that our contract manufacturers and suppliers will fully comply with all applicable labor and environmental laws, rules and regulations. In the event that our contract manufacturers or suppliers violate any of these laws, rules or regulations, any resulting negative publicity may damage our Hosa™ brand and counter our brand-building efforts. As a result, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We are a holding company and rely on dividend payments from our subsidiaries to fund our cash and financing requirements, including funding dividend payments to our Shareholders.

We are a holding company incorporated in the Cayman Islands and operate our core businesses through our subsidiaries in the PRC. Therefore, the availability of funds for our future cash needs which are not provided for by equity issuances or borrowings, including the funds necessary to pay dividends to our Shareholders, to service the debt we may incur and to pay operating expenses, depends upon dividends received and other distributions from these subsidiaries. If our subsidiaries incur debts or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to us. As a result, our ability to meet our future cash needs may be restricted. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including HKFRS and IFRS. PRC laws also require foreign-invested enterprises to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. In addition, restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to provide capital or declare dividends to us and our ability to receive distributions. Therefore, these restrictions on the availability and usage of our major source of funding may impact our ability to meet our future cash needs, such as the funds necessary to pay dividends to our Shareholders.

In addition, under the *PRC Enterprise Income Tax Law* (中華人民共和國企業所得稅法) (the “EIT Law”), if a foreign entity is deemed to be a “non-resident enterprise” as defined under the EIT Law and its implementation rules, a withholding tax at the rate of 10% may be applicable to any dividends for earnings accumulated since 1 January 2008 payable to the foreign entity, unless it is entitled to reduction or elimination of such tax, including by tax treaties or agreements. According to the double taxation avoidance arrangement between China and Hong Kong, dividends paid by a PRC foreign-invested enterprise, such as Haosha Industry, in China to its shareholders incorporated in Hong Kong, such as Hosa Group, may be subject to withholding tax at a rate of 5% if the Hong Kong company directly holds 25% or more interest in the Chinese enterprise. The State Administration of Taxation (the “SAT”) issued Circular 601 on 27 October 2009 (“Circular 601”) to address which entities are treated as “beneficial owners” under the treaty articles on dividends, interest and royalties. According to Circular 601, the PRC tax authorities must evaluate whether an applicant (income recipient) qualifies as a “beneficial owner” on a case-by-case basis based on the “substance over form” principle. It is possible, based on these

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principles, that the PRC tax authorities would not consider our Hong Kong subsidiary, namely Hosa Group, as the “beneficial owner” of any dividends paid from our PRC subsidiary, namely Haosha Industry, and would deny the claim for the reduced rate of withholding tax. Under current PRC tax law, this would result in dividends from Haosha Industry to Hosa Group being subject to PRC withholding tax at a 10% rate instead of a 5% rate. This would negatively impact us and it would impact our ability to pay dividends.

In addition, until the PRC Shareholders complete the requisite foreign exchange registration with the Fujian branch of SAFE, we may not be able to receive dividends from our sole PRC subsidiary, Haosha Industry, and consequently we may be unable to use funds from our sole PRC subsidiary to make dividends to our Shareholders. There is no assurance that the PRC Shareholders will complete such registrations by the Listing Date. For more information, see “Risk Factors — Risks relating to conducting business in the PRC — Failure to comply with the SAFE regulations relating to the establishment of offshore special purpose companies by PRC residents may materially and adversely affect our business operations.”

Any change in our tax treatment, including preferential corporate tax rates, in the PRC may have a negative impact on our operating results.

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

Under the current tax regime, our PRC subsidiary, namely Haosha Industry, being a foreign invested enterprise engaged in the business of manufacturing and sales, was entitled to an enterprise income tax exemption for its first two years of profitable operations (after offsetting all tax losses carried forward from previous years), which had a significant positive effect on our profit after taxation during the years ended 31 December 2008 and 2009. For the three years ended 31 December 2010, 2011 and 2012, Haosha Industry is and will continue to be entitled to a 50% reduction of its current state enterprise income tax rate of 25%. We expect that upon the expiry of the 50% tax reduction from enterprise income tax currently enjoyed by Haosha Industry, it will be subject to a 25% tax rate and our tax payment will increase from 2013 onwards.

We may experience a shortage of labor or an increase in labor costs, which could have a material adverse effect on our business and results of operations.

As we rely on labor resources for our production, a shortage of labor may materially and adversely affect our results of operations. Labor costs in China have increased in the past few years and if they continue to do so, our production costs may increase, which will have an adverse effect on our business and results of operations. There is no assurance that we will not experience a shortage of labor, increased labor costs or labor disputes against us. Any such negative incidents may cause us to incur additional costs and may result in delays or disruptions to our production.

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Natural disasters, acts of war, political unrest and epidemics, which are beyond our control, may cause damage, loss or disruption to our business.

Natural disasters, acts of war, political unrest and epidemics, which are beyond our control, may materially and adversely affect the economy, infrastructure and livelihood of the people of the PRC. Some cities in the PRC are particularly susceptible to floods, earthquakes, sandstorms, snowstorms and droughts. Our business, financial condition, results of operations and prospects may be materially and adversely affected if such natural disasters occur in places where we operate or sell our products, whether directly or indirectly. Political unrest, acts of war and terrorists attacks may cause damage or disruption to us, our employees, our facilities, the distribution channels operated by our distributors or sub-distributors and our markets, any of which could materially and adversely affect our reputation, business, financial condition, results of operations and prospects. The potential for war or terrorists attacks may also cause uncertainty and cause our business to suffer in ways that we cannot currently predict. In addition, certain Asian countries, including the PRC, have encountered epidemics, such as SARS or incidents of the avian flu. Past occurrences of epidemics have caused different degrees of damage to the national and local economies in the PRC. The recurrence of an outbreak of SARS, avian flu or any other similar epidemic such as the H1N1 flu (swine flu) could cause a slowdown in the levels of economic activity generally, which could in turn materially and adversely affect our results of operations and the price of our Shares.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

A substantial portion of our assets are located in the PRC and the majority of our revenue is derived from our operations in the PRC. As a result, our operations and assets are subject to significant political, economic, legal and other uncertainties associated with doing business in the PRC, which are discussed in more detail below.

Changes in the economic, political and social conditions in the PRC as well as policies adopted by the PRC Government may have a material and adverse effect on China's overall economic growth, which could in turn affect our business, financial condition, results of operations and prospects.

The political, economic and social conditions in the PRC differ from those in more developed countries in many respects, including economic structure, level of government involvement, level of development, growth rate, control of foreign exchange, capital reinvestment and allocation of resources. The economy of the PRC has been transitioning from a planned economy towards a more market-oriented economy. For the past three decades, the PRC Government has implemented economic reform and measures emphasizing the utilization of market forces in economic development. However, a substantial portion of productive assets in the PRC remain state-owned which allows the PRC Government to exercise a high degree of control. The PRC Government continues to play a significant role in regulating industrial development by imposing industrial policies, and there can be no assurance that the PRC Government will continue to pursue a policy of economic reform or that the direction of reform will continue to be market friendly.

Although China has been one of the fastest growing economies in the world as measured by growth in gross domestic product in recent years, its economic growth has been uneven, both geographically and across various sectors of the economy. Concerned that such growth rates and distributions of growth are not sustainable and that economic growth in China has been accompanied by periods of high inflation, the PRC Government has in recent years implemented a series of measures to forestall threatening inflation and to stabilize China's economy, including tightening control over investments and bank loans in certain

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sectors, raising the deposit-reserve ratio for financial institutions and raising the proportion of equity investment in certain sectors. Rising inflation or relevant government mitigating measures in the PRC may affect our ability to obtain external financing and reduce our ability to implement our expansion strategy and may materially and adversely affect our business operations, profitability and growth prospects.

Fluctuations in consumer spending caused by changes in macro-economic conditions and economic downturn in the PRC may materially and adversely affect our business operations and financial performance.

A significant portion of our revenue has been generated in the PRC. Our sales and growth are dependent on consumer consumption and the continued improvement of macroeconomic conditions in the PRC, which in turn depend significantly on worldwide economic conditions and their impact on levels of consumer spending, which have recently deteriorated significantly in many countries and regions and may remain depressed for the near future. An economic downturn in the PRC may result in decreased demand for our products and services, and may materially and adversely affect our business, financial condition, results of operations and prospects. Moreover, we cannot assure you that the demand for indoor sportswear in China will not be adversely affected by further macro-economic measures implemented by the PRC Government and result in a material adverse effect on our business operations and financial performance.

Restrictions by the PRC Government on foreign exchange may limit the liquidity of our Company.

At present, the RMB is not freely convertible to other foreign currencies, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. Under current PRC laws and regulations, payments of current account items, including profit distributions, interest payments and operation-related expenditures, may be made in foreign currencies without prior approval from SAFE, but are subject to procedural requirements including presenting relevant documentary evidence of such transactions and conducting such transactions at designated foreign exchange banks within China that have the licenses to carry out foreign exchange business. Strict foreign exchange control continues to apply to capital account transactions. These transactions must be approved by or registered with SAFE, and repayment of loan principal, distribution of return on direct capital investment and investment in negotiable instruments are also subject to restrictions.

Under our current corporate structure, our sources of funds will primarily consist of dividend payments and repayment of inter-company loans by our subsidiaries in the PRC denominated in Renminbi. We cannot assure you that we will be able to meet all of our foreign currency obligations or be able to remit profits out of China. If the subsidiaries are unable to obtain SAFE approval to repay loans to our Company, or if future changes in relevant regulations were to place restrictions on the ability of the subsidiaries to remit dividend payments to our Company, our Company's liquidity and ability to satisfy its third-party payment obligations, and its ability to distribute dividends in respect of the Shares, could be materially and adversely affected.

Fluctuations in foreign exchange rates may materially and adversely affect our financial condition and results of operations.

The value of the Renminbi against other foreign currencies is subject to changes in the PRC Government's policies and international economic and political developments. Under the previous unified floating exchange rate system, the conversion of Renminbi into foreign currencies, including Hong Kong

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and US dollars, had been based on rates set by the PBOC, which had generally been stable. However, the PRC Government reformed the exchange rate regime on 21 July 2005 by moving into a managed floating exchange regime based on market supply and demand with reference to a basket of currencies. As a result, the Renminbi appreciated against the Hong Kong and US dollars by approximately 2.0% on the same date. On 23 September 2005, the PRC Government widened the daily trading band for Renminbi against non-US dollar currencies from 1.5% to 3.0% to improve the flexibility of the new foreign exchange system.

There has been pressure from foreign countries on China recently to adopt a more flexible currency system that could lead to further appreciation of the Renminbi. The Renminbi may be revalued further against the Hong Kong and US dollars or other currencies, or may be permitted to enter into a full or limited free float, which may result in an appreciation or depreciation in the value of the Renminbi against the Hong Kong and the US dollars or other currencies. It is uncertain if the exchange rates of the Hong Kong and US dollars against the Renminbi will further fluctuate. Any appreciation of the Renminbi may subject us to increased competition from imported indoor sportswear products. Meanwhile, as we purchase a certain proportion of fabrics from overseas suppliers, any depreciation of RMB could possibly increase the cost of importing these products, and if we are unable to pass on the increased cost to our consumers by selling our products at higher prices, our results of operations may be materially and adversely affected. In addition, we plan to deposit the unused proceeds from the Global Offering in bank accounts outside of China without remitting those funds into China and converting them into RMB assets. In the event that the appreciation of Renminbi against the Hong Kong dollar continues, we may incur foreign exchange loss. Furthermore, since our revenue and profits are denominated in Renminbi, any depreciation of Renminbi would materially and adversely affect the value of, and any dividends payable on, our Shares in foreign currency terms, as well as our ability to service our foreign currency obligations.

We may be deemed a PRC resident enterprise under the EIT Law and be subject to PRC taxation on our worldwide income.

Under the EIT Law, enterprises established outside China whose “de facto management bodies” are located in China are considered “resident enterprises” and will generally be subject to the uniform 25% enterprise income tax rate on their global income. Under the implementation rules for the EIT Law, “de facto management bodies” is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise.

The EIT Law and its implementation rules are relatively new and ambiguities exist with respect to the interpretation of the provisions relating to resident enterprise issues. As far as we know, as of the Latest Practicable Date, there have been no official tax rules promulgated regarding the determination of the “de facto management bodies” for foreign enterprises like our Company. However, as substantially all of our management is currently based in China and may remain in China in the future, we may be treated as a PRC resident enterprise for PRC enterprise income tax purposes. If we are deemed as a PRC resident enterprise, we will be subject to PRC enterprise income tax at the rate of 25% on our worldwide income. In that case, dividend income we receive from our PRC subsidiary, namely Haosha Industry, may be exempt from PRC enterprise income tax because the EIT Law and its implementation rules generally provide that dividends received by a PRC resident enterprise from its directly invested entity that is also a PRC resident enterprise is exempt from enterprise income tax. However, as there is still uncertainty as to how the EIT Law and its implementation rules will be interpreted and implemented, we cannot assure you that we are eligible for such PRC enterprise income tax exemptions or reductions.

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Gains on the sales of our Shares by foreign investors and dividends on our Shares payable to foreign investors may become subject to PRC income taxes.

Under the EIT Law and its implementation rules, our Company may in the future be recognized as a PRC resident enterprise by the PRC tax authorities. As such, we may be required to withhold PRC income tax on capital gains realized from sales of our Shares and dividends distributed to Shareholders because such income may be regarded as income from “sources within China”. In such case, our foreign corporate Shareholders may become subject to a 10% withholding income tax under the EIT Law, unless any such foreign corporate Shareholder is qualified for a preferential withholding rate under a tax treaty.

If the PRC tax authorities recognize our Company as a PRC resident enterprise, Shareholders who are not PRC tax residents and who seek to enjoy preferential tax rates under relevant tax treaties will need to apply to the PRC tax authorities for recognition of eligibility for such benefits in accordance with the *Circular of State Administration of Taxation on Printing and Issuing the Administrative Measures for Non-resident Individuals and Enterprises to Enjoy the Treatment Under Taxation Treaties* (關於印發《非居民享受稅收協定待遇管理辦法(試行)》的通知) (“Circular 124”), issued by the SAT on 24 August 2009 and effective on 1 October 2009. According to Circular 124, the 5% tax rate does not automatically apply. It is likely that eligibility will be based on a substantive analysis of the Shareholder’s tax residency and economic substance. With respect to dividends, the beneficial ownership tests under Circular 601 will also apply. If determined to be ineligible for treaty benefits, such a Shareholder would become subject to higher PRC tax rates on capital gains realized from sales of our Shares and on dividends on our Shares. In such circumstances, the value of such foreign Shareholders’ investment in our Offer Shares may be materially and adversely affected.

The PRC legal system is not fully developed and has inherent uncertainties which could limit the legal protections available to us and materially and adversely affect our business operations.

Although our Company is incorporated under the laws of the Cayman Islands, substantially all of our operations are conducted through our subsidiary which is organized under the PRC laws in China. The PRC legal system is based on written statutes, and prior court decisions and judgments can only be cited as reference and are non-binding. China is still in the process of developing a comprehensive statutory framework. Since 1979, the PRC Government has established a commercial law system, and has made significant progress in promulgating laws and regulations relating to economic affairs and matters such as the issuance and trading of securities, shareholder rights, corporate organization and governance, foreign investment, commerce, taxation and trade. However, many of these laws and regulations are relatively new, and the implementation and interpretation of these laws and regulations remain uncertain in many areas. In addition, the PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. Furthermore, the legal protections available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in China may be protracted and could result in substantial costs and diversion of resources and management attention.

It may be difficult to effect service of process on, or to enforce any judgments obtained outside the PRC against, our Company or our Directors or senior management members who reside in the PRC.

The legal framework in China that our Directors, senior management members and substantially all our assets are subject to is materially different in certain areas from that of other jurisdictions, including Hong Kong and the United States, particularly with respect to the protection of minority shareholders.

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While the *PRC Company Law* (中華人民共和國公司法) (the “Company Law”) was amended in 2005 to allow shareholders to commence actions against directors, supervisors, officers or any third party on behalf of a company under certain limited circumstances, the mechanism for enforcement of rights under the corporate governance framework in China is still relatively underdeveloped and untested.

China does not have treaties providing for the reciprocal recognition and enforcement of judgments awarded by courts in many developed countries such as the United States, the United Kingdom and Japan. Therefore enforcement in China of judgments of a court in these jurisdictions may be difficult or even impossible.

Failure to comply with the SAFE regulations relating to the establishment of offshore special purpose companies by PRC residents may materially and adversely affect our business operations.

SAFE issued a public notice in October 2005, namely the Notice of *the State Administration of Foreign Exchange on Relevant Issues Concerning Foreign Exchange Administration on Domestic Residents to Engage in Financing and Roundtrip Investment via Overseas Special Purpose Vehicles* (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (“Circular 75”), requiring PRC residents to register with the local SAFE branch before establishing or controlling any company outside China for the purpose of capital financing with assets or equities of PRC companies, referred to in the notice as an “offshore special purpose company”. In addition, any PRC resident that is a shareholder of an offshore special purpose company is required to amend its SAFE registration within 30 days after any major change in the share capital of an offshore special purpose company without any roundtrip investment being made, such as any increase or decrease of capital, stock right assignment or exchange, merger or division, investment with long term stock rights or credits, or provision of guaranty to a foreign party. The PRC Shareholders, who are domestic residents defined under Circular 75 are in the process of conducting the registrations in respect of the establishment and control of our Company, Ho Born Investment, Well Born Industrial, Zehui Investment, Yixin Investment, Hosa Investment and Hosa Group. Our PRC legal advisers, Jingtian & Gongcheng, have advised us that once our beneficial Shareholders complete the registrations with Fujian branch of SAFE in respect of the establishment and control of our Company, Ho Born Investment, Well Born Industrial, Zehui Investment, Yixin Investment, Hosa Investment and Hosa Group, our Group would not be operationally and financially affected. However, as of the date of this Prospectus, the PRC Shareholders have not completed such requisite registrations with the Fujian branch of SAFE. Furthermore, we may not be fully informed of the identities of all our future Shareholders who are PRC residents and we will not have control over our future Shareholders and cannot assure you that any future PRC resident Shareholders will comply with Circular 75. If the PRC Shareholders fail to complete the Registration pursuant to Circular 75 or if future Shareholders who are PRC residents fail to comply with the registration requirements set forth in Circular 75, such Shareholders and/or the Company’s sole PRC subsidiary, Haosha Industry, may be subject to fines of up to RMB50,000 (in the case of individual Shareholders) and RMB300,000 (in the case of Haosha Industry), and may be issued a warning requiring them to take appropriate remedial action; the Company’s ability to contribute additional capital to Haosha Industry, including the net proceeds received from the Global Offering, may be limited; the ability of Haosha Industry to remit its profits, including the ability to distribute dividends to the Company, and to remit funds resulting from any liquidation, share transfer and capital reduction outside of the PRC may be limited; and other possible punishments could be imposed on such Shareholders and/or Haosha Industry for foreign exchange evasion or other non-compliance with SAFE regulatory requirements. Any or all of the above could materially and adversely affect our business operations. Until such registrations are completed by the PRC Shareholders, we may

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not be able to use funds from Haosha Industry to make dividends to our Shareholders. There is no assurance that the PRC Shareholders will complete such registrations by the Listing Date and no certainty as to when such registrations will be completed.

As a foreign company, our acquisitions of PRC domestic companies may require a longer period of time and be subject to higher levels of scrutiny by the PRC Government.

On 8 August 2006, the MOFCOM, the SAIC, the SAT, the SAFE, the SASAC and the CSRC jointly promulgated rules governing the approval process by which a PRC domestic entity's assets or equity interests may be acquired (the "M&A Regulation"). These rules became effective on 8 September 2006 and were revised and reissued by the MOFCOM in June 2009. The M&A Regulation established additional procedures and requirements, including, but not limited to, the requirement that foreign investors must obtain MOFCOM's approval when they acquire equity or assets of a PRC domestic enterprise through a cross-border share swap. It is generally expected that compliance with the regulations will be more time consuming and costly than in the past and will result in a more extensive evaluation by the PRC Government and result in increased control over the terms of the transaction. Therefore, acquisitions in China by non-PRC entities may face difficulties in completion because the terms of the transaction may not satisfy terms required by regulatory authorities in the approval process. If we decide to acquire a PRC domestic company, the execution of our acquisition plan may become more time-consuming, complex and uncertain, and as a result, our growth prospects could be materially and adversely affected.

RISKS RELATING TO THE GLOBAL OFFERING AND OUR SHARES

There has been no prior public market for our Shares and an active trading market for our Shares may not develop.

Prior to the Global Offering, there has been no public market for our Shares. Our Shares are not listed on any stock exchange or organized trading market, including in the PRC. While we have applied to list and deal in the Shares on the Stock Exchange, we cannot assure you that an active or liquid public market for our Shares will develop or be sustained if developed. The Offer Price of the Shares will be determined through negotiations among us and the Sole Global Coordinator (on behalf of itself and the other Underwriters), and it may not necessarily be indicative of the market price of the Shares after completion of the Global Offering. An investor who purchases Shares in the Global Offering may not be able to resell such Shares at or above the Offer Price and, as a result, may lose all or part of the investment in such Shares. In addition, as there is expected to be a five Business Day gap between the pricing and trading of the Shares offered in the Global Offering, the initial trading price of our Shares could be lower than the Offer Price due to a variety of reasons including material negative events affecting our Company.

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The liquidity, trading volume and trading price of our Shares may be volatile, which could result in substantial losses for Shareholders.

The price at which the Shares will trade after completion of the Global Offering will be determined by the marketplace, which may be influenced by many factors, some of which are beyond our control, including:

- our financial results;
- changes in securities analysts' estimates, if any, of our financial performance;
- the history of, and the prospects for, us and the industry in which we compete;
- an assessment of our management, our past and present operations, and the prospects for, and timing of, our future revenue and cost structures such as the views of independent research analysts, if any;
- the present state of our development;
- the valuation of publicly traded companies that are engaged in business activities similar to ours; and
- general market sentiment regarding indoor sportswear industry and companies.

In addition, the Stock Exchange has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of companies quoted on the Stock Exchange. As a result, investors in our Shares may experience volatility in the market price of their Shares and a decrease in the value of Shares regardless of our operating performance or prospects.

Prior dividend distributions are not an indication of our future dividend policy.

Haosha Industry, our principal operating subsidiary in the PRC, declared a dividend of RMB151.7 million on 12 January 2011 to its then shareholders Haosha H.K. and Haosha Garments.

Historical dividend distributions by our subsidiary are not indicative of our future distribution policy and we give no assurance that dividends of similar amounts or at similar rates will be paid in the future. The timing, amount and currency of any future dividend declaration and distribution by our Company will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors deem relevant. Any declaration and payment as well as the amount of dividends will also be subject to our constitutional documents and the Companies Law, including (where required) the approval of Shareholders. In addition, our future dividend payments will depend upon the availability of dividends received from our subsidiaries in China, which are subject to restrictions described in “— Risks relating to conducting business in the PRC — Gains on the sales of our Shares by foreign investors and dividends on our Shares payable to foreign investors may become subject to PRC income taxes” above. For further details of the dividend policy of our Company, please see the section headed “Financial Information — Dividend policy” in this Prospectus.

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The interests of our Controlling Shareholders may not always coincide with the interests of our Company and our other Shareholders, and the Controlling Shareholders may exert significant control or substantial influence over us and may take actions that are not in, or may conflict with, our and public Shareholders' best interests.

The Controlling Shareholders will in aggregate control the exercise of voting rights of 61.488% of the Shares eligible to vote in the general meeting of our Company immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised). Therefore, the Controlling Shareholders will continue to be able to exercise controlling influence over our business through their ability to control actions which do not require the approval of independent Shareholders. Subject to our Company's Memorandum and Articles as well as the Companies Law, the Controlling Shareholders will also be able to control the election of our Directors, alter our share capital, make amendments to our Company's Memorandum and Articles, determine the timing and amount of our dividends, if any, and pass resolutions to acquire or merge with another company not connected with the Controlling Shareholders. The Controlling Shareholders may cause us to take actions that are not in, or may conflict with, the interests of us or the public Shareholders. In the case where the Controlling Shareholders choose to cause us to pursue objectives that would conflict with the interests of our other Shareholders, such other Shareholders could be left in a disadvantageous position by such actions caused by the Controlling Shareholders and the price of the Shares could be materially and adversely affected.

Potential investors will experience immediate and substantial dilution as a result of the Global Offering and could face future dilution as a result of future equity financings.

Potential investors will pay a price per Share that substantially exceeds the per Share value of our Company's tangible assets after subtracting our Company's total liabilities and will therefore experience immediate dilution when purchasing Offer Shares in the Global Offering. As a result, if our Company were to distribute its net tangible assets to the Shareholders immediately after completion of the Global Offering, potential investors would receive less than the amount they paid for their Shares.

Moreover, we may need to raise additional funds in the future to finance further expansion or new developments relating to our existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro-rata basis to existing Shareholders, the percentage ownership of such Shareholders in our Company may be reduced and such new securities may confer rights and privileges that take priority over those conferred by the Shares.

Sales or the availability for sales of substantial amounts of our Shares in the future could materially and adversely affect the prevailing market price of our Shares.

Sales of substantial amounts of Shares in the public market after the completion of the Global Offering, or the perception that these sales could occur, could adversely affect the market price of our Shares and could materially impair our future ability to raise capital through offerings of our Shares. There will be 1,600,000,000 Shares outstanding immediately after completion of the Global Offering, assuming the Over-allotment Option is not exercised and no outstanding stock options were exercised prior to the Latest Practicable Date. Although we and certain of our Shareholders, subject to certain exceptions, have agreed to a lock-up with the Underwriters until six months after the date of this Prospectus as described under the section headed "Underwriting" in this Prospectus, the Sole Global Coordinator may release these securities from these restrictions at any time and such Shares will be freely tradable after the expiry

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of the Lock-up period. Shares which are not subject to a lock-up represent approximately 25% of the total issued share capital immediately after the completion of Global Offering (assuming the Over-allotment Option is not exercised) and will be freely tradable immediately after completion of the Global Offering.

The costs of share options granted under the Pre-IPO Share Option Scheme and to be granted under the Share Option Scheme may materially and adversely affect our results of operations and any exercise of the options granted will result in dilution to our Shareholders.

Issuance of Shares for the purpose of satisfying any award made under the Pre-IPO Share Option Scheme will increase the number of Shares in issue after such issuance, and thus will result in the dilution to the percentage of ownership of our Shareholders, the earnings per Share and net asset value per Share. If all options are exercised, this would have a dilutive effect on the shareholdings of our Shareholders of approximately 1.265% and a dilutive effect of approximately HK\$0.0026 on earnings per Share such that the forecast earnings per Share for the financial year ending 31 December 2011 will be diluted from HK\$0.2062 to HK\$0.2036.

The value of the options granted under our Pre-IPO Share Option Scheme will be recognized as an expense and amortized on a straight line basis over a period since the date of the grant to the end of the vesting period.

We have also adopted the Share Option Scheme pursuant to which we will in the future grant to our employees options to subscribe to Shares. Such options, if exercised in full, will represent approximately 10% of the issued share capital of our Company immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised).

The fair value of the options at the date of which they are granted with reference to the valuer's valuation will be charged as share-based compensation which may have a negative effect on our results of operations. Issuance of Shares for the purpose of satisfying any award made under the Share Option Scheme will also increase the number of Shares in issue after such issuance, and thus will result in the dilution to the percentage of ownership of the Shareholders, the earnings per Share and the net asset value per Share.

Details of the Pre-IPO Share Option Scheme and the Share Option Scheme and the options granted thereunder are set out in the sections headed "Appendix VI — Pre-IPO Share Option Scheme" and "Share Option Scheme" in this Prospectus.

Investors may face difficulties in protecting their interests because we are incorporated under Cayman Islands law and protection for minority shareholders under Cayman Islands law may be different from those under the laws of Hong Kong and other jurisdictions.

Our corporate affairs are governed by our Memorandum and Articles of Association, and by the Companies Law, and the common law of the Cayman Islands. The law of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes and under judicial precedents in Hong Kong or other jurisdictions. Such differences may mean that the remedies available to the Company's minority shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions. For more details, please refer to the section headed "Appendix V — Summary of the Constitution of Our Company and Cayman Islands Companies Law" in this Prospectus.

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We cannot guarantee the accuracy of certain facts, forecasts and other statistics with respect to China, the economy and the Chinese indoor sportswear industry supplied by other parties contained in this Prospectus.

Certain facts, forecasts and other statistics in this Prospectus relating to China, the economy and the Chinese indoor sportswear industry have been derived from independent third parties, such as Frost & Sullivan, and official publications and we can guarantee neither the quality nor the reliability of such official source materials. We have taken reasonable care in extracting and reproducing such information to ensure that it is not misleading or deceptive, and we have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, the publications and the information contained therein has not been prepared or independently verified by us, nor the Underwriters or any of its or their respective affiliates or advisors and, therefore, we make no representation as to the accuracy of such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside China. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the facts, forecasts and statistics herein may be inaccurate or may not be comparable to information produced by other parties and should not be relied upon. Furthermore, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts, forecasts or statistics and accordingly, such information should not be unduly relied upon.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

MANAGEMENT PRESENCE

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive Directors must be ordinarily resident in Hong Kong. Since our principal business operations and production facilities are located in China, members of our senior management are, and will therefore be expected to continue to be, based in China. At present, Mr. Lai Ho Man, Dickson, our company secretary, is ordinarily resident in Hong Kong but none of our executive Directors are ordinarily resident in Hong Kong or based in Hong Kong. We have applied to the Stock Exchange for a waiver from strict compliance with the requirement under Rule 8.12 of the Listing Rules.

We have received from the Stock Exchange a waiver from compliance with Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) We have appointed two authorized representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal communication channel of communication with the Stock Exchange. The two authorized representatives are Mr. Zeng Shaoxiong, an executive Director and Mr. Lai Ho Man, Dickson, our company secretary who is ordinarily resident in Hong Kong. Mr. Zeng Shaoxiong confirmed that he possessed valid travel documents and can readily travel to Hong Kong. Each of the authorized representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon request and will be readily contactable by telephone, facsimile or e-mail. Each of the two authorized representatives has been authorized to communicate on our behalf with the Stock Exchange;
- (b) The authorized representatives have means of contacting the Directors (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact the Directors on any matter. We have implemented a policy whereby (a) each Director will provide his office phone numbers, mobile phone numbers, residential phone numbers, office facsimile numbers and e-mail addresses to the authorized representatives; (b) in the event that an executive Director expects to travel and be out of office, he will have to provide valid phone numbers of the place of his communication to the authorized representatives; and (c) all Directors will provide their mobile phone numbers, office phone numbers, office facsimile numbers and e-mail addresses to the Stock Exchange;
- (c) We have appointed Haitong International Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules who will have access at all times to our authorised representatives, Directors and other officers, and act as our additional channel of communication with the Stock Exchange for a period commencing on the Listing Date and ending on the date on which we distribute the annual report for the first full financial year after the Listing Date in accordance with Rule 13.46 of the Listing Rules;
- (d) Meetings between the Stock Exchange and our Directors could be arranged through the authorised representatives or our Company's compliance adviser, or directly with our Directors within a reasonable time frame. We will inform the Stock Exchange promptly in respect of any change in our Company's authorised representatives and compliance adviser; and

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (e) All of our Directors who are not ordinarily resident in Hong Kong have confirmed that they possess or can apply for valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange within a reasonable period.

CONNECTED TRANSACTIONS

Members of our Group have entered into certain transactions, which would constitute non-exempt continuing connected transactions of our Company under the Listing Rules after the Listing. Our Company has received from the Stock Exchange a waiver from strict compliance with the announcement and/or independent shareholders' approval requirements set out in Chapter 14A of the Listing Rules for such non-exempt continuing connected transactions. Further details of such non-exempt continuing connected transactions and the waiver are set out in the section headed "Connected Transactions" in this Prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This Prospectus includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purposes of giving information to the public with regard to us. This Prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to us. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this Prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this Prospectus misleading.

UNDERWRITING

This Prospectus is published solely in connection with the Hong Kong Public Offering. For applicants under the Hong Kong Public Offering, this Prospectus and the related Application Forms contain the terms and conditions of the Hong Kong Public Offering.

The Listing is sponsored by the Sole Sponsor. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis, with one of the conditions that the Offer Price is agreed among the Sole Global Coordinator (on behalf of the Underwriters) and us. The International Placing is managed by the Sole Global Coordinator. The International Placing Agreement is expected to be entered into on or about the Price Determination Date, subject to agreement on the Offer Price among the Sole Global Coordinator (on behalf of the Underwriters) and us. If, for any reason, the Offer Price is not agreed among the Sole Global Coordinator (on behalf of the Underwriters) and us, the Global Offering will not proceed. Further details about the Underwriters and the underwriting arrangements are contained in the section headed "Underwriting" in this Prospectus.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which expected to be determined by agreement between the Sole Global Coordinator (on behalf of the Underwriters) and us on or around Thursday, 23 June 2011, and in any event no later than Sunday, 26 June 2011.

If the Sole Global Coordinator (on behalf of the Underwriters) and we are unable to reach an agreement on the Offer Price, the Global Offering will not become unconditional and will lapse.

RESTRICTIONS ON OFFER AND SALE OF SHARES

No action has been taken to permit a public offer of the Offer Shares other than in Hong Kong or the general distribution of this Prospectus and/or the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, this Prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this Prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

authorities or an exemption therefrom. Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to confirm, or be deemed by his acquisition of Hong Kong Offer Shares to confirm, that he is aware of the restrictions on offers and sales of the Offer Shares described in this Prospectus.

The Offer Shares are offered for subscription solely on the basis of the information contained and representations made in this Prospectus and related Application Forms, and on the terms and subject to the conditions set out in this Prospectus and the Application Forms. No person is authorized in connection with the Global Offering to give any information, or to make any representation, not contained in this Prospectus, and any information or representation not contained in this Prospectus must not be relied upon as having been authorized by the Company, the Underwriters, the Sole Sponsor, any of their respective directors or any other persons or parties involved in the Global Offering.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

An application has been made to the Listing Committee for the Listing of, and permission to deal in, the Shares in issue and the Shares to be issued pursuant to the Capitalization Issue, the Shares to be issued pursuant to the Global Offering including any Shares which may fall to be issued upon the exercise of any options that may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme. Dealings in the Shares on the Stock Exchange are expected to commence on 30 June 2011.

No part of the share or loan capital of the Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

Under section 44B(1) of the Companies Ordinance, any allocation made in respect of any application will be invalid if permission for listing of, or dealing in, the Offer Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the three weeks, be notified to the Company by the Stock Exchange.

REGISTER OF MEMBERS AND STAMP DUTY

All Shares issued pursuant to applications made in the Hong Kong Public Offering and the International Placing will be registered on the Company's share register of members to be maintained in Hong Kong by the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited. The Company's principal register of members will be maintained by the Company's principal share registrar, Butterfield Fulcrum Group (Cayman) Limited in the Cayman Islands.

Dealings in the Shares registered on the register of members of the Company in Hong Kong will be subject to Hong Kong stamp duty.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Main Board and the Company's compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

PROFESSIONAL TAX ADVICE RECOMMENDED

Applicants for the Offer Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding and dealing in the Shares. It is emphasized that none of the Company, the Underwriters, the Sole Sponsor, any of their respective directors, agents or advisers or any other persons or parties involved in the Global Offering accepts responsibility for any tax effects or liabilities of holders of Shares resulting from the subscription, purchase, holding or disposal of Shares.

PROCEDURES FOR APPLICATION FOR SHARES

The procedures for applying for the Hong Kong Offer Shares are set out in the section headed “How to Apply for Hong Kong Offer Shares” and on the relevant Applications Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this Prospectus.

EXCHANGE RATE

Solely for your convenience, this Prospectus contains translations of certain Renminbi amounts into Hong Kong dollars and certain U.S. dollar amounts into Hong Kong dollars at specified rates. No representation is made that the Renminbi or U.S. dollar amounts could actually be converted into any Hong Kong dollar amounts at the rates indicated or at all. Unless we indicate otherwise, the translation of Renminbi into HK dollars was made at the rate of HK\$1.00 to RMB0.85093, the exchange rate prevailing on 31 December 2010, set by the PBOC for foreign exchange transactions, and translation of U.S. dollars into Hong Kong dollars was made at the rate of US\$1.00 to HK\$7.7810, the noon buying rate as set forth in the H.10 statistical release of the Federal Reserve Board as of 30 December 2010. Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

ROUNDING

Certain amounts and percentage figures included in this Prospectus have been subject to rounding adjustments. As a result, any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding. Where information is presented in thousands or millions of units, amounts may have been rounded up or down.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. Shi Hongliu (施洪流)	71 Dacuo, Huashan Village, Shenhu County, Jinjiang, Fujian Province, the PRC	Chinese
Mr. Shi Hongyan (施鴻雁)	72 Dacuo, Huashan Village, Shenhu County, Jinjiang, Fujian Province, the PRC	Chinese
Mr. Zeng Shaoxiong (曾少雄)	Room 1006, Haofu Plaza 3/F, Zengkengduan, Northern part of Baqi Road, Shishi, Fujian Province, the PRC	Chinese
Mr. Zhao Yan (趙焰)	Room 901, No. 17, Lane 91, South Jinhui Road, Shanghai, the PRC	Chinese
Independent non-executive Directors		
Mr. Mak Kin Kwong (麥建光)	M6 Floral Villas, 18 Tso Wo Road, Sai Kung NT, Hong Kong	Chinese
Mr. Sun Ruizhe (孫瑞哲)	No. 1408, 40/F, Zhongfangli, Chaoyang District, Beijing, the PRC	Chinese
Mr. Yao Ge (姚戈)	No. 15, Liangmamingju, Tower D, 36 Liangmaqiao Road, Chaoyang District, Beijing, the PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

**Sole Global Coordinator and
Sole Bookrunner**

Merrill Lynch International
2 King Edward Street
London EC1A 1HQ
United Kingdom

Sole Lead Manager

Hong Kong Public Offering
Merrill Lynch Far East Limited
15/F, Citibank Tower
3 Garden Road
Central
Hong Kong

International Placing
Merrill Lynch International
2 King Edward Street
London EC1A 1HQ
United Kingdom

Sole Sponsor

Merrill Lynch Far East Limited
15/F, Citibank Tower
3 Garden Road
Central
Hong Kong

Legal advisers to our Company

As to Hong Kong and United States law:
Orrick, Herrington & Sutcliffe
43/F, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to the PRC law:
Jingtian & Gongcheng
34/F, Tower 3, China Central Place
77 Jianguo Road, Chaoyang District
Beijing 100025
the PRC

As to Cayman Islands law:
Conyers Dill & Pearman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

**Legal advisors to the Sole Sponsor and
the Underwriters**

As to Hong Kong and United States law:
Fried, Frank, Harris, Shriver & Jacobson
9/F, Gloucester Tower, The Landmark
15 Queen's Road Central
Hong Kong

As to the PRC law:
Tian Yuan Law Firm
10/F, China Pacific Insurance Plaza
28 Fengsheng Hutong
Xicheng District
Beijing 100032
China

Auditors and reporting accountants

KPMG
Certified Public Accountants
8/F, Prince's Building
10 Chater Road Central
Hong Kong

Property valuer

BMI Appraisals Limited
33/F, Shui On Centre
6–8 Harbour Road
Wanchai
Hong Kong

Receiving banker

Bank of China (Hong Kong) Limited
1 Garden Road
Hong Kong

Hang Seng Bank Limited
83 Des Voeux Road Central
Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head office and principal place of business in Hong Kong	4105–4108, 41/F Sun Hung Kai Centre 30 Harbour Road Wanchai Hong Kong
Place of business in the PRC	Huashan Industrial Zone Shenhu, Jinjiang Fujian 362246 the PRC
Company's website	<u>www.hosa.cn</u> <i>(information contained in this website does not form part of the Prospectus)</i>
Company secretary	Mr. Lai Ho Man, Dickson (CPA, CTA (HK), FCPA, MBA)
Authorized representatives	Mr. Zeng Shaoxiong Room 1006, Haofu Plaza 3/F, Zengkengduan, Northern part of Baqi Road, Shishi, Fujian Province, the PRC Mr. Lai Ho Man, Dickson Flat C, 16/F, Block T7 Yat Wing Mansion 43 Tai Hong Street Sai Wan Ho Hong Kong
Audit committee	Mr. Mak Kin Kwong (Chairman) Mr. Sun Ruizhe Mr. Yao Ge
Nomination committee	Mr. Zeng Shaoxiong (Chairman) Mr. Sun Ruizhe Mr. Yao Ge

CORPORATE INFORMATION

Remuneration committee	Mr. Zhao Yan (<i>Chairman</i>) Mr. Sun Ruizhe Mr. Yao Ge
Compliance adviser	Haitong International Capital Limited 25/F New World Tower 16–18 Queen’s Road Central Hong Kong
Principal bankers	Bank of China, Jinjiang Branch Shenhu Branch, No. 4 Zhongcheng District Shifeng, Shenhu County, Jinjiang Fujian Province the PRC China Construction Bank, Jinjiang Jinnan Branch Construction Bank Mansion, Yingcuotou Longhu, Jinjiang Fujian Province the PRC
The Cayman Islands principal share registrar and transfer office	Butterfield Fulcrum Group (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 609 Grand Cayman KY1-1107 Cayman Islands
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor Hopewell Centre 183 Queen’s Road East Wanchai Hong Kong

INDUSTRY OVERVIEW

This section contains information and statistics relating to the Chinese economy and the industry in which we operate. We have derived such information and data partly from publicly available government official and other third-party sources which have not been independently verified by us, the Sole Global Coordinator, the Sole Sponsor, the Sole Lead Manager, the Sole Bookrunner, any of the Underwriters or any of their respective affiliates or advisers. Our Directors have taken reasonable care in the reproduction of such information, which may not be consistent with other information compiled within or outside China. We commissioned Frost & Sullivan, an independent market research firm, as an industry consultant to prepare an industry research report, the Frost & Sullivan Report. Frost & Sullivan has over 40 years of industry experience and more than 40 offices around the world. We believe the sources of the information in this section are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any part has been omitted that would render such information false or misleading.

Unless otherwise indicated, information and statistics relating to the global and PRC indoor sportswear industry in this and other sections of this Prospectus have been derived from the Frost & Sullivan Report.

FROST & SULLIVAN REPORT

The Frost & Sullivan Report we commissioned includes information on China's indoor sportswear industry, such as ex-factory revenue, market share and ranking of brand companies, total indoor sportswear consumption, consumption per capita and other economic data, which have been quoted in this Prospectus. Frost & Sullivan's independent research was undertaken through both primary and secondary research obtained from various sources within China's indoor sportswear industry. Primary research involves interviewing leading industry participants, such as indoor sportswear manufacturers and industry associations. Secondary research involves reviewing company reports, independent research reports and data based on Frost & Sullivan's own research database. The total consideration for Frost & Sullivan's commission amounts to RMB618,000, which we consider to reflect market rates.

According to Frost & Sullivan, the majority of indoor sportswear manufacturers conduct both wholesales through distributors and direct retail sales at varying ratios. In wholesales through distributors, indoor sportswear manufacturers sell their products at ex-factory prices, whereas the same products are sold at marked-up retail prices in direct retail sales to end-consumers. In order to ensure the comparability of sales information among indoor sportswear manufacturers, Frost & Sullivan has chosen to report market size and market share information in terms of ex-factory revenue, which it believes better represents the value of the goods that the manufacturers produced. For each manufacturer, its ex-factory revenue consists of its revenue generated from wholesales to distributors and, if applicable, its direct retail sales revenue discounted by the wholesale discount given by the manufacturer to distributors. Unless otherwise indicated, all market size information below refers to domestic ex-factory revenue in China, and export sales are not included.

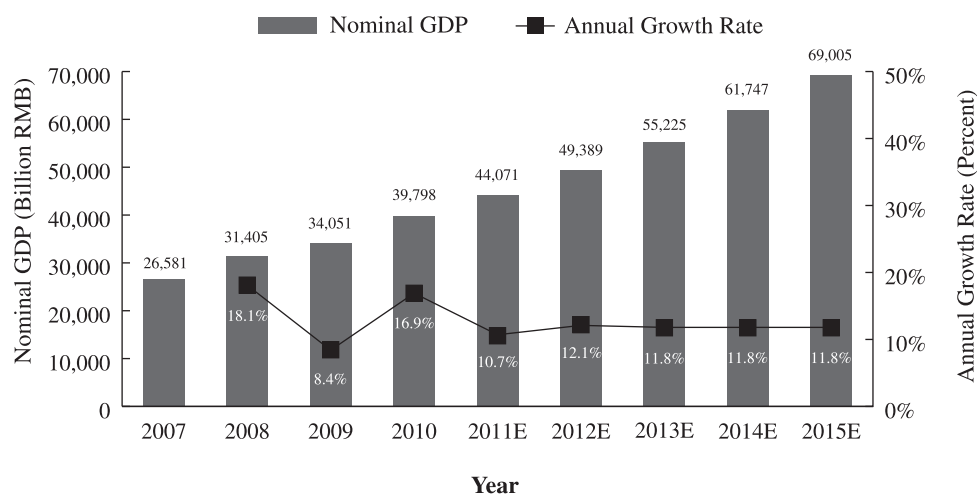
INDUSTRY OVERVIEW

RAPID ECONOMIC GROWTH IN CHINA

Growth of China's Economy

China is one of the world's fastest growing economies. China's nominal gross domestic product, or GDP, increased from approximately RMB26,581 billion in 2007 to approximately RMB39,798 billion in 2010, representing a CAGR of 14.4%. In 2008 and 2009, despite the impact of the economic recession caused by the global financial crisis, China's nominal GDP increased by 18.1% and 8.4%, respectively, from the year before. The International Monetary Fund, or IMF, predicts that, with favorable government policies and global economic recovery, China's nominal GDP will reach approximately RMB69,005 billion by 2015, representing a CAGR of 11.6% in RMB from 2010 to 2015. The following chart sets forth the historical and projected nominal GDP of China from 2007 to 2015:

Nominal GDP (China), 2007–2015E



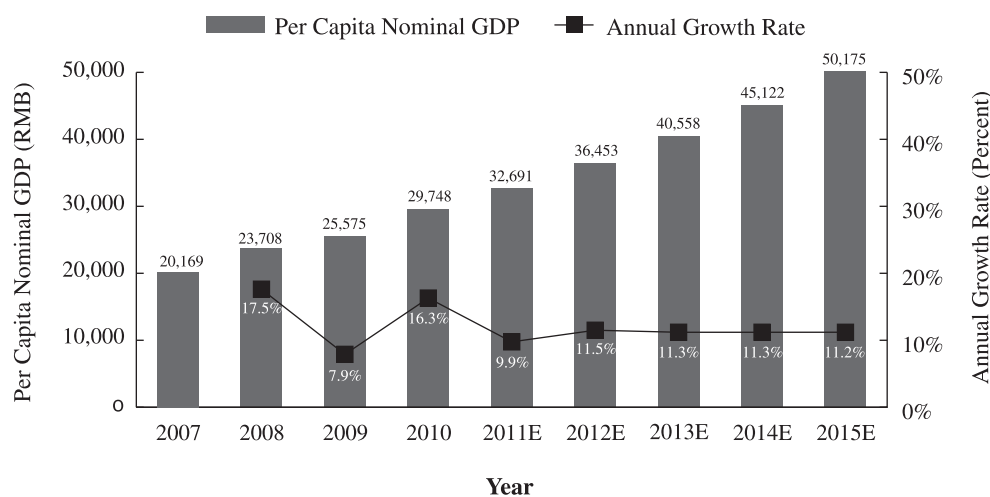
Note: All data has been rounded.

Source: Historical data is from the National Bureau of Statistics of China. Projected data is from the International Monetary Fund. The base year for the projected data is 2009.

INDUSTRY OVERVIEW

With the rapid development of the Chinese economy, per capita nominal GDP has also grown quickly, from RMB20,169 in 2007 to RMB29,748 in 2010, representing a CAGR of 13.8%. Per capita GDP is forecasted to reach RMB50,175 in 2015, at a CAGR of 11.0% from 2010 to 2015. The following chart sets forth the historical and projected per capita nominal GDP of China from 2007 to 2015:

Per Capita Nominal GDP (China), 2007–2015E



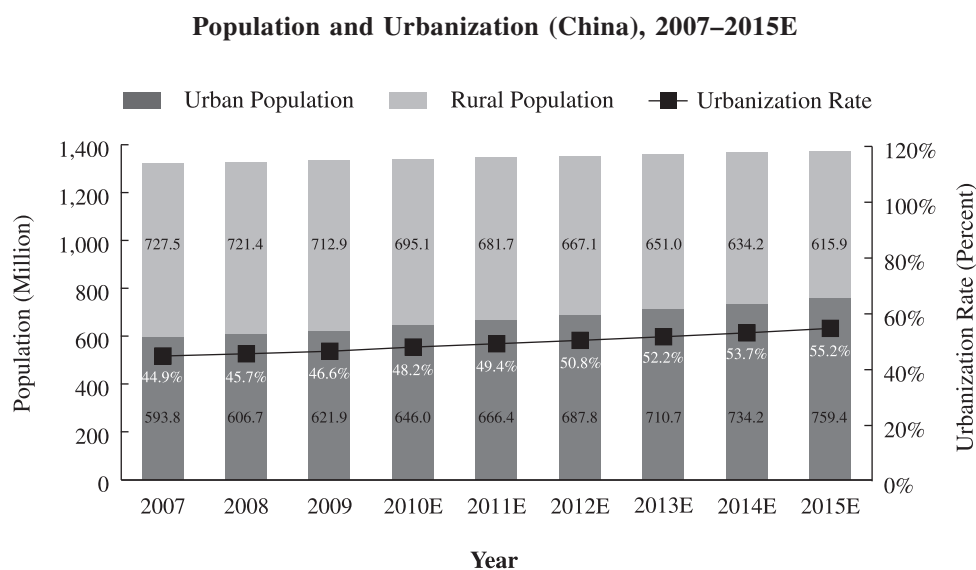
Note: All data has been rounded.

Source: Historical data is from the National Bureau of Statistics of China. Projected data is from the International Monetary Fund. The base year for the projected data is 2009.

INDUSTRY OVERVIEW

Growth of Urban Populations

The economic growth of China has been accompanied by rapid urbanization. Populations in large urban cities have increased with the influx of people from rural and less developed areas. From 2007 to 2010, the total urban population increased from 593.8 million to an estimated 646.0 million and the urbanization rate increased from 44.9% to an estimated 48.2%. The urban population is expected to reach 759.4 million by 2015, achieving the urbanization rate of 55.2%. This trend in urbanization, along with the large population base, is anticipated to create an attractive consumer group both in size and in purchasing power. The chart below illustrates the historical and projected urbanization trend in China from 2007 to 2015:



Note: All data has been rounded.

Source: Historical data is from the National Bureau of Statistics of China. Projected data on total population is from the International Monetary Fund; projected data on urban population is from Frost & Sullivan. The base year for the projected data is 2009.

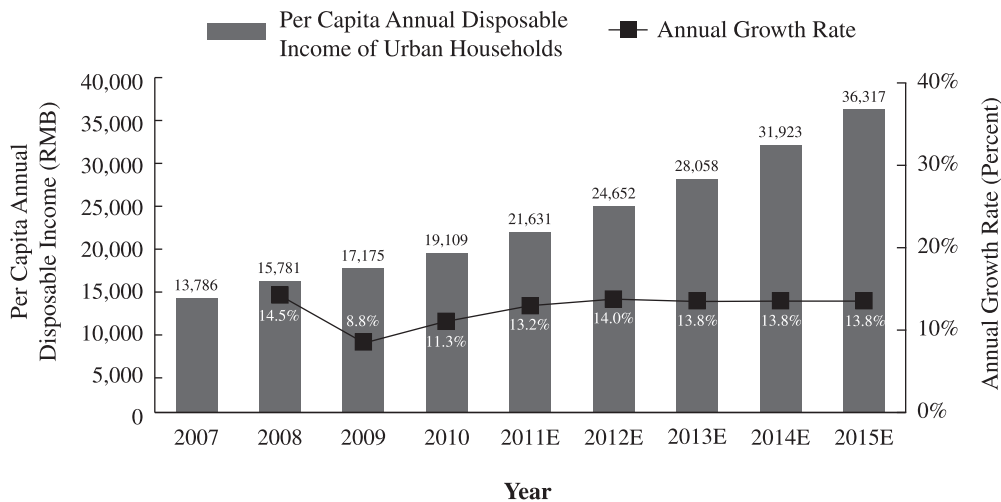
INDUSTRY OVERVIEW

STRONG GROWTH IN DISPOSABLE INCOME AND RETAIL SALES IN CHINA

Growth in Disposable Income of Urban Households in China

As a result of China's rapid economic growth, income levels of urban households have witnessed tremendous growth. From 2007 to 2010, the per capita annual disposable income of urban households increased from RMB13,786 to RMB19,109, representing a CAGR of 11.5%. Given the expected continued growth of China's economy, the per capita annual disposable income of urban households is estimated to reach RMB36,317 by 2015, representing a CAGR of 13.7% from 2010 to 2015. The chart below illustrates the historical and projected increase in per capita disposable income of urban households in China from 2007 to 2015:

Per Capita Annual Income of Urban Households (China), 2007–2015E



Note: All data has been rounded.

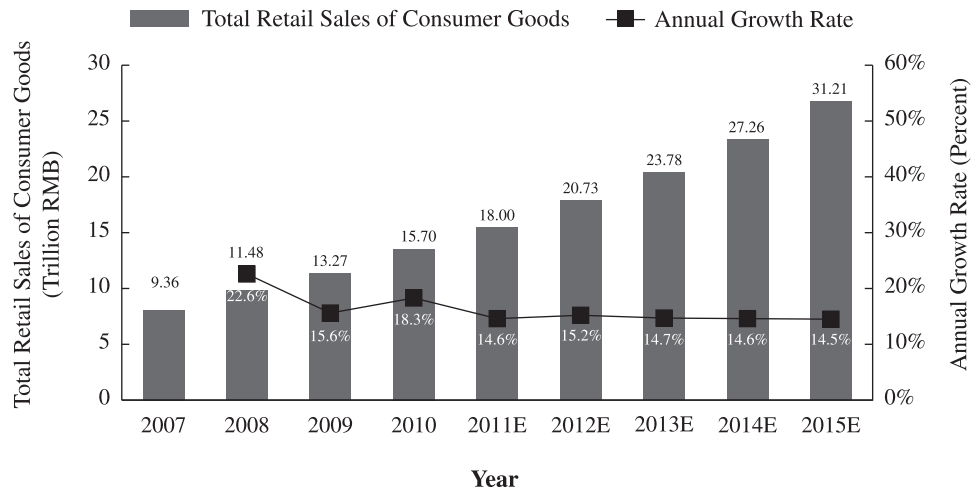
Source: Historical data is from the National Bureau of Statistics of China. Projected data is from Frost & Sullivan. The base year for the projected data is 2010.

INDUSTRY OVERVIEW

Substantial Growth in China's Retail Market

China's market for consumer goods has been expanding rapidly amid strong growth in China's GDP, rapid urbanization and increasing disposable income of urban households. Consumer spending, as measured by the total value of retail sales of consumer goods, has grown from approximately RMB9.36 trillion in 2007 to RMB15.70 trillion in 2010, representing a CAGR of 18.8%. According to Frost & Sullivan, consumer spending in China is expected to further increase to RMB31.21 trillion in 2015 to achieve a CAGR of 14.7% from 2010 to 2015. The chart below illustrates the historical and projected retail sales of consumer goods and their annual growth rates in China from 2007 to 2015:

Total Retail Sales of Consumer Goods (China), 2007–2015E



Note: All data has been rounded.

Source: Historical data is from the National Bureau of Statistics of China. Projected data is from Frost & Sullivan. The base year for the projected data is 2010.

INDUSTRY OVERVIEW

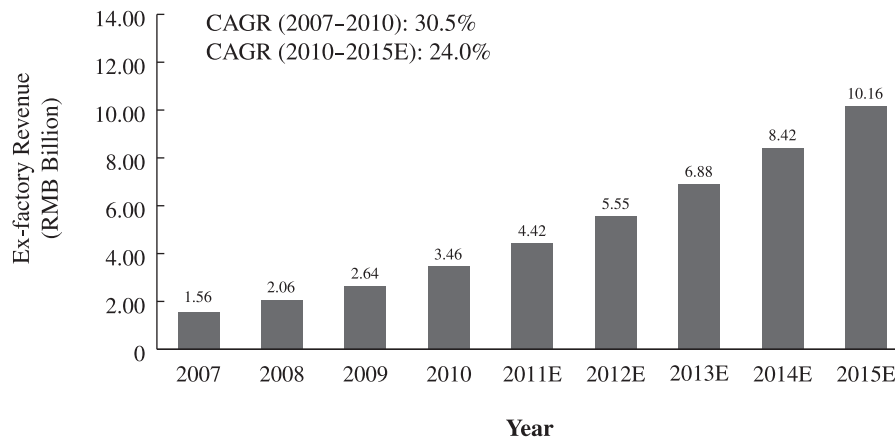
THE INDOOR SPORTSWEAR INDUSTRY

Overview

The indoor sportswear industry consists of swimwear, fitness wear and sports underwear sectors, which share a high degree of similarity in their manufacturing techniques and consumer group. All three sectors of swimwear, fitness wear and sports underwear frequently adopt flexible and highly stretchable fibers to produce tight-fitting active wear for people who exercise in fitness gyms and other locations for indoor sports activities, such as indoor swimming pools. Therefore, although swimming is an activity that could be carried out both outdoors and indoors, it is a common industry practice for manufacturers of indoor sportswear products to include swimwear as an essential component of their business.

The indoor sportswear industry has developed rapidly in recent years in China, with a CAGR of 30.5% from 2007 to 2010. The Chinese indoor sportswear market achieved revenue of RMB3.46 billion in 2010. According to Frost & Sullivan, the indoor sportswear market is expected to reach RMB10.16 billion by 2015, representing a CAGR of 24.0% from 2010 to 2015. The following chart sets forth the historical and projected total indoor sportswear ex-factory revenue from 2007 to 2015:

Indoor Sportswear Market: Ex-factory Revenue (China), 2007–2015E

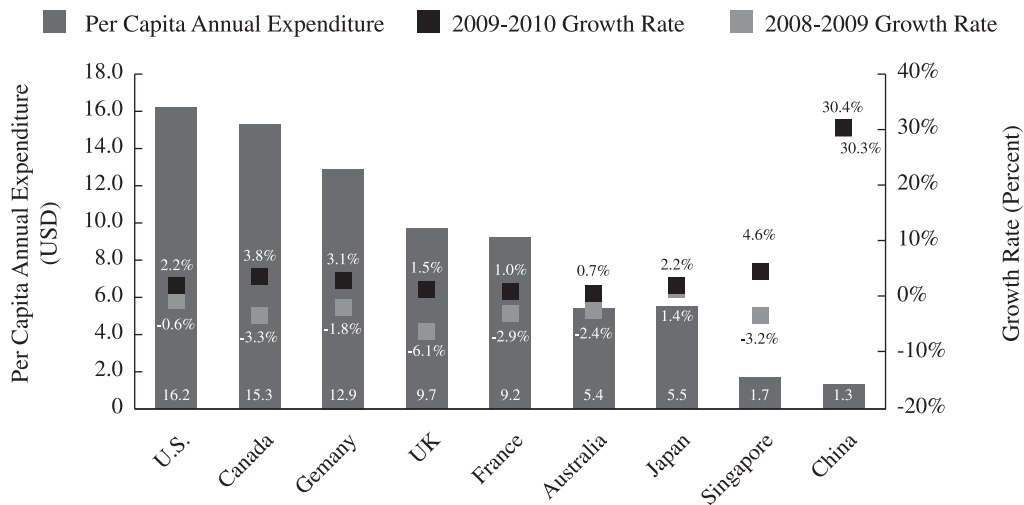


Source: Frost & Sullivan

INDUSTRY OVERVIEW

The growth potential of the indoor sportswear market in China is further demonstrated by the rapidly growing total indoor sportswear expenditure per capita. According to Frost & Sullivan, although the total indoor sportswear expenditure per capita in China was approximately US\$1.3 in 2010 and much lower than such expenditure in other countries, the annual per capita expenditure on indoor sportswear increased at the tremendous speed of 30.4% from 2009 to 2010 in China, while most developed economies experienced substantially slower growth. From 2008 to 2009, the annual per capita expenditure on indoor sportswear in China increased by 30.3%, while several countries experienced negative growth as a result of the global financial crisis. The following chart sets forth the total indoor sportswear expenditure per capita in 2010 and its growth rate over 2009 for China and various other countries:

**Indoor Sportswear Market: Annual Per Capita Expenditure
(Selected Countries), 2010**



Source: Frost & Sullivan

Domestic and foreign brands compete in China's indoor sportswear industry. While the industry consists of a large number of players due to its attractive growth opportunities, the top few brands in each market sector account for a considerable amount of the market share. According to Frost & Sullivan, the top five brands in the swimwear, fitness wear and sports underwear market sectors accounted for 15.0%, 12.8% and 43.0% of the total domestic ex-factory sales in their respective sectors in 2010, and our Hosa™ brand ranked first in all three sectors.

Being one of the world's fastest growing economies, China has achieved strong growth for both nominal GDP and its urban households' disposable income from 2007 to 2010, which are expected to continue growing over the forecasted period. According to Frost & Sullivan, China has been one of the countries least affected by the global financial crisis and the positive macroeconomic factors in China provide a healthy business environment as well as consumer confidence in spending on items other than food and essentials. The increasing exposure of Chinese consumers to the western lifestyle, which places great emphasis on health and exercise, has been driving domestic demand for sportswear. The initiatives of national and local tourism authorities to promote sport activities for a healthier population are also an important driver for the general prosperity of the sports industry.

INDUSTRY OVERVIEW

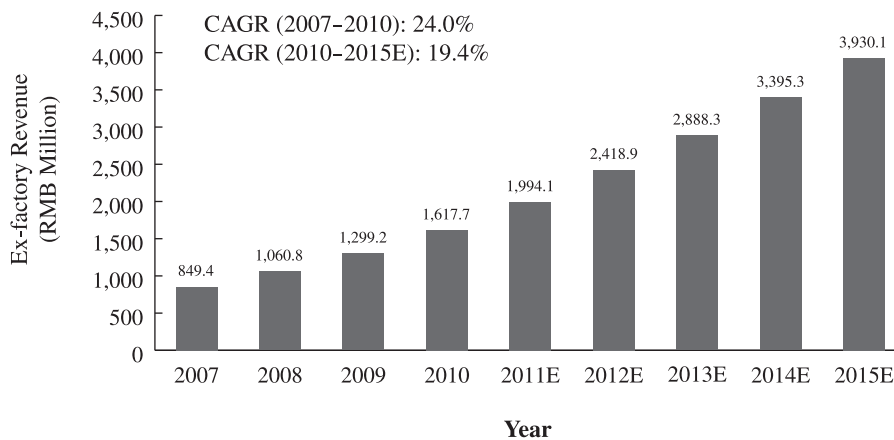
Sales and Distribution Channels

Indoor sportswear manufacturers engage in wholesales distribution as well as direct sales to end-consumers. Under the wholesales distribution model, distributors or franchisers purchase products from manufacturers at a discounted wholesale price and distribute such products to sub-distributors and end-consumers. This channel is widely used by manufacturers, who take advantage of the wholesale distribution model to achieve larger sales coverage, especially in second- and third-tier cities, or to explore new business regions. In direct sales, by comparison, manufacturers directly place their products for sales to end-consumers through sales terminals, such as self-owned shops and self-operated concessionary retail outlets. Direct sales tend to enable tighter control and management of sales terminals. Some indoor sportswear manufacturers conduct both direct retail sales and wholesales distribution at different ratios.

The Swimwear Market Sector

The swimwear market sector accounted for 46.7% of the indoor sportswear market in China in 2010. Swimwear refers to a type of apparel designed particularly for leisure or competitive aquatic activities. Swimwear products include swimsuits as well as related accessories, such as goggles and swim caps, for men, women and children. China's swimwear market grew from RMB849.4 million in 2007 to RMB1,617.7 million in 2010, at a CAGR of 24.0% from 2007 to 2010. Such growth has been mainly attributable to ongoing urbanization, rising standards of living and purchasing power in China as well as the boom of China's sports industry following the 2008 Olympic Games, which have driven the increase in both the sales volume and unit price of swimwear products. According to Frost & Sullivan, the swimwear market sector in China is expected to reach RMB3,930.1 million by 2015, representing a CAGR of 19.4% from 2010 to 2015. The chart below illustrates the historical and projected ex-factory domestic revenue for the swimwear sector in China from 2007 to 2015:

Chinese Swimwear Market: Ex-factory Revenue in Domestic Market (China), 2007–2015E



Source: Frost & Sullivan

INDUSTRY OVERVIEW

Competitive landscape

Our *Hosa*TM brand is the leading brand name for swimwear in China, capturing the largest market share among all domestic and multinational swimwear brands in China in 2010. The following chart sets forth the market share of each of the top five swimwear brands in China in 2010:

China's Swimwear Market: Top Five Brands by Domestic Ex-factory Revenue⁽¹⁾ (2010)

Ranking	English Brand Name	Chinese Brand Name	Brand Origin ⁽²⁾	Market Share
1	Hosa	浩沙	China	6.1%
2	Arena	阿瑞娜	France	2.6%
3	Zoke	洲克	China	2.4%
4	Speedo	速比濤	The U.S.	2.3%
5	Heatwave	熱浪	Taiwan	1.6%
Total Ex-factory Revenue of Top Five Brands				15.0% ⁽³⁾

Notes:

- (1) Ex-factory revenue from accessories was included in the calculation of total ex-factory revenue for all brands listed above except Hosa.
- (2) Brand origin refers to the country or region where the brand was first registered.
- (3) Market share for the top five brands is calculated based on the total domestic ex-factory revenue of the top five brands divided by the total ex-factory revenue of China's swimwear market, and may differ from the sum of the individual market shares of the top five brands due to rounding.

Source: Frost & Sullivan

The principal bases of competition for swimwear brands are distribution channels, price and quality, brand recognition and product functionality and design. According to Frost & Sullivan, competition is relatively high in the Chinese swimwear market, as manufacturers with strong competitive edge, brand recognition and products of agreeable quality are abundant. A small number of well established suppliers are the market leaders with respect to positive brand image, sales channels, mid-to-high end market share and professional product offerings, which are considerable barriers to entry for new enterprises who wish to establish a sound brand name or compete in the mid-to-high end segment.

Market segmentation

According to Frost & Sullivan, the swimwear market sector in China can be segmented into mid-to-high end and low-to-mid end markets based primarily on the retail label price of women's swimwear products. Such parameter was employed for swimwear market segmentation in order to exclude any bias that may be caused by price gaps between different products in the swimwear market, namely men's

INDUSTRY OVERVIEW

swimwear, women's swimwear and children's swimwear, which vary considerably in retail label price. The mid-to-high end segment mainly includes brands whose majority of women's swimwear products had retail label prices of above RMB295 per set in 2010. Mid-to-high end swimwear brands in China include Hosa™, Arena, Zoke, Speedo and Heatwave, among others. The low-to-mid end swimwear segment, in which the retail label price for the majority of women's swimwear products fell below RMB295 per set in 2010, is mainly composed of local brands.

The chart below illustrates the historical and projected ex-factory revenue of swimwear brands by market segments:

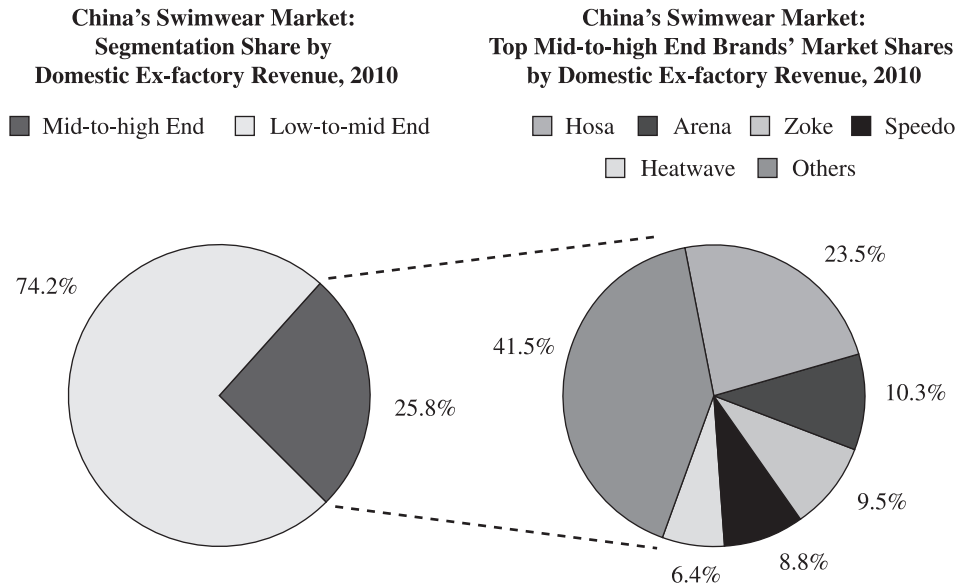


Source: Frost & Sullivan

In 2010, the mid-to-high end market segment contributed to 25.8% of all swimwear sales. As standards of living and health awareness continue to rise for Chinese consumers, indoor aquatic facilities are expected to be increasingly available within urban community establishments and at vacation resorts and the demand for mid-to-high end swimwear is expected to rise rapidly. The mid-to-high end swimwear segment is forecasted to grow at a CAGR of 25.6% from 2010 to 2015. By comparison, the low-to-mid end segment is forecasted to achieve a CAGR of 17.0% over the same period.

INDUSTRY OVERVIEW

Our *Hosa*TM brand accounted for 23.5% of the mid-to-high end swimwear market in China in 2010. The charts below illustrate the share of the mid-to-high end segment in China's swimwear market as well as the market shares of mid-to-high end swimwear brands in 2010:



Note: Ex-factory revenue from accessories was not included in the calculation of total ex-factory revenue for Hosa.

Source: Frost & Sullivan

Growth drivers

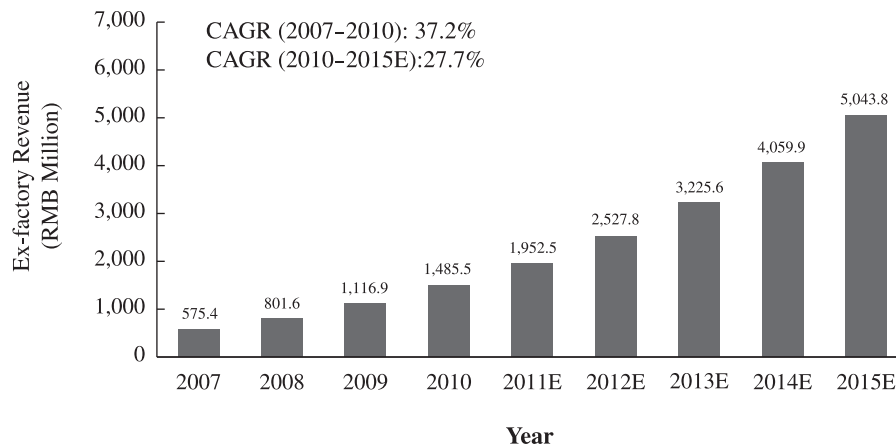
For the swimwear market sector, rising standards of living and increasing urbanization in China are expected to be its primary drivers in the next five years. As standards of living in China continue to rise, there has been rising health awareness and a growing demand for leisure activities among Chinese consumers. The number of sports and recreational facilities, fitness gyms and vacation resorts with swimming pools has been on the rise. The positive trend for traveling has also created greater opportunities for people to engage in aquatic activities. In addition, the high urbanization rate of China is expected to create an increasing population who are more frequently adapting to indoor sports activities including swimming, thereby driving the demand for swimwear products in China. Prolonged sales seasons are also expected to drive the growth of the swimwear market sector, as more people swim in the winter and spend their vacations at hot springs. The national and local tourism authorities have initiated several programs, such as annual hot spring festivals in Chongqing and Hubei Province, to promote hot spring tourist sites throughout China.

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The Fitness Wear Market Sector

The fitness wear market sector accounted for 42.9% of the indoor sportswear market in China in 2010. Fitness wear refers to a type of apparel designed particularly for indoor, non-aquatic fitness exercises, such as yoga, pilates, anaerobic exercise, boxing, dance and so on. Fitness wear is often distinguished from regular sports apparel by its use of functional materials and design to achieve properties of moisture management, breathability and elasticity. Fitness wear products include apparel for men, women and children, such as yoga suits and fitness pants. China's fitness wear market grew from RMB575.4 million in 2007 to RMB1,485.5 million in 2010, at a CAGR of 37.2% from 2007 to 2010. Such growth was mainly attributable to the growing trend of people pursuing healthy lifestyles, the rising enthusiasm among the Chinese population for fitness exercises, and the increasing prevalence of wearing professional fitness attires to such activities. According to Frost & Sullivan, China's fitness wear sector is expected to reach RMB5,043.8 million by 2015, representing a CAGR of 27.7% from 2010 to 2015. The chart below illustrates the historical and projected ex-factory domestic revenue for the fitness wear market sector in China from 2007 to 2015:

Chinese Fitness Wear Market: Ex-factory Revenue in Domestic Market (China), 2007–2015E



Source: Frost & Sullivan

INDUSTRY OVERVIEW

Competitive landscape

Our *Hosa*TM brand is the leading brand name for fitness wear in China, capturing the largest market share among all domestic and multinational fitness wear brands in China in 2010. The following chart sets forth the market share of each of the top five fitness wear brands in China in 2010:

China's Fitness Wear Market: Top Five Brands by Domestic Ex-factory Revenue (2010)

<u>Ranking</u>	<u>English Brand Name</u>	<u>Chinese Brand Name</u>	<u>Brand Origin⁽¹⁾</u>	<u>Market Share</u>
1	Hosa	浩沙	China	4.6%
2	Zoke	洲克	China	2.1%
3	Sunyoga	遠陽瑜伽	China	2.1%
4	Decathlon	迪卡儂	France	2.1%
5	Pieryoga	皮爾瑜伽	China	1.9%
Total Ex-factory Revenue of Top Five Brands				12.8%⁽²⁾

Notes:

- (1) Brand origin refers to the country or region where the brand was first registered.
- (2) Market share for the top five brands is calculated based on the total domestic ex-factory revenue of the top five brands divided by the total ex-factory revenue of China's fitness wear market, and may differ from the sum of the individual market shares of the top five brands due to rounding.

Source: Frost & Sullivan

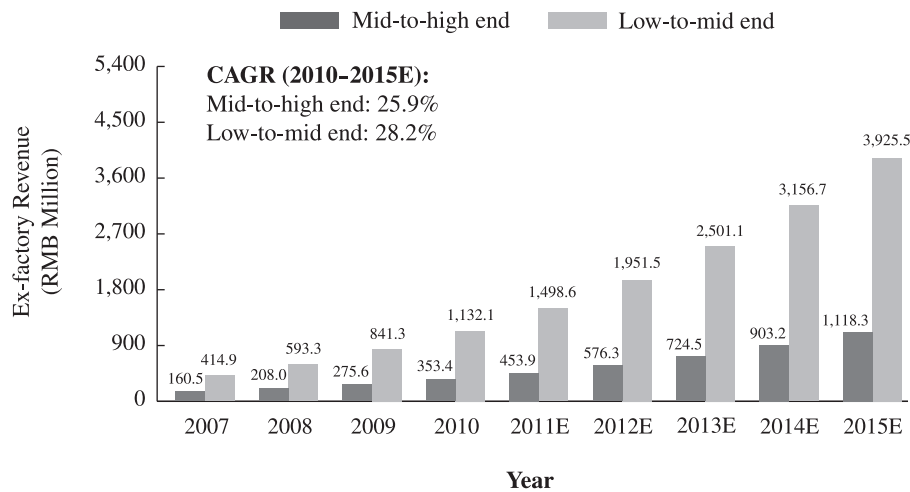
Given that the fitness wear market sector is at an early growth stage, the principal bases of competition for fitness wear brands include early market entry to secure dominance in sales channels, brand awareness, product quality and functionality, and market positioning and pricing.

INDUSTRY OVERVIEW

Market segmentation

According to Frost & Sullivan, the fitness wear market sector in China can be divided into mid-to-high end and low-to-mid end markets based primarily on the retail label price of women's fitness wear products. Such parameter was employed for fitness wear market segmentation in order to exclude any bias that may be caused by price gaps between men's and women's products in the fitness wear market, which vary considerably in retail label price. *Hosa*TM, *Zoke*, *Sunyoga* and *Pieryoga* have the most significant presence in the mid-to-high end segment for fitness wear, in which the retail label price for the majority of a brand's products for women reached above RMB200 per unit in 2010. The low-to-mid end segment, in which the retail label price for the majority of a brand's products for women was no higher than RMB200 per unit in 2010, also has significant presence in the Chinese fitness wear market. The chart below illustrates the historical and projected ex-factory revenue of fitness wear brands by market segments:

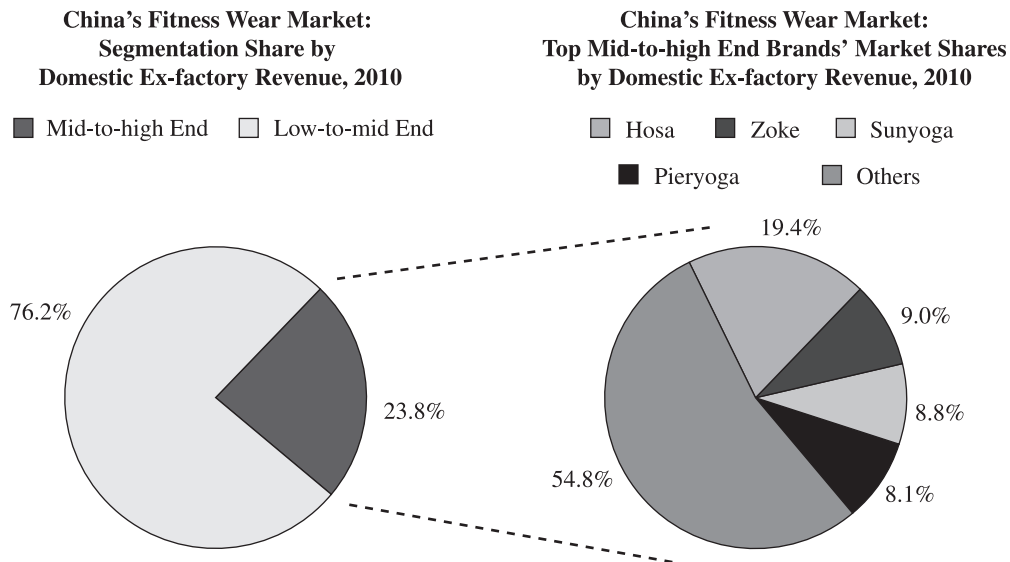
China's Fitness Wear Market Segmentation, 2007–2015E



Source: Frost & Sullivan

INDUSTRY OVERVIEW

Our *Hosa*TM brand accounted for 19.4% of the mid-to-high end fitness wear market in China in 2010. The charts below illustrate the share of the mid-to-high end segment in China's fitness wear market as well as the market share of mid-to-high end fitness wear brands in 2010:



Source: Frost & Sullivan

Growth drivers

For the fitness wear market sector, the rising disposable income in urban households, rapid urbanization and increasing health awareness in China are expected to be its primary growth drivers in the next five years. With the economic development, rising awareness of health issues and increasing exposure to western lifestyles as a result of urbanization, fitness centers and gymnasiums have opened across the nation, especially in first-tier cities and after the 2008 Beijing Olympic Games. These facilities are expected to be a key market driver in the next three to five years, as they serve not only as venues for sports activities, but also as sales terminals for fitness wear. In addition, government initiatives to promote the health of the general population, such as the establishment of “National Sports and Exercises Day” after the 2008 Beijing Olympic Games, have cultivated stronger health awareness among people in China and may thus contribute to the growth of the fitness wear market sector.

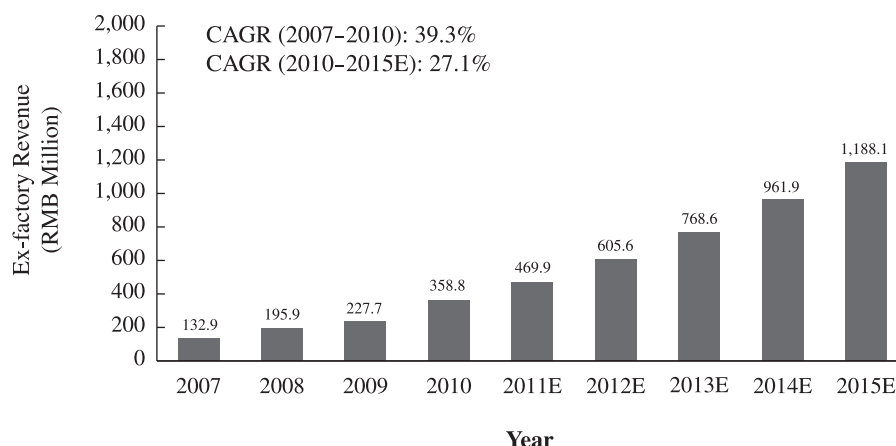
The Sports Underwear Market Sector

China's sports underwear market sector was newly born in the mid-2000s. In 2010, the sports underwear market sector accounted for 10.4% of the indoor sportswear market in China. Sports underwear refers to a type of underwear particularly designed to enhance exercise efficiency during sports activities. To enhance exercise efficiency, sports underwear has high requirements for its material, cut-out and production techniques such that it achieves properties of body shaping and support, elasticity, moisture management and breathability. Sports underwear thus differentiates itself from regular underwear in its functionality for sporting activities, and often utilizes functional materials such as Lycra fibers and thermal fabrics. China's sports underwear market grew rapidly from RMB132.9 million in 2007 to RMB358.8 million in 2010, at a CAGR of 39.3% from 2007 to 2010. According to Frost & Sullivan, the sports

INDUSTRY OVERVIEW

underwear sector in China is expected to reach RMB1,188.1 million by 2015, representing a CAGR of 27.1% from 2010 to 2015. The chart below illustrates the historical and projected ex-factory domestic revenue for the sports underwear market sector in China from 2007 to 2015:

China's Sports Underwear Market: Ex-factory Revenue in Domestic Market (China), 2007–2015E



Source: Frost & Sullivan

Competitive landscape

Our *Hosa*TM brand is the leading brand name for sports underwear in China, capturing the largest market share of 31.1% among all domestic and multinational sports underwear brands in China in 2010. The following chart sets forth the ex-factory revenue and market share of each of the top five sports underwear brands in China in 2010:

China's Sports Underwear Market: Top Five Brands by Domestic Ex-factory Revenue (2010)

Ranking	English Brand Name	Chinese Brand Name	Brand Origin ⁽¹⁾	Market Share
1	Hosa	浩沙	China	31.1%
2	Adidas	阿迪達斯	Germany	4.9%
3	Nike	耐克	The U.S.	3.2%
4	LYY	林櫻櫻	Hong Kong	2.1%
5	Aimer	愛慕	China	1.6%
Total Ex-factory Revenue of Top Five Brands				43.0% ⁽²⁾

Notes:

- (1) Brand origin refers to the country or region where the brand was first registered.
- (2) Market share for the top five brands is calculated based on the total domestic ex-factory revenue of the top five brands divided by the total ex-factory revenue of China's sports underwear market, and may differ from the sum of the individual market shares of the top five brands due to rounding.

Source: Frost & Sullivan

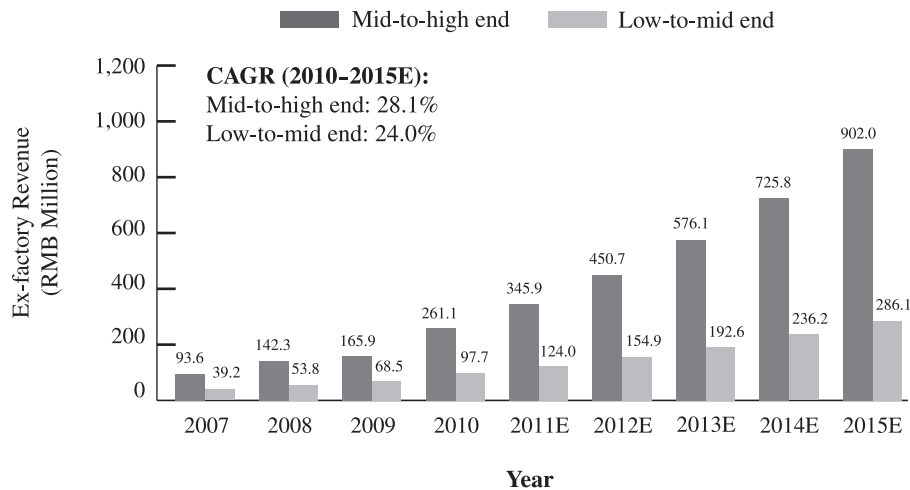
INDUSTRY OVERVIEW

The sports underwear market sector is at an early development stage and the principal bases of competition for sports underwear brands are early market entry, product functionality and design, comprehensive product portfolio, brand awareness, sales channels and consumer education.

Market segmentation

According to Frost & Sullivan, the sports underwear market sector in China can be segmented into mid-to-high end and low-to-mid end markets based primarily on the retail label price of the products. The mid-to-high end segment for sports underwear mainly consists of *Hosa*TM, Adidas, Nike, LYY and a few other brands for which the majority of products had retail label prices of above RMB75 per unit in 2010. This segment accounted for 72.8% of all sports underwear sales in China in 2010. The low-to-mid end segment is composed of brands for which the majority of products have retail label prices that were below RMB75 per unit in 2010. The chart below illustrates the historical and projected ex-factory revenue of sports underwear brands by market segments:

China's Sports Underwear Market Segmentation, 2007–2015E

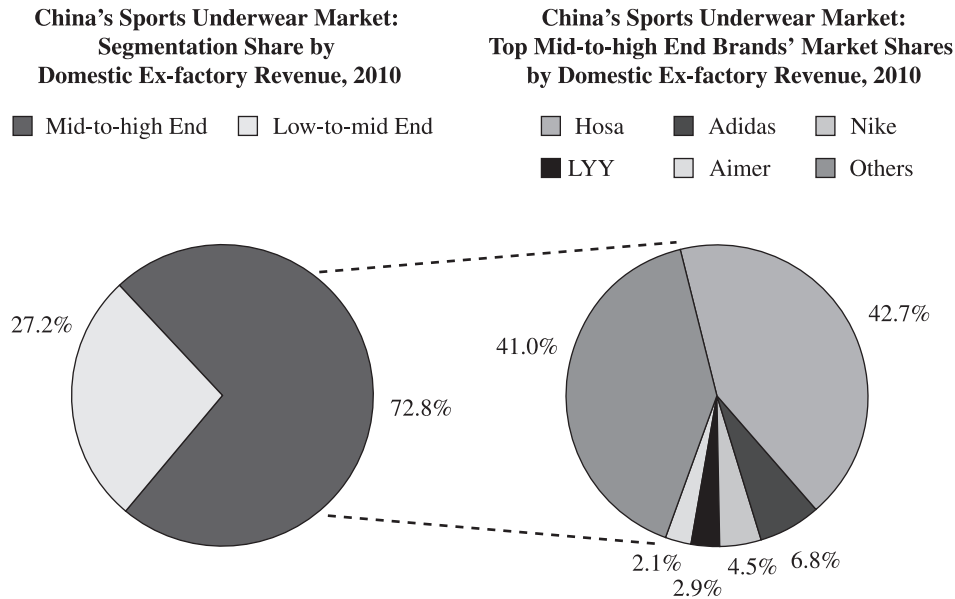


Source: Frost & Sullivan

According to Frost & Sullivan, the mid-to-high end segment is expected to achieve rapid growth at a CAGR of 28.1% from 2010 to 2015. The low-to-mid end segment is also expected to show vigorous growth over the same period at a CAGR of 24.0%. However, growth of the low-to-mid end segment may be hindered by technology requirements and updates, which are comparatively unaffordable to small players, thereby resulting in a slower growing pace than the mid-to-high end segment.

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Our *Hosa*TM brand accounted for 42.7% of the mid-to-high end sports underwear market in China in 2010. The charts below illustrate the share of the mid-to-high end segment in China's sports underwear market as well as the market share of mid-to-high end sports underwear brands in 2010:



Source: Frost & Sullivan

Growth drivers

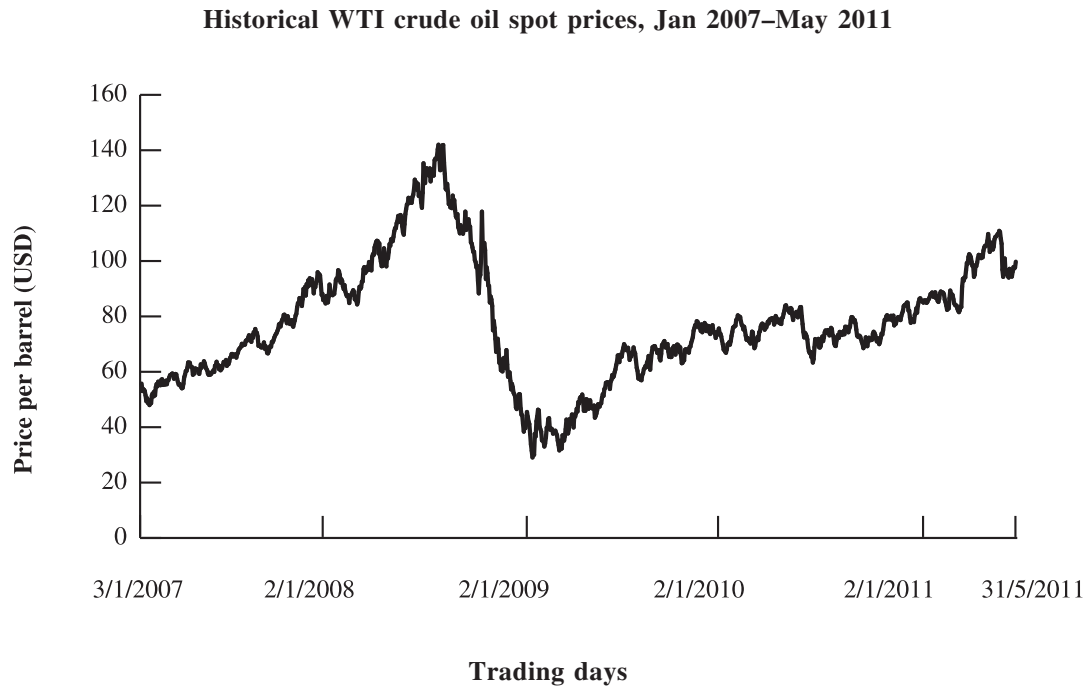
Rising standards of living in China have led to growing health awareness, increasing spending on sports activities and a greater demand for functional, high-quality sportswear among Chinese consumers, which are expected to be the primary drivers for the sports underwear market sector in the next five years. The rapid growth in the number of fitness centers and gymnasiums is also a major driver for the sports underwear market, since fitness trainers at such locations expose consumers to the necessity of professional indoor sportswear, including sports underwear. Positive macroeconomic factors, the prosperity of the sports industry in general and the development of functional material technologies are also expected to contribute to the growth of the sports underwear market sector.

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Factors that Affect the Indoor Sportswear Industry

Prices of raw materials

Prices of some raw materials used in the manufacturing of indoor sportswear products, such as polyamide fibers and terylene fabrics are affected by fluctuations in crude oil prices. According to Bloomberg, WTI crude oil spot prices rose to record levels in July 2008 and then dropped significantly in the second half of 2008. Prices have been on the rise since their record lows in early 2009. The following chart sets forth the spot prices of crude oil on trading days during the period from January 2007 to 31 May 2011:



Source: Bloomberg

Furthermore, cotton prices have remained at relatively high levels in the past several years. According to the China National Cotton Exchange, average cotton prices were approximately RMB13,600 per ton, RMB13,200 per ton and RMB19,900 per ton in 2008, 2009 and 2010, respectively.

REGULATIONS

Our Group's operations are mainly carried out by our Company's subsidiary in the PRC. The establishment and operations of such subsidiary shall comply with the laws and regulations in respect of:

Establishment, Operation and Management of a Wholly Foreign-owned Enterprise

The establishment, operation and management of corporate entities in the PRC are governed by the Company Law, which generally governs two types of companies — limited liability companies and joint stock limited companies. The Company Law applies to foreign-invested companies as well.

The establishment procedures, verification and approval procedures, registered capital requirement, foreign exchange restriction, accounting practices, taxation and labor matters of wholly foreign-owned enterprises are also regulated by *the Wholly Foreign-owned Enterprise Law of the PRC* (中華人民共和國外資企業法), which was promulgated on 12 April 1986 and amended on 31 October 2000, and *the Implementation Regulation of the Wholly Foreign-owned Enterprise Law* (中華人民共和國外資企業法實施細則), which was promulgated on 12 December 1990 and amended on 12 April 2001.

Investment in the PRC by foreign investors is governed by *the Guidance Catalogue of Industries for Foreign Investment* (外商投資產業指導目錄) (the “Catalogue”), which was promulgated by the Ministry of Commerce of the PRC and the National Development and Reform Commission of the PRC on 31 October 2007 and became effective on 1 December 2007. The Catalogue is a long-standing tool that PRC policymakers have used to manage and direct foreign investment. The Catalogue divides industries into three basic categories: encouraged industries, restricted industries and prohibited industries. Foreign-invested enterprises in encouraged industries are often permitted to establish wholly foreign-owned enterprises. Parts of industries in the restricted category may be limited to equity or contractual joint ventures, in some cases with the Chinese partner as the majority shareholder. Restricted category projects are also subject to higher-level government approvals. Industries in the prohibited section are closed to foreign investment. Industries for foreign investment that do not fall within the categories of encouraged, restricted or prohibited industries are permitted industries for foreign investment. Permitted industries for foreign investment are not listed in the Catalogue. The business we operate is under the catalogue of permitted industries for foreign investment.

Internet Information Service

According to *the Telecommunications Regulations of the PRC* (中華人民共和國電信條例), which were promulgated and became effective on 25 September 2000, telecommunication businesses are divided into basic telecommunication services and value-added telecommunication services.

Pursuant to *the Administrative Measures for Internet Information Services* (互聯網信息服務管理辦法), which was promulgated and became effective on 25 September 2000, internet information services include commercial and non-commercial services. The term “commercial internet information services” means service activities such as provision of information services, website production or other service to online subscribers through internet for profit, while the term “non-commercial internet information services” means the service activity of provision of information that is in the public domain and openly accessible to online subscribers through internet without charge. An entity who wishes to engage in the provision of commercial internet information services shall apply to the telecommunications administration authority of the province, autonomous region or municipality directly under the central government or the

REGULATIONS

State Council's department in charge of the information industry for an Internet Information Services Value-added Telecommunications Service Operating Permit. An entity who wishes to engage in the provision of non-commercial internet information services shall carry out record-filing measures with the telecommunications administration authority of the province, autonomous region or municipality directly under the central government or the State Council's department in charge of the information industry.

According to the verbal consultations with the Advice Center of China Academy of Telecommunication Research of MIIT (工業和信息化部電信研究院諮詢中心), operators conduct internet sales via internet platforms provided and operated by third parties are not required to obtain Internet Information Services Value-added Telecommunications Service Operating Permit nor to carry out record-filing procedures.

Our Group does not conduct internet sales directly, but engaged a distributor to distribute its products via internet platforms. As far as we are aware of, our distributor distributes its products via the websites, namely "www.taobao.com" and "www.paipai.com", which are provided and operated by third parties.

Taxation

Income tax

According to the EIT Law, which was promulgated on 16 March 2007 and became effective on 1 January 2008, the income tax rate for both domestic and foreign-invested enterprises is 25% commencing 1 January 2008. The EIT Law provides certain transitional arrangements for enterprises established prior to 16 March 2007 (i) where the foreign-invested enterprises enjoyed reduced tax rates under then effective laws and regulations, such reduced tax rate must be gradually increased to coincide with the Income Tax Law within five years starting from 2008; and (ii) where the foreign-invested enterprises are entitled to tax holidays for a fixed period under then effective laws and regulations, such tax holidays may continue until expiry. However, if the enterprise fails to be able to take advantage of the tax holiday due to a lack of profit, the year 2008 will be regarded as the first profit-making year and the tax holiday will be deemed to have started in 2008. In order to clarify certain provisions in the EIT Law, *the Implementation Regulation of the Enterprise Income Tax Law of the PRC* (中華人民共和國企業所得稅法實施條例) was promulgated on 6 December 2007 and became effective on 1 January 2008.

According to *the Notice of the State Council on the Implementation of the Enterprise Income Tax Transitional Preferential Policy* (國務院關於實施企業所得稅過渡優惠政策的通知) issued on 26 December 2007 and which became effective on 1 January 2008, enterprises which previously enjoyed the 15% preferential tax rate shall gradually transit from this preferential tax rate to the unified 25% tax rate within five years commencing 1 January 2008. The transitional tax rates applied to such enterprises are 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012. Enterprises which previously enjoyed the 24% preferential tax rate shall apply the unified 25% tax rate from 1 January 2008.

Value-added Tax

Pursuant to *the Provisional Regulations on Value-added Tax of the PRC* (中華人民共和國增值稅暫行條例), which was amended on 5 November 2008 and which became effective on 1 January 2009, all entities or individuals in the PRC engaged in the sale of goods, processing services, repair and

REGULATIONS

replacement services, and the importation of goods are required to pay value-added tax (“VAT”). VAT payable is calculated as “output VAT” minus “input VAT”, and the rate of VAT is 17% or in certain limited circumstances, 13%, depending on the products.

Product Quality

The Product Quality Law of the PRC (中華人民共和國產品質量法) (the “Product Quality Law”) was promulgated on 22 February 1993 and amended on 8 July 2000.

Pursuant to the Product Quality Law, a seller is obliged:

- to adopt a check-for-acceptance system for stock replenishment to examine the quality certificates and other labels of such stock;
- to take measures in keeping products for sale in good quality;
- not to sell defective or deteriorated products or products;
- to sell products with labels that comply with the relevant provisions;
- not to forge the origin of a product, or to forge or falsely use the name and address of another producer;
- not to forge or falsely use product quality marks such as authentication marks; and
- not to add impurities or imitations into the products, substitute a fake product for a genuine one, a defective product for a high-quality one, or pass off a substandard product as a qualified one in the sale of products.

Pursuant to the Product Quality Law, a producer shall:

- be responsible for the quality of products it produces;
- not produce products that have been ordered to cease production;
- not forge the origin of a product, or to forge or falsely use the name and address of another producer;
- not forge or falsely use product quality marks such as authentication marks;
- not add impurities or imitations into the products, substitute a fake product for a genuine one, a defective product for a high-quality one, or pass off a substandard product as a qualified one in the production;
- ensure that the marks on the products or the packaging of the products are originals; and

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- ensure that, for products that may be easily broken, or are inflammable, explosive, toxic, erosive or radioactive and products that cannot be handled upside down in the process of storage or transportation or for which there are other special requirements, the packaging meets the corresponding requirements, carries warning marks or warnings written in Chinese or draws attention to the method of handling.

Violations of the Product Quality Law may result in the imposition of fines. In addition, the seller or producer may be ordered to suspend its operations and its business license may be revoked. Criminal liability may be incurred in serious cases.

According to the Product Quality Law, consumers or other victims who suffer injury or loss of property due to product defects may demand compensation from the producer as well as the seller. Where the responsibility lies with the producer, the seller shall, after settling compensation, have the right to recover such compensation from the producer, and vice versa.

Consumer Protection

The Consumer Protection Law of the PRC (中華人民共和國消費者權益保護法) (the “Consumer Protection Law”) was promulgated on 31 October 1993 and became effective on 1 January 1994.

The Consumer Protection Law sets out standards of behavior which business operators must observe in their dealings with consumers, including the following:

- goods and services provided to consumers must comply with the Product Quality Law and other relevant laws and regulations, including requirements regarding personal safety and protection of property;
- providing consumers with true information and advertising concerning goods and services, as well as providing true and clear answers to questions raised by consumers concerning the quality and use of goods or services provided by them;
- issuing purchase or service vouchers to consumers in accordance with relevant national regulations or business practices;
- ensuring the quality, functionality, applications and duration of the normal use of the goods or services and ensuring that the actual quality of the goods or services are consistent with those displayed in advertising materials, product descriptions or samples;
- properly performing its responsibilities for guaranteed repair, replacement and return or other responsibilities in accordance with national regulations or any agreement with the consumer; and
- not setting unreasonable or unfair terms for consumers or excluding themselves from civil liability for undermining the legal rights and interests of consumers by means of, among others, standard contracts, circulars, announcements or shop notices.

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Violations of the Consumer Protection Law may result in the imposition of fines. In addition, the business operator may be ordered to suspend its operations and its business license may be revoked. Criminal liability may be incurred in serious cases.

According to the Consumer Protection Law, a consumer whose legal rights and interests are prejudiced during the purchase or use of goods may demand compensation from the seller. Where the responsibility lies with the manufacturer or another seller that provides the goods to the seller, the seller shall, after settling compensation, have the right to recover such compensation from that manufacturer or that other seller. Consumers or other injured parties who suffer injury or property loss due to product defects in certain commodities may demand compensation from the manufacturer as well as the seller. Where the responsibility lies with the manufacturer, the seller shall, after settling compensation, have the right to recover such compensation from the manufacturer, and vice versa.

Environmental Protection

According to the *Environmental Protection Law of the PRC* (中華人民共和國環境保護法) (the “Environmental Protection Law”), which was promulgated and became effective on 26 December 1989:

- any entity that discharges pollutants must establish environmental protection rules and adopt effective measures to control or properly treat waste gas, waste water, waste residues, dust, malodorous gasses, radioactive substances, noise, vibration and electromagnetic radiation and other hazards it produces;
- any entity that discharges pollutants must report to and register with the relevant environmental protection authorities; and
- any entity that discharges pollutants in excess of the prescribed national or local standards must pay a fee therefore.

An entity failing to comply with the Environmental Protection Law may be subject to various penalties imposed by the relevant environmental protection authorities, depending on the circumstances of each case and the extent of contamination. Penalties may include warnings, fines, imposition of deadlines for remedying the contamination, orders to suspend production or use, orders to re-install contamination prevention and treatment facilities that have been removed without permission or left unused, orders to close down the enterprises, or orders to compensate any parties affected by the contamination. In case of serious violations, the responsible persons may also be subject to criminal liabilities.

According to the PRC laws and regulations relating to environmental protection, upon completion of the construction project, certain check and acceptance procedures should be conducted to ensure that the construction of the required environmental protection facilities has been properly completed. Our PRC subsidiary, namely Haosha Industry, has completed the environmental check and acceptance procedures for its construction projects in May 2011.

Labor and Insurance

Pursuant to the *PRC Labor Law* (中華人民共和國勞動法), which became effective as of 1 January 1995, the *PRC Labor Contract Law* (中華人民共和國勞動合同法), which became effective as of 1 January 2008, and the *Implementation Regulations of the PRC Labor Contract Law* (中華人民共和國勞動

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合同法實施條例), which became effective as of 18 September 2008 (collectively, the “Labor Laws”), employers are obliged to enter into written labor contracts with employees. Employers must comply with the Labor Laws in all aspects, including without limitation to compensating their employees with wages in an amount equal to or above the local minimum wage standards, establishing and perfecting a labor safety and sanitation system. Violations of the Labor Laws may result in the imposition of fines or other administrative liabilities. Criminal liability may arise for serious violations.

According to *Interim Regulations Concerning the Levy of Social Insurance* (社會保險費徵繳暫行條例) and *the Interim Measures Concerning the Management of the Registration of Social Insurance* (社會保險登記管理暫行辦法), which became effective as of 22 January 1999 and 19 March 1999, respectively, employers in the PRC must register for social insurance with the competent authorities, and make contributions to basic pension insurance, basic medical insurance and unemployment insurance for their employees. Under the PRC laws and regulations, our PRC subsidiary, namely Haosha Industry, is required to make mandatory contributions to a number of social insurance funds for its employees who are eligible for such benefits. Due to the different levels of development in social benefits in different parts of the PRC, the local requirements regarding the social insurance in the place where we operate are less stringent than the requirements under applicable national laws and regulations. However, we provide social insurance to our employees in accordance with local requirements, and we have received the confirmation letter from the local governmental authority confirming that (i) we have made contributions to the social insurance funds according to the local requirements, (ii) we are not in arrears of social insurance funds, and (iii) we have not been punished for not paying the social insurance funds in timely manner. Please see “Risk Factors — Risks relating to our business operations — We may be required to make additional contributions of social insurance under PRC national laws and regulations.”

According to *the Regulation Concerning the Administration of Housing Fund* (住房公積金管理條例) implemented since 3 April 1999 and amended on 24 March 2002, employers in the PRC must register with the housing fund management center. Employers will then need to open housing fund accounts with specified banks for their employees and contribute to the fund at a rate of not less than 5% of the employee’s average monthly salary in the previous year.

According to *the Interim Measures Concerning the Maternity Insurance* (企業職工生育保險試行辦法) effective as of 1 January 1995, the employers in the PRC must pay maternity insurance premiums for their employees.

According to *the Regulations on Occupational Injury Insurance* (工傷保險條例) effective as of 1 January 2004 and amended on 20 December 2010, employers in the PRC must pay occupational injury insurance fees for their employees.

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Production Safety Law

According to the *PRC Production Safety Law* (中華人民共和國安全生產法) (the “Production Safety Law”), which became effective as of 1 November 2002, production facilities shall be equipped with the conditions for safe production as provided in the Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards. Any entity that is not equipped with the conditions for safe production may not engage in production and business operation activities. The unit shall offer education and training programs to the employees thereof regarding production safety. The designing, manufacturing, installation, using, checking, maintenance, reforming and claiming as obsolete of safety equipments shall be in conformity with the national standards or industrial standards. In addition, the production facilities shall provide labor protection equipments that meet the national standards or industrial standards to the employees thereof, supervise and educate them to wear or use these equipments according to the prescribed rules.

Our PRC legal advisers, Jingtian & Gongcheng, have advised that, save as disclosed in “Risk Factors — Risks relating to our business operations — 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 the relevant PRC laws and regulations in all material aspects, including laws and regulations relating to environmental protection, labor and safety.

OUR HISTORY AND DEVELOPMENT

Our Hosa Indoor Sportswear Business

We are principally engaged in the design, manufacture and sale of indoor sportswear products under our *Hosa*TM brand. Our history can be traced back to October 1996 when Haosha Garments was established and primarily engaged in the manufacture and sale of swimwear, fitness wear and accessories. At the time of its establishment, the interests of Haosha Garments were owned as to 10% by the Residential Committee of Huashan Village Shenhui County of Jinjiang City (晉江市深滬鎮華山村村民委員會) (the “Committee”), and 90% by Mr. Shi Hongyan who was also a beneficial owner and held such equity interests in his name on trust for his two brothers Mr. Shi Hongliu and Mr. Shi Huangpao, his father Mr. Shi Yangqiao and his brother-in-law Mr. Wu Changda. As the Committee neither actually paid for its proportional capital contribution nor was involved in the operation of Haosha Garments, on 15 March 2000, the Committee and all the beneficial owners entered into a shareholder agreement in which the Committee agreed to transfer its equity interests in Haosha Garments at nil consideration to Mr. Shi Hongyan who acted as the trustee. Consequently, Haosha Garments was beneficially owned as to 35% by Mr. Shi Hongliu, 25% by Mr. Shi Hongyan, 20% by Mr. Wu Changda, 10% by Mr. Shi Yangqiao and 10% by Mr. Shi Huangpao. The trust arrangement existed because each of beneficial owners believes that it would be easier for one person, namely, Mr. Shi Hongyan, to act on their behalf in all negotiation and communication with the Committee and handle all the affairs of Haosha Garments. Our PRC legal advisers, Jingtian & Gongcheng, have confirmed that the trust arrangement did not violate any PRC laws and regulations and was valid and binding among the parties involved. In January 2000, Haosha Garments introduced a new product category of sports underwear to capture the huge market potential in China. On 28 April 2000, the five beneficial owners were registered with Jinjiang Administration Bureau for Industry and Commerce (晉江市工商行政管理局) as the recorded shareholders of Haosha Garments. On 1 September 2010, Mr. Wu Changda transferred his 20% equity interests in Haosha Garments to Mr. Shi Hongliu pursuant to an equity transfer agreement at a consideration determined with reference to paid-in registered capital represented by such equity interests in Haosha Garments.

From 1996 to 2002, Haosha Garments marketed its products under the Chinese brand name 浩沙 and/or English brand name *Haosha*. In March 2002, to differentiate the branding of its products from the products of other domestic competitors and to reflect the international styling, Haosha Garments stopped using *Haosha* as its English brand name and marketed its products under the English brand name *Hosa*TM. The *Hosa*TM brand has won numerous awards. For further details, please refer to the paragraph headed “— Business Milestones” in this section of this Prospectus.

Prior to 2006, Haosha Garments operated the *Hosa*TM indoor sports wear business and sold substantially all *Hosa*TM 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, that 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*TM 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*TM brand products. Prior to late 2007, all sales of *Hosa*TM indoor sportswear products were made by Haosha Garments through direct sales or to distributors.

HISTORY AND CORPORATE STRUCTURE

Establishment of Haosha Industry

In order to further develop our *Hosa*TM brand in China, Haosha Industry, our sole operating subsidiary in China, was established on 25 October 2005 by Haosha H.K. and Haosha Garments as a Sino-foreign equity joint venture with the registered capital of RMB121.5 million, which was able to enjoy the then preferential PRC corporate tax rates for foreign-invested enterprises. Since its establishment and up to immediately prior to the Corporate Reorganization, the entire equity interests of Haosha Industry were held as to 75% by Haosha H.K. and 25% by Haosha Garments. At the time of the establishment of Haosha Industry, the registered shareholders of Haosha H.K. were Mr. Shi Hongliu and Ms. Lam Yau Yung (the spouse of Mr. Shi Hongliu). Pursuant to a trust agreement dated 15 April 1997, Haosha H.K. is beneficially owned as to 40.870% by Mr. Shi Hongliu, 21.507% by Mr. Shi Hongyan, 19.607% by Mr. Wu Changda, 10.016% by Mr. Xu Zehui and 8.0% by Mr. Zeng Shaoxiong. Mr. Xu Zehui and Mr. Zeng Shaoxiong have been acquainted with Mr. Shi Hongliu, Mr. Shi Hongyan and Mr. Wu Changda since their childhood and both of them shared the same goal with Mr. Shi Hongliu, Mr. Shi Hongyan and Mr. Wu Changda to create a well-known indoor sportswear brand. In 1993, Mr. Xu Zehui and Mr. Zeng Shaoxiong joined Mr. Shi Hongliu, Mr. Shi Hongyan and Mr. Wu Changda to bring their abundant local connections and management expertise to our Group. As such, Mr. Xu Zehui and Mr. Zeng Shaoxiong became beneficial owners of Haosha Industry through their shareholdings in Haosha H.K. prior to the Corporate Reorganization and they are also beneficial owners of our Company after the Corporate Reorganization. In addition, Mr. Zeng Shaoxiong had held management positions in Haosha Garments from 2004 and in Haosha Industry from 2007 and is an executive Director of our Company. The trust agreement was entered into for the purpose of facilitating the incorporation of Haosha H.K. as Ms. Lam Yau Yung is a permanent resident in Hong Kong and Mr. Shi Hongliu can travel easily to HK to sign the documents and handle the affairs of this company. Our PRC legal advisers, Jingtian & Gongcheng, have confirmed that Mr. Shi Hongliu, Mr. Shi Hongyan and Mr. Wu Changda, Mr. Xu Zehui and Mr. Zeng Shaoxiong did not violate any PRC laws and regulations by entering into such trust agreement. Haosha H.K. was engaged in distributing the *Hosa*TM branded products overseas and other unrelated business activities. While, Haosha Garments was owned as to 35.0% by Mr. Shi Hongliu, 25.0% by Mr. Shi Hongyan, 20.0% by Mr. Wu Changda, 10.0% by Mr. Shi Yangqiao and 10.0% by Mr. Shi Huangpao.

In 2007, Haosha Industry entered into a series of transactions with Haosha Garments to acquire the *Hosa* indoor sportswear and fabric business. In October 2007, Haosha Industry entered into a lease agreement with Haosha Garments, pursuant to which Haosha Garments agreed to lease certain properties, including office buildings, plants and storage space, to Haosha Industry for its operational purpose. By June 2008, Haosha Garments completed the transfer to Haosha Industry the apparel and fabric production facilities which was at a consideration of RMB2.94 million, determined with reference to the then net value of such facilities. After the above transactions, Haosha Garments stopped *Hosa* indoor sportswear and fabric business operation and focused on providing fabric printing and dyeing services to Haosha Industry and other apparel manufacturers in China. Haosha Industry has since served as the principal manufacturing and marketing entity within our Group. Haosha Industry manufactured and continued to sell *Hosa*TM brand products through the three retail management companies and third-party distributors, and it was also responsible for implementing marketing strategies and managing the overall *Hosa* sales network. The fabric products manufactured by Haosha Industry were either utilized for in-house production of *Hosa*TM branded products or sold to other apparel manufacturers, who are Independent Third Parties. However, as we intend to focus our efforts and resources on our overall brand-building and management, Haosha Industry ceased to carry out its fabric business and disposed of fabric production facilities to Haosha Garments in July 2010.

HISTORY AND CORPORATE STRUCTURE

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, Haosha Industry established three subsidiaries, Beijing Yasha, Shanghai Haote and Guangzhou Yingchang in 2008 with the registered capital of RMB5.0 million, RMB5.0 million and RMB3.08 million, respectively, to act as our distributors to develop and operate Hosa retail outlets. As our trial operations turned to be successful, we decided to fully transit 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 by way of Beijing Aiya selling its unsold inventories to Beijing Yasha at book value and discontinuing its business relationship with retail outlets under its control, after which Beijing Yasha commenced business with the majority of such retail outlets. In 2009, Beijing Aiya changed its registered business scope and shifted its focus to the operations of the Hosa Fitness Gyms. To eliminate connected transactions, Mr. Shi Hongliu, 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 at considerations of the paid-in registered capital of RMB1.5 million and RMB1.0 million, respectively. Based on our understanding and as advised by Mr. Shi Hongliu, Mr. Shi Hongyan and Ms. Xu Jinfeng, Mr. Shi Hongliu, Mr. Shi Hongyan and Ms. Xu Jinfeng recorded gains of approximately RMB0.15 million and RMB6.7 million in relation to their disposal of equity interests in Shanghai Xingchi and Guangzhou Huayuan, respectively, primarily attributable to the retail networks possessed by Shanghai Xingchi and Guangzhou Huayuan at the time of the transactions. Given the majority of the management team and personnel of Shanghai Xingchi and Guangzhou Huayuan remained unchanged after such disposals, there has not been any material disruption of the operation of these two companies after the disposals. 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 Independent Third Party in 2010. Shanghai Haote did not commence actual operations since its establishment and after our disposal of interest in it. By the end of July 2010, we concluded our trial operations of the distributorship business model. For more details, please refer to the section headed “Business — Sales and distribution” in this Prospectus. The three distributor subsidiaries, however, were disposed to Independent Third Parties during the Corporate Reorganization as our distributorship business model matured and we decided to streamline our management and sales network, with the view to minimize our administration costs and to focus on developing our distributorship business model. Given the majority of the management team and personnel of Beijing Yasha and Guangzhou Yingchang remained unchanged after such disposal, there has not been any material disruption of the operation of these two companies after the disposal. For further details, please refer to the paragraph headed “— Corporate Reorganization” in this section of this Prospectus.

HISTORY AND CORPORATE STRUCTURE

Business Milestones

The following table illustrates the major milestones and achievements in our Hosa indoor sportswear business:

Year	Event
2001	sponsoring the annual New Silk Road China Model Contest (新絲路中國模特大賽) from 2001 to 2009
2002	sponsoring the annual China Model Star Contest (中國模特之星大賽) since 2002
2003	co-hosting and sponsoring the title of the annual Hosa Cup China Swimwear Design Contest (浩沙杯中國泳裝設計大賽) since 2003
	sponsoring the final contest of the annual China Professional Model Contest (中國職業模特大賽) since 2003
2004	HAOSHA 浩沙 was awarded “China Well-Known Trademark” (中國馳名商標)
	Hosa TM knitted thermal underwear products started being the Inspection-Exempt Products of China (中國免檢產品)
	exclusively sponsoring the apparel and title of the annual Hosa Cup National Aerobic Gymnastics Contest (浩沙杯全國萬人健美操大賽) since 2004
	sponsoring the apparel of the annual Miss Tourism Queen International since 2004
2005	sponsoring the annual Miss Bikini International pageant since 2005
	sponsoring the annual Asia Super Model Contest (亞洲超級模特大賽) since 2005
	Hosa TM brand was recognized as one of “China’s Top Ten Knitted Underwear Brands” (中國針織內衣十強品牌)
2008	Hosa TM brand was recognized as one of “China’s 500 Most Valuable Brands” (中國500最具價值品牌) from 2008 to 2010
	becoming the exclusive provider of swimwear products at the National Aquatic Center (Water Cube)
	Hosa TM brand was recognized as an exemplary brand in China’s swimwear industry
2009	Hosa TM brand was recognized as one of “Top Ten Swimwear Brands” (泳裝十大品牌)
	sponsoring the annual Miss Asia Pageant since 2009

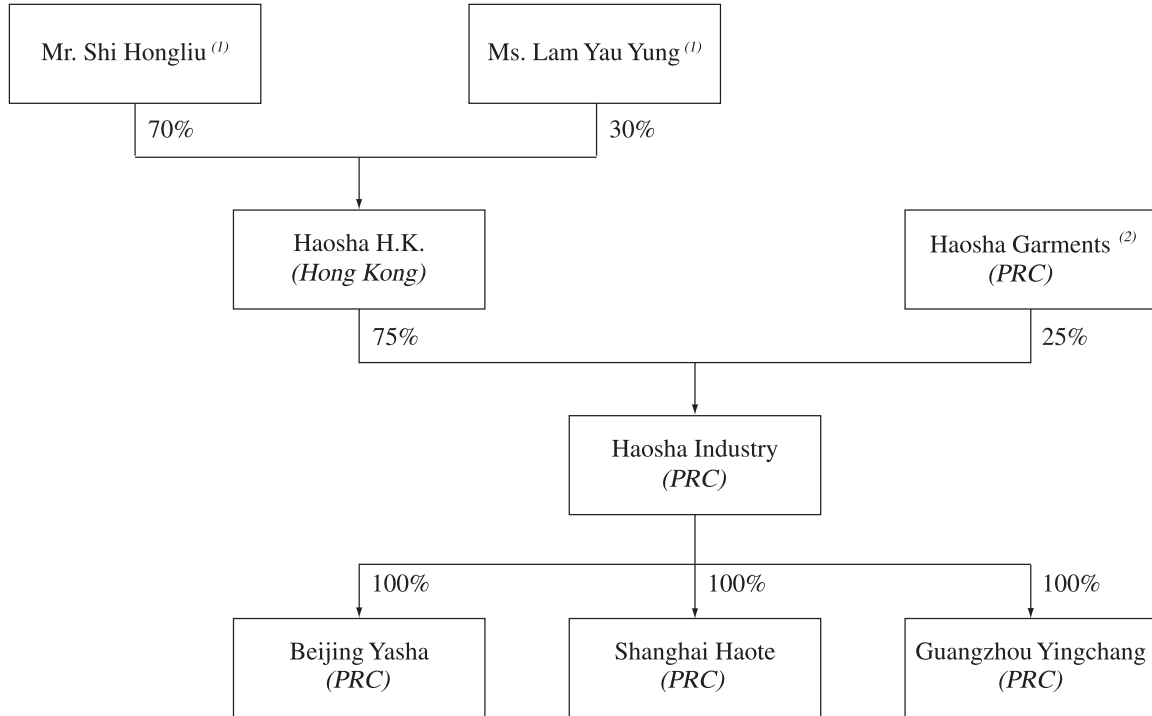
HISTORY AND CORPORATE STRUCTURE

Year	Event
	sponsoring the draft and release of the “National Standards for Fitness Routines” (3rd version) (全國健美操大眾鍛鍊標準)
	sponsoring the National Fitness Walk (全民健身萬里行)
2010	<i>Hosa</i> TM tight-fitting fitnesswear was recognized as one of “China’s Top Ten Innovative Sports Products” (十大體育用品最具創新產品)
	<i>Hosa</i> TM brand was recognized as one of “Top Ten Swim Goggles Brands” (泳鏡十大品牌)
	receiving the “Special Contribution Award for China’s Knitting Industry” (中國針織行業特別貢獻獎) for the years from 2006 to 2010
	nominated for the Public Award of the “Jack 7th China Apparel Brands Annual Award” (杰克•第七屆中國服裝品牌年度大獎)
	sponsoring the annual Miss Leisure World
	sponsoring the National Fitness Walk

HISTORY AND CORPORATE STRUCTURE

GROUP STRUCTURE PRIOR TO THE CORPORATE REORGANIZATION

The corporate chart below illustrates the beneficial shareholders and subsidiaries of our Group immediately prior to the Corporate Reorganization:



Notes:

- (1) Pursuant to a trust agreement dated 15 April 1997, Mr. Shi Hongliu and Ms. Lam Yau Yung (who is the spouse of Mr. Shi Hongliu) agreed to act as the registered shareholders of Haosha H.K. and Mr. Shi Hongliu and Ms. Lam Yau Yung would hold 70% and 30% of the equity interests in Haosha H.K., respectively. As of the Latest Practicable Date, the actual percentage of the equity interests in Haosha H.K. held by each of the beneficial owners is set out below:

Name of the shareholder	Actual percentage of the shareholdings in Haosha H.K.
Mr. Shi Hongliu	40.870%
Mr. Shi Hongyan.	21.507%
Mr. Wu Changda.	19.607%
Mr. Xu Zehui	10.016%
Mr. Zeng Shaoxiong	8%

- (2) As of the Latest Practicable Date, the percentage of the equity interests in Haosha Garments held by each of the shareholders is set out below:

Name of the shareholder	Actual percentage of the shareholdings in Haosha Garments
Mr. Shi Hongliu	55%
Mr. Shi Hongyan.	25%
Mr. Shi Yangqiao	10%
Mr. Shi Huangpao	10%

CORPORATE REORGANIZATION

In order to rationalize our corporate structure and business, our Group underwent the Corporate Reorganization prior to the Listing which involved the following steps:

(1) Disposal of the entire equity interests in Beijing Yasha, Shanghai Haote and Guangzhou Yingchang by Haosha Industry

As our distributorship business model became mature and we engaged more distributors to distribute our *Hosa*TM products, we thereby decided to streamline our management and sales network by way of disposing of the entire equity interests in Beijing Yasha, Shanghai Haote and Guangzhou Yingchang, with the view to minimize our administration costs and to focus on developing our distributorship business model.

On 30 July 2010, Haosha Industry and Ms. Shi Fenglian (施鳳連), an Independent Third Party, entered into an equity transfer agreement, pursuant to which Ms. Shi Fenglian acquired the entire equity interests of Beijing Yasha from Haosha Industry at a consideration of RMB5.0 million, determined with reference to the paid-in registered capital of Beijing Yasha.

On 30 July 2010, Haosha Industry and Mr. Xu Tianshi (許天室), an Independent Third Party, entered into an equity transfer agreement, pursuant to which Mr. Xu Tianshi acquired the entire equity interests of Shanghai Haote from Haosha Industry at a consideration of RMB5.0 million, determined with reference to the paid-in registered capital of Shanghai Haote.

On 30 July 2010, Haosha Industry, Mr. Xu Liangang (許煉鋼) and Ms. Shi Qingli (施清麗), Independent Third Parties, entered into an equity transfer agreement, pursuant to which Mr. Xu Liangang acquired 99% and Ms. Shi Qingli acquired 1% of the entire equity interests of Guangzhou Yingchang from Haosha Industry at considerations of RMB3.05 million and RMB0.03 million, respectively. Each of the considerations mentioned above was determined with reference to the respective paid-in registered capital represented by such equity interests.

(2) Incorporation of Ho Born Investment, Well Born Industrial, Zehui Investment and Yixin Investment

On 10 August 2010, Ho Born Investment was incorporated in the BVI with an authorized share capital of US\$100,000 divided into 100,000 shares of US\$1.0 each. On the same date, Ho Born Investment allotted and issued 49,851 shares (49.851%) to Mr. Shi Hongliu, 26,233 shares (26.233%) to Mr. Shi Hongyan, 23,916 shares (23.916%) to Mr. Wu Changda, respectively.

On 10 August 2010, Well Born Industrial was incorporated in the BVI with an authorized share capital of US\$100,000 divided into 100,000 shares of US\$1.0 each. On the same date, Well Born Industrial allotted and issued 49,851 shares (49.851%) to Mr. Shi Hongliu, 26,233 shares (26.233%) to Mr. Shi Hongyan, 23,916 shares (23.916%) to Mr. Wu Changda, respectively.

On 10 August 2010, Zehui Investment was incorporated in the BVI with an authorized share capital of US\$50,000 divided into 50,000 shares of US\$1.0 each. On the same date, Zehui Investment allotted and issued one share to Mr. Xu Zehui, after which Zehui Investment became directly wholly-owned by Mr. Xu Zehui.

HISTORY AND CORPORATE STRUCTURE

On 10 August 2010, Yixin Investment was incorporated in the BVI with an authorized share capital of US\$50,000 divided into 50,000 shares of US\$1.0 each. On the same date, Yixin Investment allotted and issued one share to Mr. Zeng Shaoxiong, after which Yixin Investment became directly wholly-owned by Mr. Zeng Shaoxiong.

(3) Incorporation of the intermediate holding companies and our Company

Hosa Group

On 30 August 2010, Hosa Group was incorporated under the laws of Hong Kong as an intermediate holding company of our Group. As of the date of its incorporation, the authorized share capital of Hosa Group was HK\$10,000 and divided into 100,000 shares of HK\$0.1 each. On the same date, Hosa Group allotted and issued 100,000 shares to Ms. Lam Yau Yung.

Pursuant to a declaration of trust dated 30 August 2010, Ms. Lam Yau Yung held the entire share capital of Hosa Group on trust for Mr. Shi Hongliu (as to 40.870%), Mr. Shi Hongyan (as to 21.507%), Mr. Wu Changda (as to 19.607%), Mr. Xu Zehui (as to 10.016%) and Mr. Zeng Shaoxiong (as to 8.000%). Our Company's legal adviser as to Hong Kong laws advised that this declaration of trust did not violate any laws or regulations in Hong Kong and is valid and legal.

The declaration of trust was entered into for the purpose of facilitating the incorporation of Haosha H.K. as Ms. Lam Yau Yung is a resident in Hong Kong resident and it would be more convenient for her to manage the corporate affairs of Hosa Group in Hong Kong.

Our Company

On 2 September 2010, our Company was incorporated under the laws of the Cayman Islands as an exempted company and the authorized share capital of our Company was HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. On the same date, our Company allotted and issued one fully paid Share to Codan Trust Company (Cayman) Limited, which was subsequently transferred to Ho Born Investment on the same date.

On 2 September 2010, our Company allotted and issued 71,999, 9,984, 10,016 and 8,000 new Shares, credited as fully paid, to Ho Born Investment, Well Born Industrial, Zehui Investment and Yixin Investment, respectively.

Hosa Investment

On 1 September 2010, Hosa Investment was incorporated under the laws of the BVI as an intermediate holding company of our Group and its authorized share capital was US\$50,000 and divided into 50,000 shares of US\$1.0 each. On 2 September 2010, our Company subscribed for one share in Hosa Investment, after which Hosa Investment became a directly wholly-owned subsidiary of our Company.

(4) Acquisition of trademarks from Haosha Garments and Haosha H.K.

Pursuant to the trademark transfer agreements dated 5 September 2010, Haosha Garments agreed to transfer 18 trademarks registered in its name in the PRC related to our business operations to Haosha Industry at nil consideration in the view that the promotion of the *Hosa*TM brand had been paid by us.

HISTORY AND CORPORATE STRUCTURE

Pursuant to the trademark transfer agreements dated 5 September 2010, Haosha H.K. agreed to transfer 20 trademarks registered in its name in the PRC related to our business operations to Haosha Industry at nil consideration.

Pursuant to the trademark assignment dated 1 December 2010, Haosha H.K. agreed to further transfer 10 trademarks registered in its name in different jurisdictions related to our business operations to Hosa Group at nil consideration.

(5) Cessation of fabric business by Haosha Industry

As we believe that the *Hosa*TM branded products offer greater business potential and we intend to focus our efforts and resources on the overall brand-building and management, on 31 July 2010, Haosha Industry ceased to carry out its fabric business and disposed of its fabric production facilities to Haosha Garments at a consideration of RMB2.02 million, determined with reference to the then net value of such facilities.

(6) Acquisition of land and premises from Haosha Garments and Jinjiang Sanxie by Haosha Industry

On 24 December 2010, Haosha Industry and Haosha Garments entered into a sale and purchase agreement, pursuant to which Haosha Industry acquired a piece of land of approximately of 17,151 sq.m. and premises of approximately 30,736.4 sq.m. situated on such land from Haosha Garments in view that the relevant land and premises are crucial to Haosha Industry's operation after its acquisition of Hosa indoor sportswear business from Haosha Garments. The consideration of the purchase is RMB32.9 million, determined with reference to an asset valuation conducted by an independent PRC valuer.

On 24 December 2010, Haosha Industry and Jinjiang Sanxie entered into a sale and purchase agreement pursuant to which Haosha Industry acquired a piece of land of approximately 7,092 sq.m. and premises of approximately 6,026 sq.m. situated on such land from Jinjiang Sanxie at a consideration of RMB7.98 million, determined with reference to an asset valuation conducted by an independent PRC valuer.

(7) Acquisition of the entire equity interests in Haosha Industry by Hosa Group

On 14 January 2011, Hosa Group and Haosha Garments entered into an equity transfer agreement, pursuant to which Hosa Group acquired the 25% equity interests in Haosha Industry from Haosha Garments at a consideration of RMB30,375,000, determined with reference to the paid-in registered capital represented by such equity interests. On 14 January 2011, Hosa Group and Haosha H.K. entered into an equity transfer agreement, pursuant to which Hosa Group acquired the 75% equity interests in Haosha Industry from Haosha H.K. In consideration of such transfer, on 16 March 2011, our Company allotted and issued 72,000, 9,984, 10,016 and 8,000 new Shares, credited as fully paid, to Ho Born Investment, Well Born Industrial, Zehui Investment and Yixin Investment, respectively.

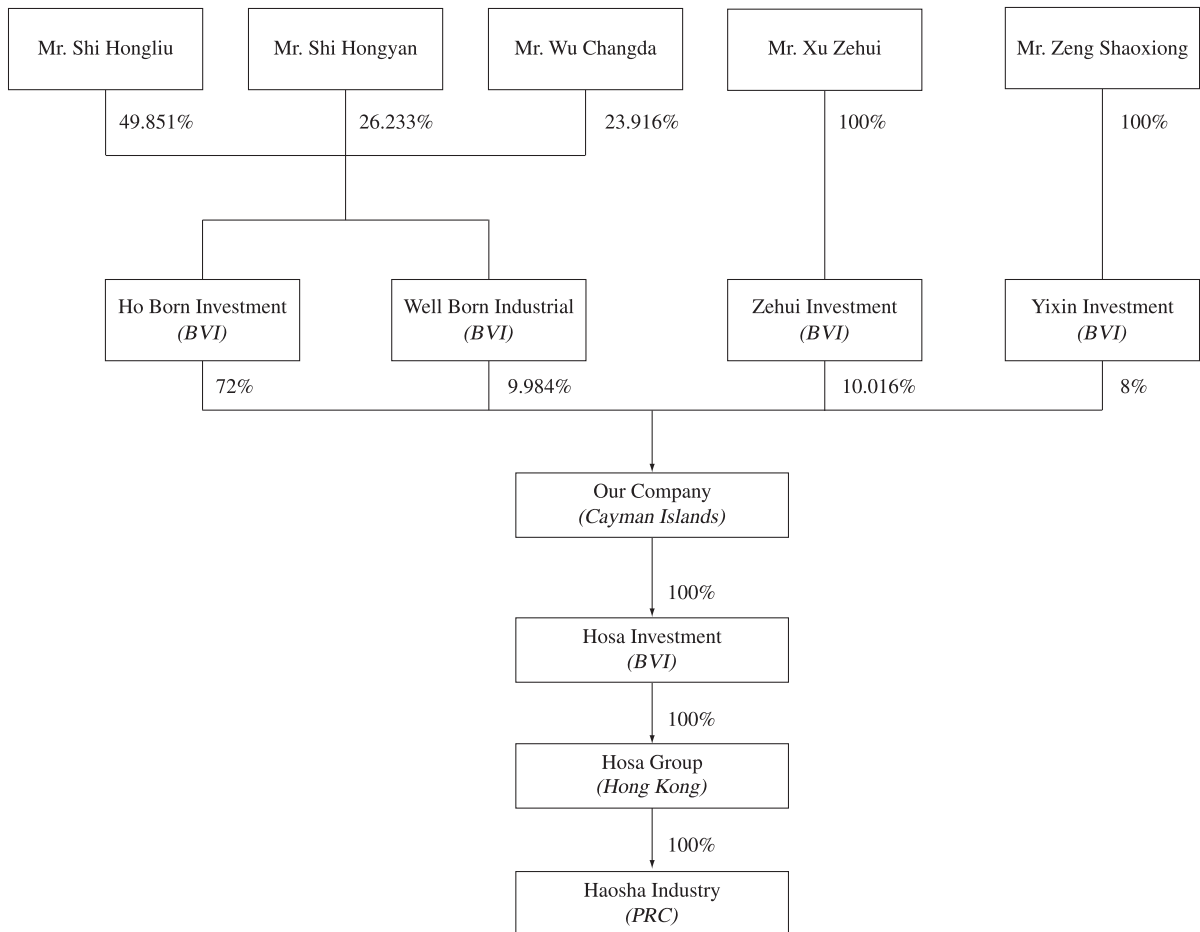
HISTORY AND CORPORATE STRUCTURE

(8) Acquisition of the entire share capital of Hosa Group by Hosa Investment

On 16 March 2011, Hosa Investment, Ms. Lam Yau Yung, Mr. Shi Hongliu, Mr. Shi Hongyan, Mr. Wu Changda, Mr. Xu Zehui and Mr. Zeng Shaoxiong entered into a sale and purchase agreement, pursuant to which Hosa Investment acquired the entire share capital of Hosa Group from Ms. Lam Yau Yung, Mr. Shi Hongliu, Mr. Shi Hongyan, Mr. Wu Changda, Mr. Xu Zehui and Mr. Zeng Shaoxiong at a consideration of HK\$1.0.

GROUP STRUCTURE AFTER THE CORPORATE REORGANIZATION BUT PRIOR TO THE CAPITALIZATION ISSUE AND THE GLOBAL OFFERING

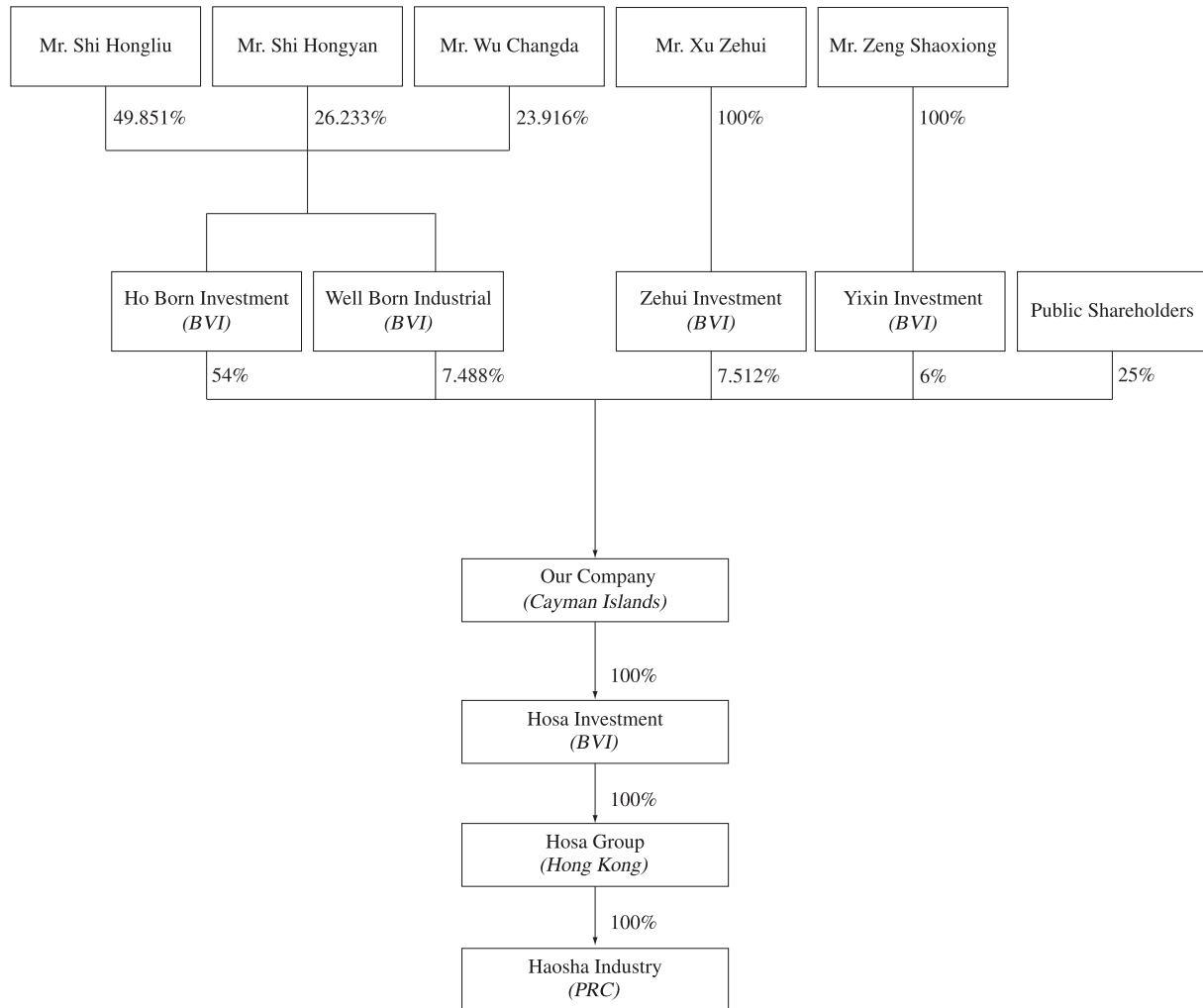
The corporate structure of our Group after the Corporate Reorganization but immediately prior to the Capitalization Issue and the Global Offering is set out below:



HISTORY AND CORPORATE STRUCTURE

GROUP STRUCTURE AFTER THE CORPORATE REORGANIZATION, THE CAPITALIZATION ISSUE AND IMMEDIATELY UPON LISTING

The corporate structure of our Group after completion of the Corporate Reorganization, and immediately after the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised and no options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme are exercised) is set out below:



SAFE REGISTRATION

The Circular No. 75 issued by the SAFE, requires PRC residents to register with the local SAFE branch before establishing or controlling any company outside of China for the purpose of capital financing with assets or equities of PRC companies, referred to in the Circular No. 75 as offshore special purpose companies. Further, PRC residents are required to file amendments to their registrations with the local SAFE branch if their offshore special purpose companies undergoes a material event involving changes in capital, such as changes in share capital, mergers and division, share transfers or exchanges, long-term equity or debt investments.

HISTORY AND CORPORATE STRUCTURE

The PRC Shareholders are domestic residents defined under the Circular 75. In August 2010, a representative of the PRC Shareholders communicated with the local foreign exchange administration authority, Jinjiang sub-branch of Fujian branch of SAFE (“Jinjiang SAFE”) (國家外匯管理局福建省分局晉江市支局), to complete the foreign exchange registration for establishing the offshore special purpose companies. As advised by the official of the Jinjiang SAFE, the PRC Shareholders should only apply for the foreign exchange registration immediately following the completion of the Corporate Reorganization. The PRC Shareholders have submitted the application for the foreign exchange registration in April and the Jinjiang SAFE is in the process of reviewing the application documents. Our PRC legal advisers, Jingtian & Gongcheng, have advised that, the PRC Shareholders did not apply for the foreign exchange registration for certain steps of our Corporate Reorganization within the time limits as prescribed in Circular 75, however, they have made the application as instructed by the Jinjiang SAFE, and once such registration is completed, our Group would not be operationally and financially affected. According to an interview between an official of the Jinjiang SAFE and our PRC legal advisers on 4 May 2011, the official confirmed that there is no legal impediment for the PRC Shareholders to complete such registration and the registration is expected to be completed in the middle of June 2011.

The Directors consider, based on the advice from our PRC legal advisers, Jingtian & Gongcheng, the foreign exchange registrations to be procedural matters and that there should be no legal impediment to complete such registrations. However, there is no assurance that the PRC Shareholders will complete such registrations by the Listing Date. See “Risk Factors — Risks relating to our business operations — We are a holding company and rely on dividend payments from our subsidiaries to fund our cash and financing requirements, including funding dividend payment to our Shareholders” and “Risk Factors — Risks relating to conducting business in the PRC — Failure to comply with the SAFE regulations relating to the establishment of offshore special purpose companies by PRC residents may materially and adversely affect our business operations.”

THE RULES ON THE MERGER AND ACQUISITION OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS

On 8 August 2006, six PRC governmental and regulatory agencies, including the MOFCOM and the CSRC, promulgated the *Provisions on the Acquisition of Domestic Enterprises by Foreign Investors* (關於外國投資者併購境內企業的規定) (the “M&A Regulation”), which became effective on 8 September 2006 and was revised and reissued by the MOFCOM in June 2009. Under the M&A Regulation, a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic company thereby converting it into an foreign-invested enterprise, or subscribes for new equity via an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise. The acquisition shall be based on the appraisal result on the equity or assets to be acquired. According to Article 11 of the M&A Regulation, it is required that a PRC company, enterprise or individual who intends to take over its domestic affiliated company through a foreign company, which such company or individual establishes or controls, must obtain approval of MOFCOM. Avoiding this requirement by making investment through a PRC subsidiary of the foreign company or by other measures is not allowed. Article 40 of the M&A Regulation requires an offshore SPV formed for the purposes of an offshore listing and controlled directly or indirectly by PRC companies or individuals, to obtain CSRC approval prior to the listing and trading of the securities of such offshore SPV on an overseas stock exchange.

HISTORY AND CORPORATE STRUCTURE

Our Company's PRC legal advisers, Jingtian & Gongcheng, have confirmed that the M&A Regulation is not applicable to our Listing and it is not necessary for us to obtain approval from the CSRC because the foreign invested enterprise involved in our Listing, namely Haosha Industry, is established as the Sino-foreign equity joint venture before 8 September 2006.

Furthermore, our Company's PRC legal advisers, Jingtian & Gongcheng, have confirmed that we have obtained all relevant approvals from PRC government authorities for the Corporate Reorganization.

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*TM, 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*TM 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*TM 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*TM brand has been recognized annually as one of China's 500 Most Valuable Brands since 2008. In 2008, our *Hosa*TM 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*TM 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*TM 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).

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*TM 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*TM brand was recognized as an exemplary brand in the PRC

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*TM 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*TM 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*TM brand name to the general public, and in particular to our target consumers. We sponsor pageants

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*TM 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*TM 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*TM 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*TM 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

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 HosaTM 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 HosaTM 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 HosaTM 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 HosaTM 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 HosaTM 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*TM 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*TM 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*TM 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*TM 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*TM 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
Total.	204,643	100.0	159,169	100.0	347,787	100.0

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*TM 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*TM 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

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*TM fitness wear products include apparel for women and men for indoor fitness activities including yoga, gym and dance, such as:

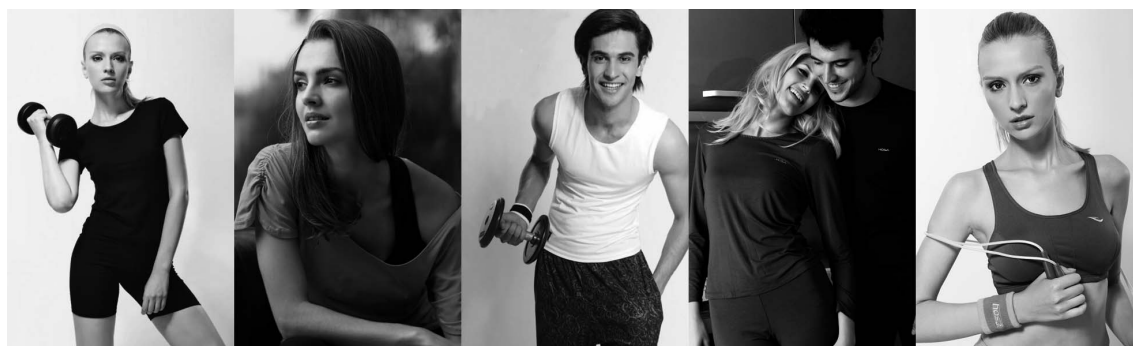


According to Frost & Sullivan, a brand belongs to the mid-to-high end segment of China's fitness wear market if the majority of its women's fitness wear product models sold in China had suggested retail prices of above RMB200 per unit in 2010. In 2010, approximately 74% of our women's fitness wear product 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*TM 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*TM 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*TM 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*TM 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*TM 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*TM 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*TM brand image. In line with our mission

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*TM 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*TM 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*TM 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*TM-inspired floor space, thereby immersing consumers in a complete experience of *Hosa*TM 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*TM 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*TM 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*TM 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*TM brand products. Prior to late 2007, all sales of *Hosa*TM 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*TM 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*TM 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 ⁽¹⁾	113,336	55.4	50,209	31.5	16,627	4.8
To our then distributor subsidiaries ⁽²⁾	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>131,959</u>	<u>64.5</u>	<u>125,144</u>	<u>78.6</u>	<u>296,798</u>	<u>85.3</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.

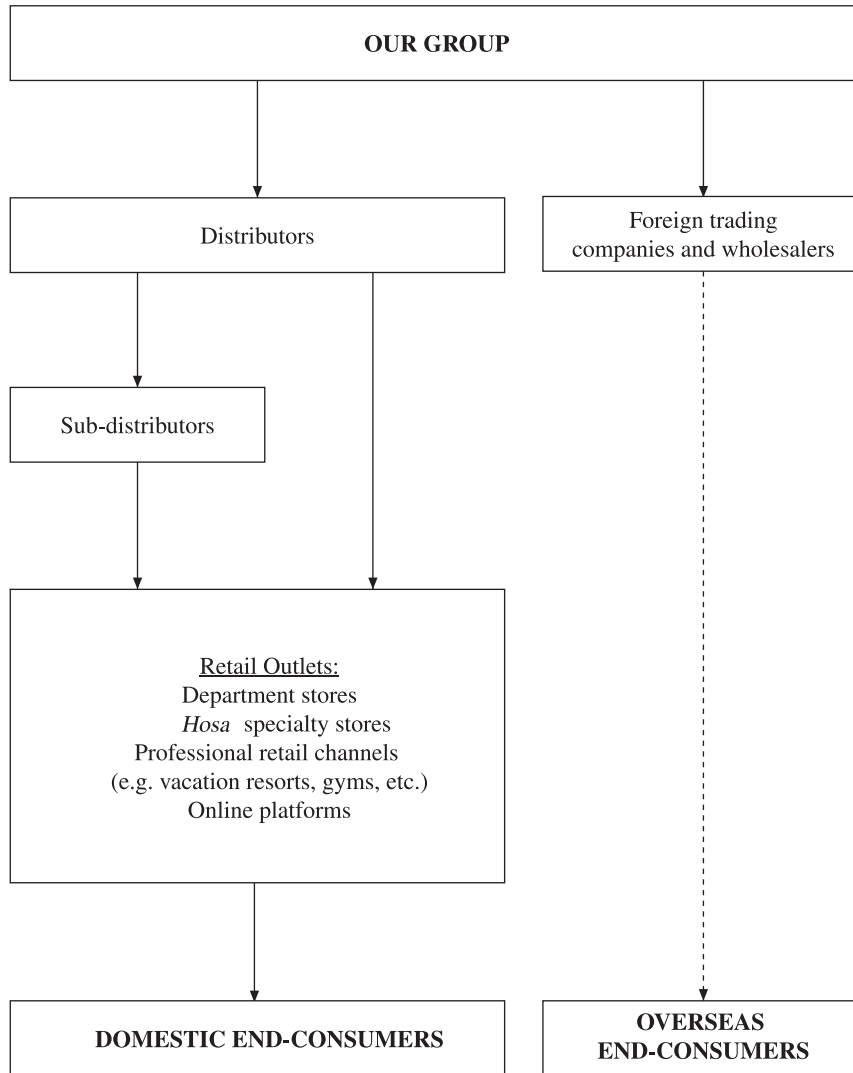
On 30 July 2010, we disposed of our interests in our three distributor subsidiaries, Beijing Yasha, Shanghai Haote and Guangzhou Yingchang, to Independent Third Parties. The results of the retail operations operated by such subsidiaries are included in the results of our discontinued operations in our 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*TM 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*TM 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.

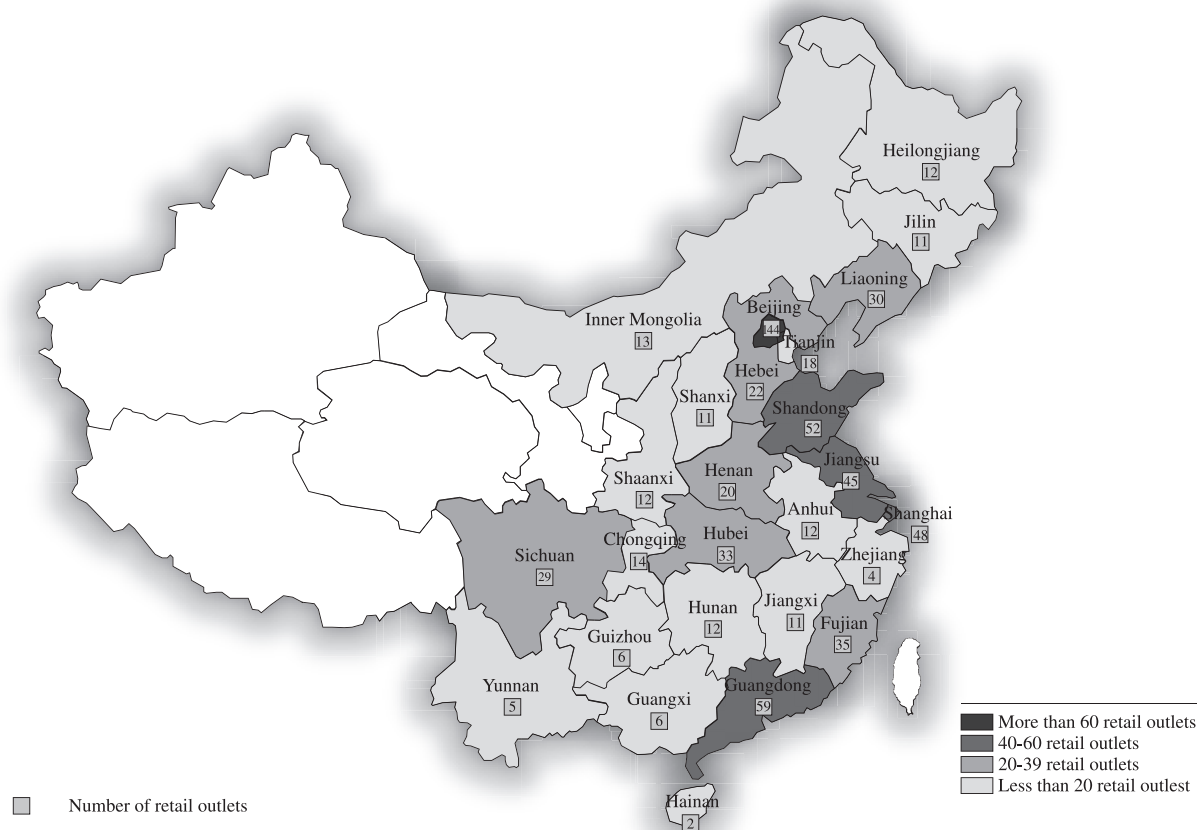
The following table sets forth the geographical breakdown of our revenue and the respective percentage to our total revenue generated from our continuing operations for the periods indicated:

	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
Total	<u>204,643</u>	<u>100.0</u>	<u>159,169</u>	<u>100.0</u>	<u>347,787</u>	<u>100.0</u>

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 ⁽¹⁾	No. of sub-distributors	No. of retail outlets	Sales made to our distributors and customers through continuing operations in ⁽¹⁾⁽²⁾		
					2008 RMB'000	2009 RMB'000	2010 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
Total		12	47	666	131,959	125,144	270,969

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*TM 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*TM 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*TM 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*TM brand products at their Hosa retail outlets or Hosa online shops. Furthermore, distributors are prohibited from directly or indirectly selling *Hosa*TM 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

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 ⁽¹⁾	(3)	(14)	(34)	(1)
Net change in distributors	18	4	(29)	14
Distributors at the end of the period ⁽²⁾	38	42	13	27

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 ⁽¹⁾	<u>505</u>	<u>522</u>	<u>666</u>

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 ⁽¹⁾	<u>505</u>	<u>522</u>	<u>666</u>

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 HosaTM-inspired floor space, thereby immersing customers in a complete experience of HosaTM 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 ⁽¹⁾	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

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

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*TM 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 ⁽¹⁾	Actual Volume	Utilization Rate ⁽²⁾	Designed Capacity ⁽¹⁾	Actual Volume	Utilization Rate	Designed Capacity ⁽¹⁾	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
Total	6,722,671	6,567,510	97.7	6,532,380	5,311,210	81.3	6,697,558	5,492,404	82.0

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.

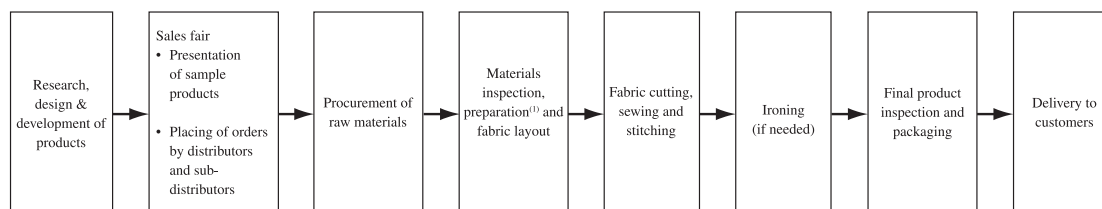
For the year ended 31 December 2010, we had an annual aggregate designed production capacity of approximately 6.7 million pieces of swimwear, fitness wear and sports underwear products. During the same period, we produced approximately 2.4 million pieces of swimwear, 1.0 million pieces of fitness wear 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

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:



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.

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:

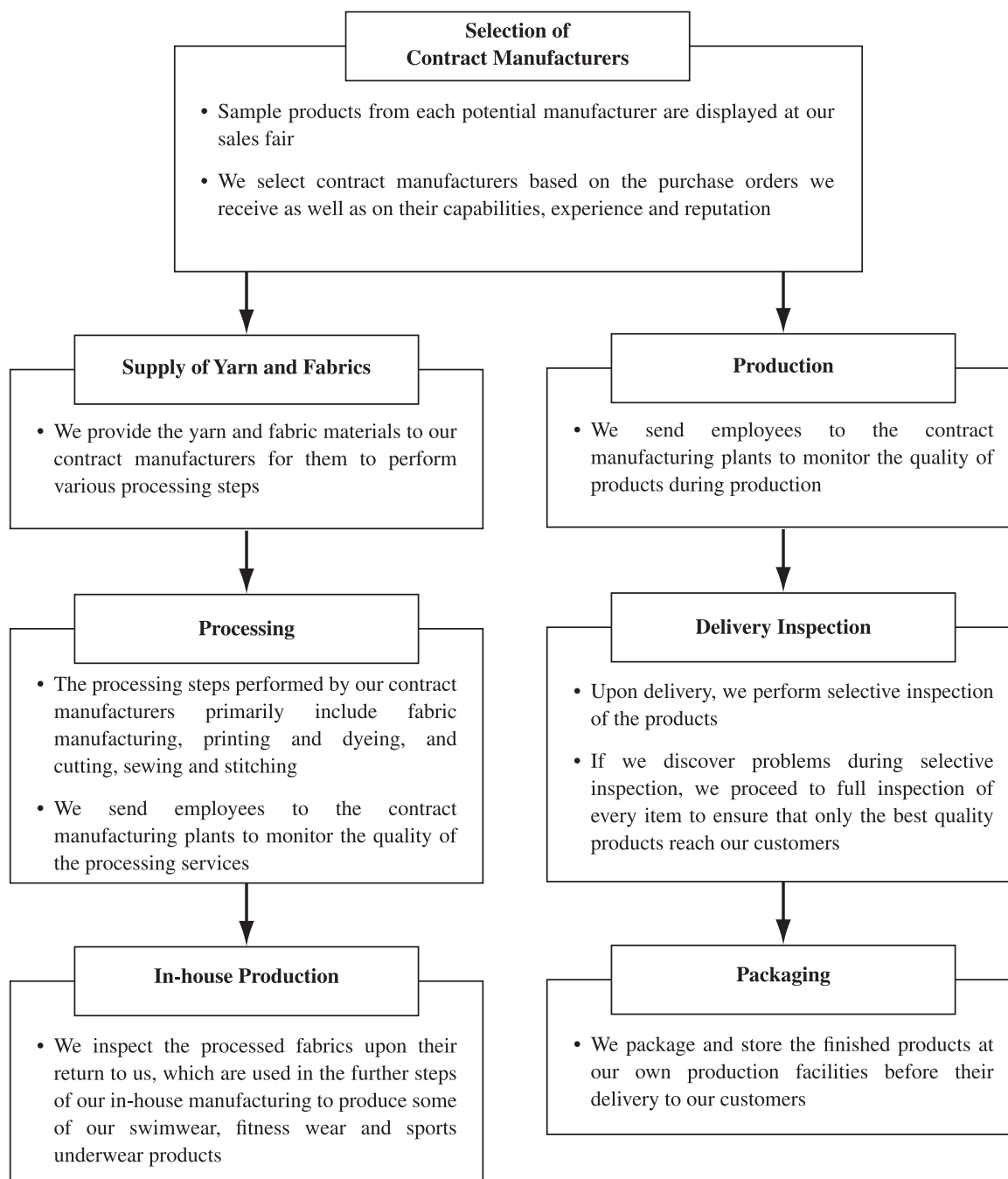
- *Product specifications and quality.* Contract manufacturers are required to provide products which conform to the specifications required by us. We perform selective inspection of such products according to the previously agreed specifications as well as to national industrial standards. We reserve 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

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.

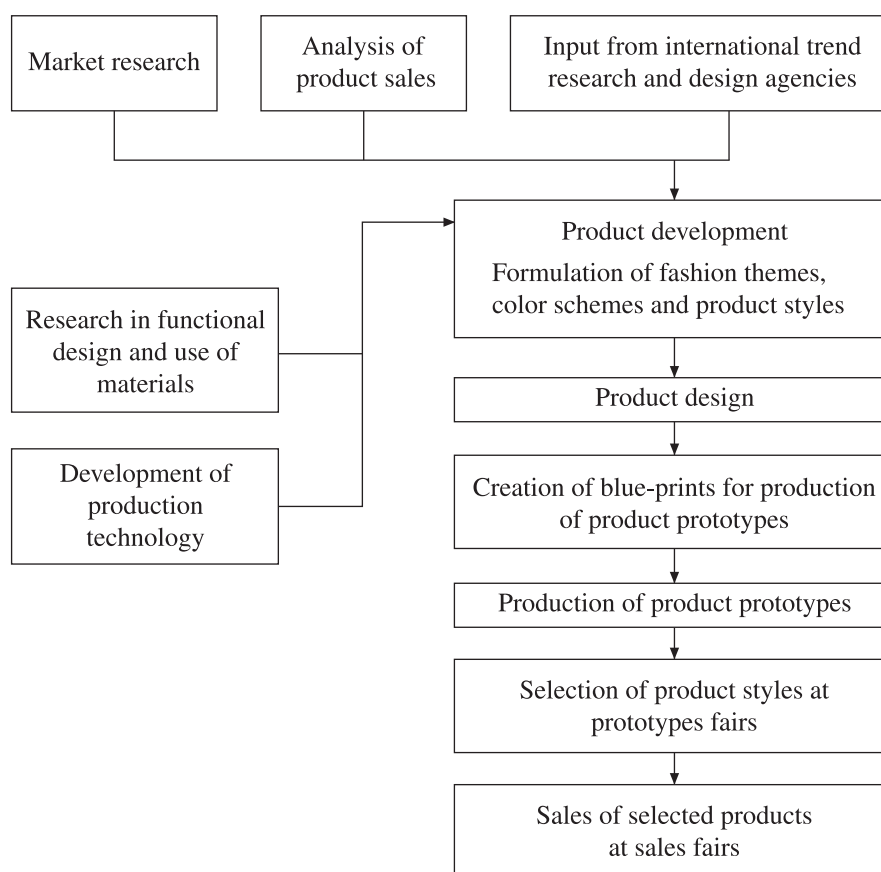
Our Directors confirm that there were no material product recalls due to the failure to meet quality standards during the Track Record Period and up to the Latest Practicable Date.

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*TM brand.

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*TM 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

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*TM 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*TM 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*TM brand. Going forward, we aim to develop more extended product lines incorporating the most advanced technologies for product quality and

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*TM, 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*TM brand for the marketing and sales of our *Hosa*TM 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*TM 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.

BUSINESS

- 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:

Function	Number of employees
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 ⁽¹⁾	7
Total	919

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.

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.

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*TM 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*TM 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.

BUSINESS

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.

OUR CONTROLLING SHAREHOLDERS

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

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

DEED OF NON-COMPETITION

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

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

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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

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

Such non-competition undertaking does not apply to:

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

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

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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

CORPORATE GOVERNANCE MEASURES

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

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

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

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

Management Independence

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

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

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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

Operational Independence

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

Financial Independence

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

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

CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS

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

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

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

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

EXEMPTED CONTINUING CONNECTED TRANSACTION

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

License of trademarks by Haosha H.K.

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

CONNECTED TRANSACTIONS

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

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

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

Procurement Agreement with Haosha Garments

Nature of transaction

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

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

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

Price determination

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

CONNECTED TRANSACTIONS

Annual caps

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

Processing Agreement with Haosha Garments

Nature of transaction

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

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

For the three years ended 31 December 2008, 2009 and 2010, the processing fees we paid to Haosha Garments amounted to approximately RMB11.5 million, RMB14.7 million and RMB24.9 million (RMB9.8 million, RMB12.6 million and RMB21.2 million, net of VAT), and accounted for approximately 32.3%, 42.9% and 54.8% of our total processing services during the same periods, respectively.

Price determination

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

Annual caps

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

CONNECTED TRANSACTIONS

service provided, the prevailing market price for processing service in the market, and the expected future growth in the turnover taking into account the anticipated increases in the purchase orders to be placed by our distributors pursuant to the distribution agreements, and production volume of our Group.

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

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

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

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

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

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

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

CONFIRMATION FROM THE SOLE SPONSOR

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

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board is responsible and has general powers for the management and conduct of our business. Our Board of Directors currently consists of seven Directors, including four executive Directors and three independent non-executive Directors. The following table sets forth information regarding members of the Board of Directors.

Name	Appointment Date	Age	Roles and Responsibilities	Position
Mr. Shi Hongliu (施洪流)	2 September 2010	46	chairman and executive Director	corporate strategic planning and overall business development of our Group
Mr. Shi Hongyan (施鴻雁)	2 September 2010	42	vice chairman, chief executive officer and executive Director	developing and implementing operation plans, and monitoring the overall manufacturing activities of our Group
Mr. Zeng Shaoxiong (曾少雄)	2 September 2010	44	executive Director	corporate investment and financing activities of our Group
Mr. Zhao Yan (趙焰)	2 September 2010	42	executive Director	implementing and overseeing development plans, administration, human resources, management and information systems of our Group
Mr. Mak Kin Kwong (麥建光)	7 June 2011	49	independent non-executive Director	attending meetings of our Board to perform duties, but not participating in the day-to-day management of our business operations
Mr. Sun Ruizhe (孫瑞哲)	7 June 2011	47	independent non-executive Director	attending meetings of our Board to perform duties, but not participating in the day-to-day management of our business operations
Mr. Yao Ge (姚戈)	7 June 2011	48	independent non-executive Director	attending meetings of our Board to perform duties, but not participating in the day-to-day management of our business operations

Executive Directors

Mr. Shi Hongliu (施洪流), aged 46, is the founder of our *Hosa*TM brand. He was appointed as the chairman and executive Director of our Company on 2 September 2010. Mr. Shi has over 27 years of experience in the apparel industry and is primarily responsible for the corporate strategic planning and overall business development of our Group. From 1983 to 1996, he was a sole proprietor in the apparel industry where he primarily engaged in distributing sports wear for women in Beijing, Shanghai and Guangzhou. From 1996 to 2011, he assumed various positions at Haosha Garments. From September 1996 to March 2000, he was the chief brand manager of Haosha Garments responsible for formulating, implementing brand strategy and improving the competitiveness of *Hosa*TM brand. From March 2000 to March 2006, he was the general manager of Haosha Garments responsible for developing and implementing business development strategies and overseeing the overall administrative and business activities of this company. From March 2006 to February 2011, he was the supervisor of Haosha Garments. Since November 1997, he has been a director of Haosha H.K. and is responsible for overlooking the operation, development strategy as well as corporate investment activities of Haosha H.K. Since October 2005, being one of the founders of Haosha Industry, he has been the chairman of the board responsible for overseeing the operation and investment activities of Haosha Industry and general manager since January 2011. Mr. Shi Hongliu is a brother of Mr. Shi Hongyan.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Shi was selected as one of the “Top Ten Meritorious Entrepreneurs” (十大功勳企業家) at China’s International Fashion Week by China National Textile and Apparel Council (中國紡織工業協會) in 2007, and “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) in 2010. He is also the honorary chairman of the Chamber of Commerce of Jinjiang in Shanghai (上海晉江商會名譽會長).

Mr. Shi completed a diploma program for general managers of enterprises (總經理課程) of China Europe International Business School (中歐國際工商學院) in December 2008.

Mr. Shi Hongyan (施鴻雁), aged 42, was appointed as the vice chairman, chief executive officer and executive Director of our Company on 2 September 2010. Mr. Shi Hongyan has over 20 years of experience in the apparel industry and is primarily responsible for developing and implementing operation plans, and monitoring the overall manufacturing activities of our Group. From 1988 to 1996, he was a sole proprietor in the apparel industry where he primarily engaged in distributing sports wear for women in Beijing, Shanghai and Guangzhou. From 1996 to 2011, he assumed various positions at Haosha Garments. From September 1996 to March 2000, he was the director of Haosha Garments responsible for establishing management systems and overseeing the administrative and business operations. From March 2000 to March 2006, he was the chief production manager responsible for formulating and implementing the production plans and supervising the production process. From March 2006 to February 2011, he was the director and general manager of Haosha Garments. Since October 2005, he has been the vice chairman of the board of Haosha Industry. And from October 2005 to January 2011, he was the general manager of Haosha Industry where he was responsible for implementing production plans and overseeing the production operation. Since January 2011, he has been the vice general manager of Haosha Industry. Mr. Shi Hongyan is a brother of Mr. Shi Hongliu.

Mr. Shi Hongyan currently assumes leadership roles in various institutions, the details of which are set out in tabular format below.

Terms of Office	Position	Name of Institution
August 2004 — now	member of the first standing committee	Quanzhou City Trademark Association (泉州市商標協會)
September 2005 — now	vice chairman of the first council	Jinjiang City Textile and Apparel Association (晉江市紡織服裝協會)
February 2006 — now	vice chairman of the eighth council	Jinjiang City Association of Industry and Commerce (晉江市工商聯)
July 2008 — now	vice chairman of the second council	Quanzhou City Association of Quality and Technical Supervision (泉州市品質技術監督協會)
August 2008 — now	vice chairman of the second council	Fujian Province Apparel Industry Association (福建省服裝服飾行業協會)
2009 — now.	member	The Eleventh Jinjiang City Committee of the Chinese People’s Political Consultative Conference (中國人民政治協商會議第十一屆晉江市委員會)

Mr. Shi Hongyan was selected as one of the First Outstanding Young Enterprising Talents in Quanzhou (首屆泉州青年優秀創業人才) in April 2005 and Outstanding Young Entrepreneurs of Fujian Province (福建省優秀青年企業家) in November 2006.

Mr. Shi Hongyan completed a diploma program for chief executive officers of enterprises (企業總裁高級研修班) of the Economics College of Peking University (北京大學經濟學院) in 2003.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Zeng Shaoxiong (曾少雄), aged 44, was appointed as an executive Director on 2 September 2010. Mr. Zeng has over 14 years of experience in investment and finance and is primarily responsible for corporate investment and financing activities of our Group. From April 1985 to December 1987, he worked for the human resource department of Jinjiang City Branch of Agricultural Bank of China Co., Ltd. in Quanzhou of Fujian Province (中國農業銀行股份有限公司福建省泉州市晉江市支行) where he was responsible for human resources management and counselling. From January 1988 to May 1997, he worked at the human resource department and was then appointed as the deputy chief of personal savings department of Shishi City Branch Bank (石獅市支行) where he was responsible for implementing internal regulations and procedures related to human resources management, including organization, employees' training, welfare and incentive scheme. During May 1997 to July 2004, he was branch supervisor of the Hanjiang Branch (蚶江分理處) and Baogai Branch (寶蓋分理處) of the same bank where he was responsible for the overall operation of the two branches. From July 2004 to October 2007, Mr. Zeng worked as the manager of the investment and finance department of Haosha Garments, where he managed the investment portfolio and expanded the financing channels of this company. Since October 2007, he has been the manager of the investment and finance department of Haosha Industry, where he was responsible for implementing and monitoring strategic corporate investment and financing activities.

Mr. Zeng received his college diploma in finance from Central Radio and TV University (中央廣播電視大學) in May 2004. He was qualified as an assistant economist (助理經濟師) by the Evaluation Committee of Professional and Technical post of Quanzhou City Branch of Agricultural Bank of China (中國農業銀行泉州市分行專業技術職務考評委員會) in December 1990.

Mr. Zhao Yan (趙焰), aged 42, was appointed as an executive Director on 2 September 2010. He has over 20 years of experience in corporate management and is primarily responsible for implementing and overseeing development plans, administration, human resources, management and information systems of our Group. Prior to joining our Group, Mr. Zhao held various positions, including product designer, IT manager, project manager, research institute director and etc, at Haier Group Corporation (海爾集團公司) and its subsidiaries for approximately 12 years. From August 1998 to February 2002, he was the general manager of Haier 3C Chain Co., Ltd. (海爾3C連鎖有限公司). From March 2002 to March 2003, he was the special assistant to the general manager at Shanghai Microtek Technology Co., Ltd. (上海中晶科技有限公司). From March to December 2003, he was the president of Shanghai Hongtusanbao Technology Co., Ltd. (上海宏圖三胞科技有限公司). From December 2003 to August 2005, he was appointed as a deputy general manager of Shanghai Youtong Mobile Technology Co., Ltd. (上海郵通移動科技有限公司). From September 2005 to July 2007, Mr. Zhao was the special assistant to the chairman of the board of directors of Haosha H.K. and has been the vice chief executive officer since July 2007. Since October 2007, he has been the vice chief executive officer of Haosha Industry.

Mr. Zhao has also received various awards from different accredited institutions, including the "National Technological Achievement Certificate" (國家科技成果完成者證書) in September 1995, the first prize of "Shandong Province Excellent Achievement Prize for Computer Applications" (山東省計算機應用優秀成果獎) in February 1996, the second prize of "China Light Industry Technological Progress Prize" (中國輕工業科學技術進步獎(二等獎)) in December 1996, the first prize of "Qingdao Technological Progress Prize" (青島市科學技術進步獎(一等獎)) in March 1997 and the prize of "Second Qingdao Youth Science and Technology Prize" (第二屆青島市青年科技獎) in February 2000. He was selected as the "Advanced Worker in Marketing Planning" (市場行銷策劃先進工作者) of Qingdao Three Major Projects of Industrial System Marketing (青島市工業系統市場行銷"三大工程") in March 2000.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhao received his bachelor's degree in electronic engineering from Shanghai Jiaotong University (上海交通大學) in July 1990. He also completed the 4-month mid-level business management courses from the School of Economics and Trade of Qingdao University of Science & Technology (青島科技大學), (formally known as Qingdao Chemical Engineering College (青島化工學院)) in January 2000. Mr. Zhao was qualified as a senior engineer in November 2000 by Qingdao Personnel Bureau (青島市人事局).

Independent Non-executive Directors

Mr. Mak Kin Kwong (麥建光), aged 49, was appointed as an independent non-executive Director on 7 June 2011. He is the managing director of Venfund Investment (華雋創業投資管理(深圳)有限公司), a mid-market M&A investment banking firm based in Shenzhen which he co-founded in late 2001, specializing in cross-border mergers and acquisitions, corporate restructuring, capital raising and international financial advisory services for Chinese privately-owned enterprises. Mr. Mak serves as an independent director and audit committee chairman of several listed companies, the details of which are set out in tabular format below.

Terms of Office	Position	Name of Company
March 2004 — now	independent director and audit committee chairman	Huabao International Holdings Ltd. (華寶國際控股有限公司), listed on the Stock Exchange
November 2004 — now . . .	independent director and audit committee chairman	China GrenTech Corp. Ltd. (國人通信股份有限公司), listed in the U.S.
December 2006 — now . . .	independent director and audit committee chairman	Trina Solar Limited (天合光能有限公司), listed in the U.S.
October 2007 — now	independent director and audit committee chairman	China Security & Surveillance Technology, Inc. (中國安防技術有限公司), listed in the U.S.
April 2008 — now	independent director and audit committee chairman	Pou Sheng International (Holdings) Limited (寶勝國際(集團)股份有限公司), listed on the Stock Exchange
September 2008 — now . . .	independent director and audit committee chairman	Real Gold Mining Limited (瑞金礦業有限公司), listed on the Stock Exchange
September 2008 — now . . .	independent director and audit committee chairman	361 Degrees International Limited (361度國際有限公司), listed on the Stock Exchange

Mr. Mak received a professional diploma in accountancy from Hong Kong Polytechnic University in November 1985 and is a fellow member of the Association of Chartered Certified Accountants, UK, and the Hong Kong Institute of Certified Public Accountants, and a member of the Institute of Chartered Accountants, in England and Wales.

Mr. Sun Ruizhe (孫瑞哲), aged 47, was appointed as an independent non-executive Director on 7 June 2011. He was the vice president of China Textile Information Center (中國紡織信息中心) from June 1999 to April 2002 and has been acting as the president since May 2002. Mr. Sun has also been acting as the president of China Textiles Development Center (紡織產品開發中心) since June 1999. In addition, Mr. Sun is the vice chairman of China National Textile and Apparel Council (中國紡織工業協會) and acted as the vice president of the information department of China National Textile and Apparel Council (中國紡織工業協會信息部) from January 2001 to April 2002. From December 1998 to May 1999, Mr. Sun was the director of China Textile Information Institute (中國紡織科技信息研究所), the vice president of China Textile Information Network Center (中國紡織總會信息中心) and the president of China Textiles Development Center (中國紡織總會紡織產品開發中心).

DIRECTORS AND SENIOR MANAGEMENT

Mr. Sun has also been a member of the National Technical Commission of Color Standardization (全國顏色標準化技術委員會) since September 2004. He was selected as the “Advanced Worker in National Textile Industrial System” (全國紡織工業系統先進工作者) by National Textile Industry Administration (國家紡織工業總局) in May 2000 and was granted the special government allowance by the state council in October 2004.

Mr. Sun received his bachelor’s degree in dyeing and finishing engineering from Donghua University (東華大學), formerly known as East China Institute of Textile Engineering (華東紡織工學院), in July 1985. He has been a qualified senior engineer since November 2001.

Mr. Yao Ge (姚戈), aged 48, was appointed as an independent non-executive Director on 7 June 2011. After his graduation in September 1994 to late 1994, Mr. Yao was independently exploring the development of Japanese traditional garments and its overall apparel market in Japan. In December 1994, he returned to China and independently explored the Chinese apparel market and industrial textile structure. In October 1996, he started working at the marketing centre of China Fashion Association (中國服裝設計師協會), and was later promoted to the deputy secretary general in December 1999 and the supervisor of the marketing centre in February 2001. He was appointed as the deputy director of China’s Professional Fashion Models Committee (中國職業時裝模特委員會) in July 2002. Since May 2003, he has been the chairman of the board of directors of Beijing Oriental Bentley Culture Development Co., Ltd. (北京東方賓利文化發展中心).

Mr. Yao received silver award for Tokyo 21st Clothing Fashion Paintings and Crafts Exhibition (東京第21屆服飾流行畫和手工藝展) in 1993 and recognition award for Japanese Apparel Fashion Design Contest (日本服飾流行設計比賽) in 1994.

Mr. Yao received his college diploma in journalism from Shenyang Radio and Television University (瀋陽廣播電視大學) in November 1988 and went to Japan for advanced study in 1990. He completed a two-year Japanese language course at Asahi International School (朝日國際學校) in September 1992 and a two years’ advanced study in garment design at Tokyo Shimizu Institute (東京清水學院) in September 1994 and received a certificate in garment design.

SENIOR MANAGEMENT

Mr. Lai Ho Man, Dickson (黎浩文), aged 37, was appointed as the chief financial officer and company secretary of our Company on 14 February 2011. Mr. Lai is primarily responsible for the overall financial affairs of our Group. From November 2007 to March 2011, Mr. Lai was the group financial controller of AsiaAlum Group. From January 2007 to October 2007, he was the manager of the finance and accounting department of Brigantine Services Limited. From May 2005 to January 2007, he worked as the manager of the financial control department of CITIC Pacific Ltd. Mr. Lai worked at Kerry Beverage Services Ltd. as an assistant accounting manager from December 2003 to May 2005 and, from September 1996 to October 2003, worked as an assistant manager in KPMG, where he was mainly responsible for the external auditing, initial public offering and due diligence projects of financial institution sector.

Mr. Lai received a bachelor’s degree in accountancy from the Hong Kong Polytechnic University in 1996. Mr. Lai also received a master’s degree in business administration from the University of Birmingham in 2008. He is a Fellow Member of the Hong Kong Institute of Certified Public Accountants. He is also a member of the Taxation Institute of Hong Kong.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chen Rui (陳瑞), aged 42, is our sales director and is primarily responsible for the expansion of the market and distribution network of our Group. He has approximately 13 years of experience in managing corporate sales affairs. From May 1997 to March 2000, he was the regional general manager of the Shanghai subsidiary of Beijing Hualin Corporate Group (Mei Fule) Ltd., Co. (北京華麟企業集團(美福樂)有限公司). From April 2000 to March 2005, he was the sales director and promoted to the vice general manager and executive general manager of Tingmei Group Healthcare Technology Ltd., Co. (婷美集團保健科技有限公司). From March 2005 to March 2006, he worked as the vice general manager of Shanghai Gentlemen Apparel Ltd., Co. (Cartelo) (上海紳士服飾有限公司(卡帝樂鱷魚)). From April 2006 to June 2007, he was the general manager of business division of Maoren International (H.K.) Ltd., Co. (貓人國際(香港)有限公司). From June 2007 to December 2008, he was the consultant of Huangjia Limei underwear at Beijing Century Oumeiya Technology Ltd., Co. (北京世紀歐美雅科技有限公司). From March 2009 to March 2010, he was the vice general manager and sales director of Shanghai Duocaimian Apparel Ltd., Co. (上海朵彩棉服飾有限公司). Since November 2010, Mr. Chen has been the sales director of Haosha Industry, where is primarily responsible for the expansion of the market and distribution network.

Mr. Chen received his bachelor's degree in food engineering from Shanghai Ocean University (上海海洋大學), (formally known as Shanghai Fisheries University (上海水產大學)), in July 1991.

Mr. Zhang Dingxiong (張鼎雄), aged 46, is our operation director and is primarily responsible for the daily sales operation of our Group, including merchandise management, products display, store design and decoration, sales training and sales analysis. He has approximately 16 years of experience in corporate sales operation. From September 1987 to May 1992, he was a teacher at Fujian Architecture and Engineering College (福建省建築工程學院). From June 1992 to May 1997, he worked as the trade specialist at Kun Peng Trading Ltd., Co. (昆鵬貿易有限公司). From May 1997 to March 2001, he was the regional manager at Fujian Huafu Trading Ltd., Co. (福建華福貿易有限公司). From April 2001 to April 2003, he worked as the regional manager at Beijing Aiya (formally known as Beijing Haosha Apparel Co., Ltd.). From August 2005 to July 2008, he was the regional manager of Baosheng Daoji (Beijing) Trading Company Limited (寶盛道吉(北京)貿易有限公司). From August 2008 to March 2009, he was the deputy manager of Wenzhou City Yijia Sports Commercial Complex Company Limited (溫州市一家體育商城有限公司). From April 2009 to December 2010, he also worked as the director of brand development department of Shanghai Baoyuan Sports Goods Trading Co., Ltd. (上海寶原體育用品商貿有限公司). Since December 2010, Mr. Zhang has been the operation director of Haosha Industry, where he is primarily responsible for the daily sales operation.

Mr. Zhang received his bachelor's degree in philosophy from Nanjing University (南京大學) in July 1987.

Mr. Liu Tongjie (劉同階) (alias Mr. Liu Tongjie (劉同階)), aged 37, is our production director of our Company and is primarily responsible for the procurement and production management of our Group. He has approximately 10 years of experience in product procurement and planning. From 2001 to 2007, he joined Haosha Garments and had assumed various positions. He was the manager of the planning department from February 2001 to August 2003, manager of the procurement department from September 2003 to November 2006, director of the product prototype department from December 2006 to September 2007. Since October 2007, Mr. Liu has been the production director of the garment production division of Haosha Industry, where he manages product supply, production, technology improvement and quality control during the production process and formulates production plans.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Liu received his college diploma in sericulture from Anhui Agricultural University (安徽農業大學) in July 1996.

Mr. Wen Quan (溫泉), aged 36, is our product research and development director and is primarily responsible for product design, research and development of our Group. He has approximately 10 years of experience in product design, research and development. From 2001 to 2007, he joined Haosha Garments and had assumed various positions. He was the director of the technology department from August 2001 to September 2005, manager of the product development department from September 2005 to October 2007. Since October 2007, Mr. Wen has been the director of the research and development center of Haosha Industry, where he is responsible for product positioning, market research and analysis for our products, formulating and implementing research plans and product cost budgeting.

Mr. Wen received his college diploma in costume design from Wuhan Textile Institute of Technology (武漢紡織工學院) in June 1997.

COMPANY SECRETARY

Mr. Lai Ho Man, Dickson is the chief financial officer and company secretary of our Company. Please refer to the paragraph headed “— Senior Management” above for Mr. Lai’s biography.

MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. Since the principal business operations and production facilities of our Group are located in China, members of our senior management are and will therefore be expected to continue to be based in China. At present, Mr. Lai Ho Man, Dickson, our company secretary, is ordinarily resident in Hong Kong but none of the executive Directors are ordinarily resident in Hong Kong or based in Hong Kong. Our Company has applied to the Stock Exchange for a waiver from the strict compliance with the requirement under Rule 8.12 of the Listing Rules. For details of the waiver, please see the section headed “Waivers from Strict Compliance with the Listing Rules — Management presence” in this Prospectus.

BOARD COMMITTEES

Audit Committee

We have established an audit committee with terms of reference in compliance with rule 3.21 of the Listing Rules and paragraph C3 of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules on 7 June 2011. The primary duties of the audit committee are mainly to make recommendation to our Board on the appointment and removal of external auditor; review the financial statements and material advice in respect of financial reporting; oversight of internal control procedures of our Company. The audit committee of our Company consists of three members who are Mr. Mak Kin Kwong, Mr. Sun Ruizhe and Mr. Yao Ge. Mr. Mak Kin Kwong is the chairman of the audit committee.

DIRECTORS AND SENIOR MANAGEMENT

Nomination Committee

We have established a nomination committee with terms of reference in compliance with paragraph A.4.4 of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules on 7 June 2011. The primary functions of the nomination committee are to make recommendations to our Board regarding candidates to fill vacancies on our Board. The nomination committee consists of three members who are Mr. Zeng Shaoxiong, Mr. Sun Ruizhe and Mr. Yao Ge. The chairman of the nomination committee is Mr. Zeng Shaoxiong.

Remuneration Committee

We have established a remuneration committee with terms of reference in compliance with paragraph B1 of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules on 7 June 2011. The primary duties of the remuneration committee to make recommendation to our Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group, review performance based remuneration and ensure none of our Directors determine their own remuneration. The remuneration committee consists of three members who are Mr. Zhao Yan, Mr. Sun Ruizhe and Mr. Yao Ge. Mr. Zhao Yan is the chairman of the remuneration committee.

SHARE CAPITAL

Assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme or options that may be granted under the Share Option Scheme, our Company's issued share capital immediately after completion of the Global Offering and the Capitalization Issue will be as follows:

		<u>HK\$</u>	
Authorized share capital:			
10,000,000,000	Shares	100,000,000	
Shares issued and to be issued, fully paid or credited as fully paid upon completion of the Global Offering and the Capitalization Issue:			
<u>(Shares)</u>		<u>HK\$</u>	<u>Approximate percentage of issued share capital (%)</u>
200,000	Shares in issue as of the date of this Prospectus	2,000	0.0125
1,199,800,000	Shares to be issued under the Capitalization Issue	11,998,000	74.9875
<u>400,000,000</u>	Shares to be issued under the Global Offering	<u>4,000,000</u>	<u>25.00</u>
<u><u>1,600,000,000</u></u>	Total	<u><u>16,000,000</u></u>	<u><u>100.0</u></u>

The above table assumes no exercise of the Over-allotment Option. Assuming the Over-allotment Option is exercised in full, our Company's issued share capital immediately after completion of the Global Offering and the Capitalization Issue will increase to 1,660,000,000 Shares. The above table also does not take into account (i) any Shares issued upon exercise of options granted under our Pre-IPO Share Option Scheme or options that may be granted under the Share Option Scheme, or (ii) any Shares which may be issued or repurchased under the general mandates given to our Directors to issue or repurchase Shares.

RANKING

The Offer Shares are ordinary shares in the share capital of our Company and will rank equally in all respects with all Shares in issue or to be issued as set out in the above table, and will qualify and rank equally for all dividends or other distributions declared, made or paid after the date of this Prospectus.

THE PRE-IPO SHARE OPTION SCHEME AND THE SHARE OPTION SCHEME

We have conditionally adopted the Pre-IPO Share Option Scheme and the Share Option Scheme on 7 June 2011. Under the Pre-IPO Share Option Scheme, certain persons were conditionally granted options immediately prior to the Listing Date to subscribe for our Shares. The principal terms of the Pre-IPO Share Option Scheme and the Share Option Scheme are summarized in the sections headed "Appendix VI — Pre-IPO Share Option Scheme" and "Share Option Scheme", respectively, in this Prospectus.

SHARE CAPITAL

GENERAL MANDATE TO ISSUE SHARES

Our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

- (a) 20% of the aggregate nominal value of the share capital of our Company in issue immediately after completion of the Global Offering and the Capitalization Issue (excluding any Shares which may fall to be issued pursuant to the Over-allotment Option or any option which may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme); and
- (b) the aggregate nominal value of share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to below.

This mandate will expire at the earliest of:

- (a) the conclusion of our Company's next annual general meeting unless renewed by an ordinary resolution of the Company's Shareholders in a general meeting, either unconditionally or subject to conditions; or
- (b) the expiration of the period within which our Company is required by applicable laws or the Articles of Association to hold our next annual general meeting; or
- (c) when varied, revoked or renewed by an ordinary resolution of our Company's Shareholders in a general meeting.

For further details of this general mandate, see the paragraph headed "Written Resolutions of Our Shareholders Passed on 7 June 2011" in Appendix VI to this Prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with an aggregate nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue or to be issued immediately after completion of the Global Offering and the Capitalization Issue (excluding any Shares which may fall to be issued upon the exercise of the Over-allotment Option or any option which may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange, or any other approved stock exchange(s) on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and/or requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed "Appendix VI — Repurchase of our Shares" in this Prospectus.

This mandate will expire at the earliest of:

- (a) the conclusion of our Company's next annual general meeting unless renewed by an ordinary resolution of the Company's Shareholders in a general meeting, either unconditionally or subject to conditions; or

SHARE CAPITAL

- (b) the expiration of the period within which our Company is required by applicable laws or Articles of Association to hold our next annual general meeting; or
- (c) when varied or revoked by an ordinary resolution of our Company's Shareholders in a general meeting.

For further details of this repurchase mandate, see the section headed "Appendix VI — Written resolutions of our Shareholders passed on 7 June 2011" in this Prospectus.

SUBSTANTIAL SHAREHOLDERS

Each of the following persons will, immediately after completion of the Global Offering and the Capitalization Issue (without taking into account the Shares which may be issued upon the exercise of the Over-allotment Option or Shares which may be issued pursuant to the exercise of any options granted under the Pre-IPO Share Option Scheme or which may be granted under the Share Option Scheme), have an interest or short position in our Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding in our Company immediately after completion of the Global Offering and the Capitalization Issue ⁽¹⁾
Ho Born Investment	Beneficial owner	864,000,000	54%
Well Born Industrial	Beneficial owner	119,808,000	7.488%
Mr. Shi Hongliu ⁽²⁾	Interest in the controlled corporations	983,808,000	61.488%
Zehui Investment ⁽³⁾	Beneficial owner	120,192,000	7.512%
Mr. Xu Zehui	Interest in a controlled corporation	120,192,000	7.512%
Yixin Investment ⁽⁴⁾	Beneficial owner	96,000,000	6.000%
Mr. Zeng Shaoxiong	Interest in a controlled corporation	96,000,000	6.000%

Notes:

- (1) Assuming the Over-allotment Option is not exercised.
- (2) Ho Born Investment and Well Born Industrial are beneficially owned as to 49.851% by Mr. Shi Hongliu. Mr. Shi Hongliu is therefore deemed to be interested in the Shares held by Ho Born Investment and Well Born Industrial. Mr. Shi Hongliu has confirmed that he was brought up in PRC and has lived in PRC for a substantial period of time. Mr. Shi Hongliu has never been a full time government official in PRC or a full-time employee of a state or government-owned or operated entity in PRC.
- (3) Zehui Investment is wholly owned by Mr. Xu Zehui and Mr. Xu Zehui is therefore deemed to be interested in the Shares held by Zehui Investment.
- (4) Yixin Investment is wholly owned by Mr. Zeng Shaoxiong and Mr. Zeng Shaoxiong is therefore deemed to be interested in the Shares held by Yixin Investment.

Save as disclosed herein, our Directors are not aware of any person who will, immediately after completion of the Global Offering and the Capitalization Issue, have an interest or short position in our Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

FINANCIAL INFORMATION

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

SELECTED FINANCIAL INFORMATION

Selected Combined Financial Information

The selected combined statements of comprehensive income, balance sheets and cash flow information for the years ended 31 December 2008, 2009 and 2010 set forth below are extracted from the Accountants' Report set out in Appendix I to this Prospectus. Financial information for such periods may not be comparable to financial information for subsequent periods.

The table below sets forth our summary combined statements of comprehensive income for the years ended 31 December 2008, 2009 and 2010:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Continuing operations			
Revenue	204,643	159,169	347,787
Cost of sales	(142,383)	(96,253)	(178,382)
Gross profit	62,260	62,916	169,405
Other revenue	240	664	1,928
Other net income/(loss)	142	64	(379)
Selling and distribution expenses	(24,431)	(23,737)	(29,122)
Administrative and other operating expenses	(10,655)	(10,041)	(26,695)
Profit from operations	27,556	29,866	115,137
Finance costs	(921)	(2,640)	(6,382)
Profit before taxation	26,635	27,226	108,755
Income tax benefit/(expense)	1,596	1,382	(14,380)
Profit for the year from continuing operations	28,231	28,608	94,375
Discontinued operations			
Profit from discontinued operations	734	79	4,135
Net gain on disposal of subsidiaries, machinery and equipment	—	—	17,596
Profit and total comprehensive income for the year	28,965	28,687	116,106

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The table below sets forth our summary combined balance sheets as of 31 December 2008, 2009 and 2010:

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

The table below sets forth our summary combined cash flow statements for the period indicated:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Net cash (used in)/generated from operating activities	(35,105)	(68,445)	107,366
Net cash used in investing activities	(14,965)	(17,960)	(66,787)
Net cash generated from financing activities	59,594	84,413	27,603
Cash as of 1 January	8,113	17,637	15,645
Cash as of 31 December	17,637	15,645	83,827

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

Overview

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

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

- **Swimwear:** swimsuits and beachwear for women, men and children;
- **Fitness wear:** apparel for women and men for indoor fitness activities including yoga, gym and dance;
- **Sports underwear:** professional sports underwear and casual sports underwear for women and men; and
- **Accessories:** accessories that complement our swimwear and fitness wear products.

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

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

Basis of Presentation

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

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

Factors Affecting Our Results of Operations and Financial Condition

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

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

Consumer demand in China for indoor sportswear products is one of the key drivers of our sales of HosaTM products and depends in large part on the general economic conditions in China and the growth in disposable income of residents in China. The statistics published by the PRC General Administration of Sport show that there is a general correlation between increasing income levels of PRC residents and the rising popularity of sports. According to Frost & Sullivan, China’s indoor sportswear market has experienced rapid growth in recent years with a total size of approximately RMB3.46 billion in 2010, achieving a CAGR of 30.5% as compared to 2007. Frost & Sullivan also estimated that the size of China’s

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indoor sportswear market will reach RMB10.16 billion in 2015, representing an expected CAGR of 24.0% from 2010 to 2015. We believe that the increase in the purchasing power of PRC residents will drive sentiment towards the purchase of branded indoor sportswear products, which should help to positively affect our results of operations.

Changes in consumption patterns and trends in the PRC

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

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

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

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

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

During the Track Record Period, we gradually shifted our business model to distributorship. Under the new distributorship business model, we sell our *Hosa*TM products on a wholesale basis to distributors who then sell our products to end-consumers at the retail outlets directly operated by such distributors or to sub-distributors. As our distributorship business model is relatively new to us, it may be difficult to identify all the risks and difficulties that we may encounter in the different stages of developing and

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implementing this new business model. Also see “Risk Factors — Risks relating to our business operations — Our limited operating experience with a distributorship business model and our failure to effectively handle the risks associated with our distributorship arrangement may materially and adversely affect our business.”

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

Pricing of our products and product mix

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

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

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Cost of raw materials

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

Level of income tax and preferential tax treatment

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

Under the current tax regime, our PRC subsidiary, namely Haosha Industry, being a foreign invested enterprise engaged in the manufacture and sales business, was entitled to an enterprise income tax exemption for its first two years of profitable operations (after offsetting all tax losses carried forward from previous years), which had a significant positive effect on our profit after taxation during the two financial years ended 31 December 2008 and 2009. For the three years ended 31 December 2010, 2011 and 2012, Haosha Industry is and will continue to be entitled to a 50% reduction of the current state enterprise income tax rate of 25%. We expect that upon the expiry of the 50% tax reduction from enterprise income tax currently enjoyed by Haosha Industry, it will be subject to a 25% tax rate and our tax payment will increase from 2013 onwards.

End consumers’ seasonal demand and weather conditions

Consumers’ purchases of swimwear and sports underwear products have historically reflected a certain degree of seasonality, which we expect to continue. Swimwear products usually achieve higher sales for the spring and summer seasons as compared to autumn and winter seasons. In contrast, consumers tend to purchase more sports underwear products during autumn and winter seasons as compared to spring and summer. In addition, weather conditions, such as unusual weather or temperatures, may affect consumers’ purchases of swimwear and sports underwear products. However, the seasonality of the consumption of swimwear and sports underwear products has not directly impacted our sales, primarily due to the industry practice that we hold sales fairs before the retail sales cycle of the respective products

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starts and that our distributors would spread their purchases into several orders based on our production capacity and their inventory management. As a result, comparisons of our sales and operating results between different periods within a single financial year, or between different periods in different financial years, are not necessarily meaningful and cannot be relied on as indicators of our performance. Furthermore, we expect our results of operation are likely to continue to fluctuate from period to period, as may be affected by consumers' seasonal demand and weather condition to a certain extent. Also see "Risk Factors — Risks relating to our business operations — End-consumers' demand for our products are subject to seasonality and weather conditions, which could cause our results of operations to fluctuate."

Critical Accounting Policies and Practices

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

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

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

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

Impairments

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

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to level of sales volume, sales revenue and amount of

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operating costs. We use all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, sales revenue and amount of operating costs.

Net realizable value of inventories

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

Impairment of trade and other receivables

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

Depreciation and amortization

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

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Description of Components of Results of Continuing Operations

Revenue

By operating segment

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

	Year ended 31 December					
	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
Total	204,643	100.0	159,169	100.0	347,787	100.0

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

The following table sets forth the number of units sold and the average selling prices of our *Hosa*TM products during the Track Record Period:

	Year ended 31 December					
	2008		2009		2010	
	Total units sold	Average selling price ⁽¹⁾	Total units sold	Average selling price ⁽¹⁾	Total units sold	Average selling price ⁽¹⁾
	'000	RMB	'000	RMB	'000	RMB
Swimwear (pieces)	2,171	27.6	2,574	27.4	4,003	35.8
Fitness wear (pieces)	3,444	25.4	613	51.1	1,428	51.7
Sports underwear (pieces) . . .	1,440	37.9	1,357	39.0	2,016	55.3
Accessories (pieces/pairs) . . .	140	21.1	250	17.4	703	26.9

Note:

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

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The change of the average selling price of our fitness wear products in 2009 was primarily due to (i) changes in product mix and product positioning toward higher-end fitness wear products and (ii) the decrease in overseas sales through which we sold products with lower selling prices and provided more discounts to foreign trading companies. The increase in the average selling prices of our swimwear and sports underwear products in 2010 was primarily due to changes in product mix and product positioning toward premium functional products with higher selling prices. In addition, the change in average selling prices of our accessories products in 2010 mainly reflect the change in our procurement costs for various kinds of accessories products we purchased from external sources that complement our swimwear and fitness wear operations. As such, the change in average selling prices as well as units sold for our accessories products during the Track Record Period are not comparable from period to period.

By region

While we primarily conduct our business in China, our products were sold overseas to certain South East Asian, North American and European countries during the Track Record Period based on purchase orders we received from foreign trading companies or wholesalers. For the years ended 31 December 2008, 2009 and 2010, we had 47, 30 and 35 overseas customers for our continuing operations. Our overseas sales of fitness wear decreased significantly in 2009, which resulted in the overall decrease in our overseas sales in 2009 compared to 2008, primarily due to the global economic downturn since late 2008. We expect that our overseas sales as a percentage of our total revenue will continue to decrease in the future as we aim to continue the active expansion of our sales and distribution network in the domestic market. The following table sets forth a geographical breakdown of our revenue during the Track Record Period:

	Year ended 31 December					
	2008		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%
Domestic sales						
Swimwear	32,722	16.0	41,708	26.2	97,937	28.2
Fitness wear	41,759	20.4	26,528	16.7	68,387	19.6
Sports underwear.	54,536	26.7	52,873	33.2	111,582	32.1
Accessories.	2,942	1.4	4,035	2.5	18,892	5.4
Subtotal	131,959	64.5	125,144	78.6	296,798	85.3
Overseas sales ⁽¹⁾						
Swimwear	27,114	13.2	28,923	18.2	45,540	13.1
Fitness wear	45,562	22.3	4,788	3.0	5,419	1.6
Accessories.	8	0.00	314	0.2	30	0.01
Subtotal	72,684	35.5	34,025	21.4	50,989	14.7
Total.	204,643	100.0	159,169	100.0	347,787	100.0

Note:

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

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

Cost of sales

By type

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

The following table sets forth a breakdown of our cost of sales for our *Hosa*TM products during the Track Record Period:

	Year ended 31 December					
	2008		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%
Raw materials	106,817	75.0	61,631	64.0	128,335	71.9
Labor	17,416	12.2	14,049	14.6	20,613	11.6
Manufacturing overhead	16,656	11.7	12,090	12.6	19,350	10.8
Procurement costs of finished products	1,494	1.1	8,483	8.8	10,084	5.7
Total	142,383	100.0	96,253	100.0	178,382	100.0

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

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

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

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

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

By operating segments

The following table sets forth a breakdown of our cost of sales by operating segment in our continuing operations during the Track Record Period:

	Year ended 31 December					
	2008		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%
Swimwear	41,679	29.3	43,841	45.6	72,909	40.9
Fitness wear	65,234	45.8	17,521	18.2	38,011	21.3
Sports underwear.	34,266	24.1	31,497	32.7	59,023	33.1
Accessories.	1,204	0.8	3,394	3.5	8,439	4.7
Total.	142,383	100.0	96,253	100.0	178,382	100.0

Gross profit and gross profit margin

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

	Year ended 31 December					
	2008		2009		2010	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
Domestic sales						
Swimwear	13,672	41.8	19,326	46.3	57,612	58.8
Fitnesswear.	18,879	45.2	12,077	45.5	34,222	50.0
Sports underwear. .	20,270	37.2	21,376	40.4	52,559	47.1
Accessories.	1,746	59.3	690	17.1	10,460	55.4
Subtotal	54,567	41.4	53,469	42.7	154,853	52.2
Overseas sales ⁽¹⁾						
Swimwear	4,485	16.5	7,464	25.8	12,956	28.4
Fitness wear	3,208	7.0	1,718	35.9	1,573	29.0
Accessories.	—	—	265	84.4	23	76.7
Subtotal	7,693	10.6	9,447	27.8	14,552	28.5
Total.	62,260	30.4	62,916	39.5	169,405	48.7

Note:

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

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

Gross profit margin for our *Hosa*TM products increased from 30.4% for the year ended 31 December 2008 to 39.5% for the year ended 31 December 2009, primarily attributable to the decrease in purchase prices of raw materials and the introduction of fitness wear products with higher selling prices and profit margin. Our gross profit margin increased from 39.5% for the year ended 31 December 2009 to 48.7% for the year ended 31 December 2010, primarily due to the increase in average selling prices of our swimwear and sports underwear products as a result of the improvement of our product mix and our repositioning toward premium functional products with higher selling prices and profit margins.

Other revenue

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

Other net income/loss

Our other net income in 2008 and 2009 primarily consisted of net exchange gain from the depreciation of the US dollar against the Renminbi and appreciation of the Euro against the Renminbi in connection with our procurement of equipment and overseas sales. Our other net loss for the year ended 31 December 2010 primarily consisted of net exchange loss from the depreciation of the US dollar against the Renminbi in connection with our overseas sales and procurement of equipment.

Selling and distribution expenses

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

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

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

Administrative and other operating expenses

Administrative and other operating expenses consist primarily of remuneration and employee benefits for our administrative staff, impairment losses for trade receivables and prepayments, travel and transportation expenses, general office expenses, stamp duty and property taxes, depreciation and amortization expenses of our properties used for administrative activities, donations, research and development expenses, professional service fees relating to the Listing and other miscellaneous expenses. For the years ended 31 December 2008, 2009 and 2010, the administrative and other operating expenses were RMB10.7 million, RMB10.0 million and RMB26.7 million, respectively, representing 5.2%, 6.3% and 7.7% of our revenue from continuing operations, respectively.

Finance costs

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

Income tax benefit/expenses

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

However, our PRC subsidiary, namely Haosha Industry, is subject to PRC enterprise income tax. During the Track Record Period, our PRC subsidiary, namely Haosha Industry, was entitled to an enterprise income tax exemption for the two financial years ended 31 December 2008 and 2009, and a 50% reduction of the current state enterprise income tax rate of 25% for the year ended 31 December 2010. Haosha Industry will continue to be entitled to the 50% reduction of the current state enterprise income tax rate of 25% for the two financial years of 2011 and 2012, but will be subject to a 25% tax rate from 2013 onwards.

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

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

Description of Discontinued Operations

In 2010, we terminated and disposed of our operations of manufacturing and sales of fabric and retail sales of our *Hosa*TM products to focus on manufacturing and sales of our branded swimwear, fitness wear, sports underwear and accessories products through our distributors. For the years ended 31 December 2008, 2009 and 2010, our discontinued operations recorded revenue of RMB59.0 million, RMB70.8 million and RMB119.3 million, respectively. We had net profit from the discontinued operations of RMB0.7 million, RMB79,000 and RMB4.1 million in the years ended 31 December 2008, 2009 and 2010, respectively.

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

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

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

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

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RESULTS OF OUR CONTINUING OPERATIONS

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

	Year ended 31 December					
	2008		2009		2010	
	RMB'000	%	RMB'000	%	RMB'000	%
Continuing operations						
Revenue	204,643	100.0	159,169	100.0	347,787	100.0
Cost of sales	(142,383)	(69.6)	(96,253)	(60.5)	(178,382)	(51.3)
Gross profit	62,260	30.4	62,916	39.5	169,405	48.7
Other revenue	240	0.1	664	0.4	1,928	0.6
Other net income/(loss)	142	0.07	64	0.04	(379)	(0.1)
Selling and distribution expenses	(24,431)	(11.9)	(23,737)	(14.9)	(29,122)	(8.4)
Administrative and other operating expenses	(10,655)	(5.2)	(10,041)	(6.3)	(26,695)	(7.7)
Profit from operations	27,556	13.5	29,866	18.8	115,137	33.1
Finance costs	(921)	(0.5)	(2,640)	(1.7)	(6,382)	(1.8)
Profit before taxation	26,635	13.0	27,226	17.1	108,755	31.3
Income tax benefit/(expense)	1,596	0.8	1,382	0.9	(14,380)	(4.1)
Profit for the year from continuing operations	28,231	13.8	28,608	18.0	94,375	27.1
Discontinued operations						
Profit from discontinued operations	734	0.4	79	0.05	4,135	1.2
Net gain on disposal of subsidiaries, machinery and equipment	—	—	—	—	17,596	5.1
Profit and total comprehensive income for the year	28,965	14.2	28,687	18.0	116,106	33.4

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

Revenue

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

Swimwear

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

Fitness wear

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

Sports underwear

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

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Accessories

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

Cost of sales

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

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

Swimwear

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

Fitness wear

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

Sports underwear

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

Accessories

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

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Gross profit and gross profit margin

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

Swimwear

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

Fitness wear

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

Sports underwear

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

Accessories

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

Other revenue

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

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Other net income/loss

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

Selling and distribution expenses

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

Administrative and other operating expenses

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

Finance costs

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

Income tax

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

Profit for the year from continuing operations

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

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

Revenue

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

Swimwear

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

Fitness wear

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

Sports underwear

Revenue from sales of our *Hosa*TM sports underwear products decreased by 3.0% from RMB54.5 million for the year ended 31 December 2008 to RMB52.9 million for the year ended 31 December 2009, primarily due to the decrease in sales volume. The number of pieces of *Hosa*TM sports underwear products sold decreased by 5.7% from 1,439,682 pieces for the year ended 31 December 2008 to 1,357,388 pieces for the year ended 31 December 2009, primarily due to the adjustment of our distribution channel for sports underwear products, such as spinning out sports underwear products to separate counters from our

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existing department store counters for swimwear products. The average selling price of our *Hosa*TM sports underwear products stayed relatively stable at RMB37.9 for the year ended 31 December 2008 when compared to RMB39.0 for the year ended 31 December 2009.

Accessories

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

Cost of sales

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

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

Swimwear

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

Fitness wear

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

Sports underwear

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

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Accessories

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

Gross profit and gross profit margin

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

Swimwear

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

Fitness wear

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

Sports underwear

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

Accessories

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

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Other revenue

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

Other net income

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

Selling and distribution expenses

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

Administrative and other operating expenses

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

Finance costs

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

Income tax benefit/expense

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

Profit for the year from continuing operations

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

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LIQUIDITY AND CAPITAL RESOURCES

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

Cash Flow

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

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Net cash (used in)/generated from operating activities . .	(35,105)	(68,445)	107,366
Net cash used in investing activities	(14,965)	(17,960)	(66,787)
Net cash generated from financing activities	59,594	84,413	27,603
Net increase/(decrease) in cash	9,524	(1,992)	68,182
Cash at 1 January	8,113	17,637	15,645
Cash at 31 December	<u>17,637</u>	<u>15,645</u>	<u>83,827</u>

Cash flow from operating activities

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

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

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

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inventory of our finished products at cost of RMB9.6 million from a then related-party retail companies, Beijing Aiya, to Beijing Yasha, our distributor subsidiary, when Beijing Aiya switched its core business to the operation of Hosa Fitness Gyms in 2009.

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

Cash flow from investing activities

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

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

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

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

Cash flow from financing activities

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

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

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

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

Working Capital

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

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

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

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

	As of 31 December			As of 30 April
	2008	2009	2010	2011
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Current assets				
Inventories	68,972	131,017	51,376	69,465
Trade and bill receivables	47,454	68,101	180,823	115,876
Prepayment and other receivables	49,364	101,959	110,102	109,014
Pledged deposits	10,290	13,240	37,920	17,704
Cash at bank and in hand	17,637	15,645	83,827	125,329
	<u>193,717</u>	<u>329,962</u>	<u>464,048</u>	<u>437,388</u>
Current liabilities				
Bank loans	39,000	126,880	98,800	17,000
Trade and other payables	79,819	112,769	128,966	282,127
Current taxation	—	—	8,291	6,098
	<u>118,819</u>	<u>239,649</u>	<u>236,057</u>	<u>305,225</u>
Net current assets	<u>74,898</u>	<u>90,313</u>	<u>227,991</u>	<u>132,163</u>

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

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

As of 30 April 2011, we had a net current asset position of RMB132.2 million. The decrease in our net current asset position by RMB95.8 million from RMB228.0 million as of 31 December 2010 was primarily due to (i) the increase in trade and other payables of RMB153.2 million, primarily consisting of dividends declared by Haosha Industry in January 2011 and payables to its then shareholders, namely Haosha H.K. and Haosha Garments, and (ii) the decrease in our trade and bill receivables of RMB64.9

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million, as a result of our enhanced credit control and the implementation of our credit-scoring system in April 2011. Such decrease in our net current asset position was partly offset by the repayment of bank loans of RMB81.8 million during the four months ended 30 April 2011.

Inventories

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

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

	As of 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Raw materials	46,515	82,820	25,311
Work in progress	2,384	2,911	656
Finished goods	20,073	45,286	25,409
Total	68,972	131,017	51,376

Our inventories increased from RMB69.0 million as of 31 December 2008 to RMB131.0 million as of 31 December 2009, as we purchased more raw materials, in particular, various stretch fabric, when the prices of raw materials were relatively low as a result of the decrease in crude oil prices in the second half of 2009. To a lesser extent, the transfer of inventory of our finished products originally sold to a then related-party retail company, Beijing Aiya, to Beijing Yasha, our distributor subsidiary, when Beijing Aiya switched its core business to the operation of Hosa Fitness Gyms in 2009 also contributed to the increase of our inventory level as of 31 December 2009. Our inventories decreased from RMB131.0 million as of 31 December 2009, to RMB51.4 million as of 31 December 2010, as a result of our consumption of raw materials purchased in the second half of 2009 at relatively low prices as well as our disposal of three distributor subsidiaries, which carried inventories of finished products in July 2010. As of 31 May 2011, approximately RMB41.2 million, or 80.3%, of our inventories as of 31 December 2010 were subsequently utilized.

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

	Year ended 31 December		
	2008	2009	2010
Average inventory turnover days ⁽¹⁾	87	253	123

Note:

- (1) Average inventory turnover days is equal to the average of the starting and ending inventory balances of the period divided by costs of sales from our continuing and discontinued operations and multiplied by 365 days.

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Our average inventory turnover days increased significantly from 87 days for the year ended 31 December 2008 to 253 days for the year ended 31 December 2009, primarily due to the higher inventory we maintained as we purchased more raw materials at relatively lower prices in the year of 2009. Our average inventory turnover days decreased from 253 days for the year ended 31 December 2009 to 123 days for the year ended 31 December 2010, primarily due to our relatively low inventory position as of 31 December 2010 as a result of our consumption of raw materials purchased in 2009 at relatively low prices as well as our disposal of three distributor subsidiaries conducting retail operations, which carried inventories of finished products.

Trade and Bill Receivables

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

	As of 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade receivables			
— third parties	15,700	32,021	183,442
— related parties	32,961	37,611	—
	48,661	69,632	183,442
Bill receivables	—	300	—
Less: allowance for doubtful debts	(1,207)	(1,831)	(2,619)
	<u>47,454</u>	<u>68,101</u>	<u>180,823</u>

Our trade and bill receivables increased from RMB47.5 million as of 31 December 2008 to RMB68.1 million as of 31 December 2009 and to RMB180.8 million as of 31 December 2010. Such changes in the balance of our trade and bill receivables were primarily due to the expansion of distribution network and our sales growth during the Track Record Period. In particular, our trade receivables grew significantly in the fourth quarter of 2010 as a result of the increase in the number of Hosa retail outlets to 666 in the second half of 2010. In addition, our core operating subsidiary began to operate the indoor sportswear business since late 2007 and, therefore, the starting balance of our trade and bill receivables in 2008 was relatively low due to the short period of time elapsed since we took over such operations from Haosha Garments. For more details, please also see the section headed “History and Corporate Structure — Our history and development — Establishment of Haosha Industry” and “Business — Sales and distribution — Our business model”. As of 31 May 2011, approximately RMB181.0 million, or 98.7%, of our trade and bill receivables as of 31 December 2010 were subsequently settled.

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

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

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

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

	As of 31 December		
	2008	2009	2010
	RMB’000	RMB’000	RMB’000
Within one month	14,590	29,361	48,619
More than one month but within three months	19,915	17,797	85,719
More than three months but within six months	11,183	17,165	39,730
More than six months but within one year	1,387	3,778	6,754
More than one year	379	—	1
	<u>47,454</u>	<u>68,101</u>	<u>180,823</u>

We review trade and bill receivables that are stated at cost or amortized cost as of each balance sheet date to determine whether objective evidence of impairment exists as of such date. Objective evidence of impairment includes observable data that comes to our attention about the events of significant financial difficulty of the debtor, a breach of contract by the debtor, such as a default or delinquency in interest or principal payments, or it becoming probable that the debtor will enter bankruptcy or other financial

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reorganization and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor. If objective evidence of impairment exists, the amount of impairment loss is measured as the difference between such receivables carrying amount and the present value of estimated future cash flows (discounting estimated future cash payments or receipts through the expected life of relevant receivables to the net carrying amount of the receivables where the effect of discounting is material). Impairment losses recognized in respect of trade and bill receivables are included within trade and other receivables, the recovery of which is considered doubtful but not remote, and such amounts are recorded using an allowance account.

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

	As of 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
At 1 January	—	1,207	1,831
Impairment loss recognized	1,207	624	788
At 31 December	1,207	1,831	2,619

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

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

	Year ended 31 December		
	2008	2009	2010
Average trade and bill receivables turnover days ⁽¹⁾ . . .	50	94	99

Note:

- (1) Average trade and bill receivables turnover days is equal to the average of the starting and ending trade and other receivables balances before allowance for doubtful debt of the period divided by revenue from our continuing and discontinued operations and multiplied by 365 days.

The increase in the average trade and bill receivables turnover days for the year ended 31 December 2009, compared with the year ended 31 December 2008, was due to the relatively low starting balance of our trade and bill receivables in 2008. Before late 2007, Haosha Garments operated the Hosa indoor sportswear business and it leased relevant production facilities to Haosha Industry in October 2007 and further transferred the same to Haosha Industry by June 2008. Haosha Industry, our core operating subsidiary, began to operate the indoor sportswear business afterwards and, therefore, the starting balance of our trade and bill receivables in 2008 was relatively low due to the short period of time elapsed since we took over such operations. For more details, please also see the section headed “History and Corporate

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Structure — Our history and development — Establishment of Haosha Industry” and “Business — Sales and distribution — Our business model”. The average turnover days for the year ended 31 December 2009 and 2010 remained relatively stable.

Prepayments and Other Receivables

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

As of 31 December 2008, 2009 and 2010, our deposits and prepayments amounted to RMB10.9 million, RMB15.6 million and RMB19.6 million, respectively.

As of 31 December 2008, 2009 and 2010, our other receivables amounted to RMB5.9 million, RMB5.5 million and RMB14.2 million, respectively. The increase in our other receivables in 2010 primarily consisted of the receivables relating to our disposal of three subsidiaries, namely Beijing Yasha, Shanghai Haote and Guangzhou Yingchang, in July 2010.

We made unsecured and interest-free advances to our Directors and related parties during the Track Record Period for the short-term working capital needs of entities historically within the business group and under the common control of our Controlling Shareholders. Such advances were unsecured, interest-free and had no fixed repayment terms. As of 31 December 2008, 2009 and 2010, the amount due from our Directors was RMB14.5 million, RMB12.1 million and nil, respectively, and the amount due from related parties was RMB18.1 million, RMB68.7 million and RMB74.5 million, respectively.

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

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Trade and Other Payables

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

	As of 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade payables			
— third parties	20,513	30,418	12,127
— related parties	1,727	10,727	—
Subtotal	22,240	41,145	12,127
Bills payables	41,450	48,860	77,306
Receipts in advance	2,979	5,010	4,293
Other payables and accruals	13,016	17,754	31,834
Amounts due to related parties	134	—	3,406
Total	79,819	112,769	128,966

Trade and bills payables

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

Our trade and bills payables increased from RMB63.7 million as of 31 December 2008 to RMB90.0 million as of 31 December 2009 and to RMB89.4 million as of 31 December 2010. Such changes in the balance of our trade and bills payables were primarily due to (i) the increased purchase of raw materials at relatively low prices in 2009 and (ii) the repayment of trade payables relating to such purchases in 2010. As of the 31 May 2011, RMB59.0 million or 66.0% of our trade and bills payables as of 31 December 2010 were settled.

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

	As of 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade and bills payables			
Within 1 month or on demand	14,251	23,753	9,003
After 1 month but within 3 months	14,796	8,313	7,675
After 3 months but within 6 months	33,883	44,555	71,728
After 6 months	760	13,384	1,027
Total	63,690	90,005	89,433

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

	Year ended 31 December		
	2008	2009	2010
Average trade and bills payables turnover days ⁽¹⁾	88	180	113

Note:

- (1) Average trade and other payables turnover days is equal to the average of the starting and ending trade and other payables balances of the period divided by cost of sales from our continuing and discontinued operations and multiplied by 365 days.

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

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

Receipts in advance

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

Other payables and accruals

Our other payables and accruals consisted primarily of our payroll payables and social insurance contributions payables and, to a lesser extent, advertising fees, equipment costs, decoration subsidies to distributors and sales services expenses and other miscellaneous taxes, levies and accruals payables. As of 31 December 2008, 2009 and 2010, our other payables and accruals were RMB13.0 million, RMB17.8 million and RMB31.8 million, respectively.

Amounts due to related parties

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

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Capital Expenditures

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

	For the year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	2,789	11,365	41,910
Vehicles and furnitures	2,382	3,165	1,731
Total	5,171	14,530	43,641

Our capital expenditures increased from RMB5.2 million for the year ended 31 December 2008 to RMB14.5 million for the year ended 31 December 2009, primarily due to the procurement of equipment for our manufacturing facilities. Our capital expenditures increased from RMB14.5 million for the year ended 31 December 2009 to RMB43.6 million for the year ended 31 December 2010, primarily due to the procurement of manufacturing equipment and the acquisition of plant and land use rights relating to our production facilities from Haosha Garments.

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

INDEBTEDNESS

Bank Borrowings

As of 30 April 2011, being the most recent practicable date for the purpose of this indebtedness statement in this Prospectus, we had RMB514.0 million of revolving credit facilities made available to us, of which RMB105.5 million were utilized (which amount includes bank loans and bills payables). Our banking borrowings primarily consisted of short-term working capital loans. All of our total loans and bank borrowings as of the 31 December 2008, 2009 and 2010 were due within one year. The following table sets forth the amount and maturity profile of our bank loans as of the dates indicated:

	As of 31 December			As of
	2008	2009	2010	30 April
	RMB'000	RMB'000	RMB'000	2011
				RMB'000
Current				
Bank loans repayable within				
one year — unsecured	39,000	126,880	98,800	17,000

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

As of 31 December 2008, 2009 and 2010, guarantees were given by our Controlling Shareholders and related parties, Jinjiang Sanxie and Haosha Garments in respect to our bank borrowings in the amount of RMB39.0 million, RMB107.1 million and RMB65.8 million, respectively. Our Directors confirm that the above guarantees will be discharged and released prior to the Listing.

Gearing Ratios

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

Contingent Liabilities

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

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

Our Directors confirm that there have been no material changes in our indebtedness and contingent liabilities since 31 December 2010.

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COMMITMENTS AND CONTRACTUAL OBLIGATIONS

Contractual Obligations

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

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

Off-balance Sheet Commitments and Arrangements

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

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

Interest Rate Risk

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

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

Foreign Currency Risk

We mainly operate in the PRC and most of our transactions are settled in Renminbi. Our assets and liabilities and transactions arising from our operations are mainly denominated in Renminbi. The Renminbi is not freely convertible into other currencies and conversion of the Renminbi into foreign currencies is subject to foreign exchange control by the PRC Government. We use Renminbi as the reporting and functional currency for our financial statements. All transactions in currencies other than Renminbi are

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recorded at the exchange rates prevailing on the respective relevant dates of such transactions. We are subject to foreign currency risk primarily through sales denominated in currencies other than our functional currency.

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

Credit Risk

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

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

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

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

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Liquidity Risk

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

RELATED PARTY TRANSACTIONS

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

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purposes only and it may not give a true picture of our net tangible assets following the Global Offering. The following unaudited pro forma adjusted net tangible assets is set out here to illustrate the effect of the Global Offering on our combined net tangible assets as of 31 December 2010 as shown in the Accountants' Report, the text of which is set out in Appendix I to this Prospectus, and adjusted as described below. The unaudited pro forma adjusted net tangible assets statement does not form part of the Accountants' Report.

	Our combined net tangible assets attributable to the equity holders of the Company as at 31 December 2010	Estimated net proceeds from the Global Offering⁽¹⁾	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share⁽²⁾
	RMB'000	RMB'000	RMB'000	RMB
Based on an Offer Price of				
HK\$4.10 per Share.	285,136	1,328,522	1,613,658	1.01
Based on an Offer Price of				
HK\$2.88 per Share.	285,136	924,721	1,209,857	0.76

Notes:

- (1) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$2.88 and HK\$4.10 per Share, after deduction of the underwriting fees and other related expenses payable by us. No account has been taken for Shares which may be issued upon the exercise of the Over-allotment Option.
- (2) The unaudited pro forma adjusted net tangible asset per Share is arrived at after the adjustment for the estimated net proceeds from the Global Offering payable to us as described in note (1) and on the basis that a total of 1,600,000,000 Shares were in issue as of 31 December 2010 (including Shares in issue as of the date of this Prospectus and those Shares to be issued pursuant to the Global Offering).

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PROFIT FORECAST

We believe that, in the absence of unforeseen circumstances and on the bases and assumptions as set out in “Appendix III — Profit Forecast”, our Company’s profit after taxation but before extraordinary items for the year ending 31 December 2011 is expected to be not less than RMB280.7 million. Our Directors are currently not aware of any extraordinary items which have arisen or are likely to arise in respect of the year ending 31 December 2011 that would affect the prospective financial information presented.

On a pro forma basis and on the assumption that our Company had been listed since 1 January 2011 and a total of 1,600,000,000 Shares were issued and outstanding during the entire year (taking no account of any Shares which may be issued upon exercise of the Over-allotment Option), the unaudited pro forma forecast earnings per Share for the year ending 31 December 2011 is expected to be not less than RMB0.175.

The texts of letters from the reporting accountants of our Company and from the Sole Sponsor in respect of the profit forecast are set out in “Appendix III — Profit Forecast”.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 2 September 2010 and there was no reserve available for distribution to shareholders as of 31 December 2010. As of 31 December 2008, 2009 and 2010, we had distributable reserves of the companies comprising our Group of RMB27.1 million, RMB51.6 million and RMB157.4 million, respectively.

DIVIDEND POLICY

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

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

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

PROPERTY INTERESTS AND PROPERTY VALUATION

BMI Appraisals Limited, an independent property valuer, has valued our property interests as of 31 May 2011 and is of the opinion that the value of our property interests as of such date was an aggregate amount of RMB41.0 million. The full text of the letter, summary of values and valuation certificates with regard to such property interests are set out in Appendix IV to this Prospectus.

The table below sets forth the reconciliation between the net book value of our property interests as of 31 December 2010 and the valuation of such property interests as of 31 May 2011:

	<u>(RMB thousand)</u>
Net book value of our property interests as of 31 December 2010	
— Buildings and land use rights.	40,884
Movements for the five months ended 31 May 2011	
Add: Net addition during the period.	—
Less: Depreciation and amortization during the period	<u>860</u>
Net book value as of 31 May 2011	40,024
Valuation surplus	<u>976</u>
Valuation as of 31 May 2011 ⁽¹⁾	<u><u>41,000</u></u>

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

DISCLOSURE REQUIRED UNDER THE LISTING RULES

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

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in our financial or trading position or prospects since 31 December 2010 and there is no event since 31 December 2010 which would materially affect the information shown in the Accountants' Report set out in Appendix I to this Prospectus except for otherwise set forth herein.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please refer to the section headed “Business — Our business strategies” in this Prospectus for a detailed discussion of our future plans.

USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK\$1,324.0 million from the Global Offering, assuming that the Over-allotment Option is not exercised, after deducting the underwriting commissions and other estimated offering expenses payable by us and assuming the initial public Offer Price of HK\$3.49 per Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this Prospectus.

We intend to use the proceeds from the Global Offering for the purposes and in the amounts set out below:

- approximately 35%, or HK\$463.4 million, is expected to be used for the expansion of our distribution network and supporting our distributors in opening new retail outlets as well as upgrading existing retail outlets by the end of 2015, of which (i) approximately 50%, to fund the support, such as store decoration expenses and promotion materials, for our distributors to establish new retail outlets, as well as rental subsidies for selected specialty stores; and (ii) approximately 50%, to fund the support for our distributors in their efforts to renovate the store image and expand the store space and product offering at existing retail outlets, such as providing renovation expenses, store display materials and advertisement billboards. Through such support, we plan to open over 600 new Hosa retail outlets operated by our distributors and increase the number of Hosa retail outlets to over 1,200 spanning 30 provinces, autonomous regions and municipalities by the end of 2011;
- approximately 25%, or HK\$331.0 million, is expected to be used to further enhance our brand image through marketing and promotion, of which (i) approximately 40% will be used for advertising on major television networks and websites and in leading sports and fashion magazines and other print media as well as placing billboards at subway stations and highways; (ii) approximately 35% will be used for establishing flagship stores in major cities, distributing marketing and promotion materials, attending industry exhibitions and hosting distributorship promotion activities to attract new distributors; (iii) approximately 15% will be used for sponsorships of popular sports and fashion events and other public relationship activities and (iv) approximately 10% will be used in professional services for our advertising, marketing and promotion activities;
- approximately 15%, or HK\$198.6 million, is expected to be used for the expansion of our production capacity, including adding new production lines for our swimwear, fitness wear and sports underwear products, upgrading our existing manufacturing facilities by acquiring additional equipment and machinery as well as investing in new production facilities;
- approximately 10%, or HK\$132.4 million, is expected to be used for research, design and development activities, such as (i) recruiting additional professional designers and research, design and development staff; (ii) engaging design and consultancy firms; (iii) upgrading our

FUTURE PLANS AND USE OF PROCEEDS

research, design and development platform to further enhance our design and technology capabilities; and (iv) collaborating with external contract manufacturers to develop new products that complement our existing product offering;

- approximately 5%, or HK\$66.2 million, is expected to be used for further developing and upgrading our supply chain and information management systems, such as by implementing the DRP, ERP and CRM systems, to further improve the efficiency of our operations; and
- the remaining approximately 10%, or HK\$132.4 million, is expected to be used to fund our working capital and general corporate purposes.

To the extent that the net proceeds from the Global Offering are not immediately applied to the above purposes, we intend to deposit the proceeds into interest-bearing bank accounts with financial institutions.

In the event that the Offer Price is set at the high-end or low-end of the proposed Offer Price range and the Over-allotment Option is not exercised at all, the net proceeds of the Global Offering will increase or decrease by approximately HK\$237.3 million. Under such circumstances, our intended use of proceeds will be increased or decreased on a pro-rata basis.

If the Over-allotment Option is exercised in full, the net proceeds from the Global Offering will increase to approximately HK\$1,527.6 million, assuming an Offer Price of HK\$3.49 per Share, being the mid-point of the proposed Offer Price range. If the Offer Price is set at the high-end or low-end of the proposed Offer Price range, the net proceeds of the Global Offering (including the proceeds from the exercise of the Over-allotment Option) will increase or decrease by approximately HK\$272.9 million, respectively. We intend to apply the additional net proceeds to the above uses in the proportions stated above.

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HONG KONG UNDERWRITERS

Sole Lead Manager

Merrill Lynch Far East Limited

Co-Lead Managers

China Merchants Securities (HK) Co., Limited
DBS Asia Capital Limited
Mizuho Securities Asia Limited

Co-Managers

Cinda International Securities Limited
Emperor Securities Limited

HONG KONG PUBLIC OFFERING

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Public Offering, the Company is initially offering 40,000,000 Hong Kong Offer Shares for subscription under the Hong Kong Public Offering on the terms and subject to the conditions set out in this Prospectus and the related Application Forms.

Subject to (i) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, among others, the Shares in issue and the Shares to be issued pursuant to the Global Offering (including the additional Shares which may be sold pursuant to the exercise of the Over-allotment Option), the Shares to be issued pursuant to the Capitalization Issue and the Shares which may be issued on the exercise of any options granted under the Pre-IPO Share Option Scheme and which may be granted under the Share Option Scheme and (ii) certain other conditions set out in the Hong Kong Underwriting Agreement (including, among others, the Sole Global Coordinator (on behalf of the Underwriters) and the Company agreeing on the Offer Price), the Hong Kong Underwriters have severally but not jointly agreed to subscribe or procure subscribers for their respective applicable proportions (set out in the Hong Kong Underwriting Agreement) of the Hong Kong Offer Shares now being offered and which are not taken up under the Hong Kong Public Offering, on the terms and subject to the conditions set out in this Prospectus, the related Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Placing Agreement having been signed, becoming unconditional and not having been terminated.

Grounds for Termination

Merrill Lynch (on behalf of itself and the other Hong Kong Underwriters) may in its absolute discretion terminate the Hong Kong Underwriting Agreement with immediate effect by written notice to the Company at any time at or prior to 8:00 a.m. on the Listing Date if:

- (A) there shall develop, occur, exist or come into effect:
 - (1) any change or prospective change (whether or not permanent) in the business or in the earnings, operations, financial or trading position or prospects of the Group or any change in capital stock or long-term debt of the Company or any other member of the Group, which (in any such case) is not set forth or contemplated in this Prospectus; or

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- (2) any change or development involving a prospective change or development, or any event or series of events resulting or representing or likely to result in any change or development involving a prospective change or deterioration (whether or not permanent) in local, national, regional or international financial, political, military, industrial, economic, legal framework, regulatory, fiscal, currency, credit or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets) in or affecting any of Hong Kong, the PRC, the Cayman Islands, the United States, any member of the European Union, Singapore, Japan or any other jurisdictions where any member of the Group is incorporated (collectively, the “Relevant Jurisdictions”); or
- (3) any deterioration of any pre-existing local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions in or affecting any of the Relevant Jurisdictions; or
- (4) any new law or any change (whether or not forming part of a series of changes) or development involving a prospective change in existing laws or any change or development involving a prospective change in the interpretation or application thereof by any court or governmental authority in or affecting any of the Relevant Jurisdictions; or
- (5) a change or development or event involving a prospective change in taxation or exchange control (or the implementation of any exchange control) or foreign investment regulations in or affecting any of the Relevant Jurisdictions adversely affecting an investment in shares; or
- (6) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or crisis involving or affecting any of the Relevant Jurisdictions; or
- (7) any event, act or omission which gives rise to or is likely to give rise to any liability of any of the Warrantors pursuant to the indemnity contained in the Hong Kong Underwriting Agreement; or
- (8) the imposition or declaration of (i) any suspension or restriction on dealings in shares or securities generally on the Stock Exchange or any other major international stock exchange or (ii) any moratorium on commercial banking activities or disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any of the Relevant Jurisdictions; or
- (9) the imposition of economic or other sanctions, in whatever form, directly or indirectly, in or affecting any of the Relevant Jurisdictions; or
- (10) any event, or series of events, in the nature of force majeure (including without limitation, any acts of God, acts of government, declaration of a national or international emergency or war, acts or threat of war, calamity, crisis, economic sanction, riot, public disorder, civil commotion, fire, flooding, explosion, earthquake, volcanic eruption,

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epidemic (including but not limited to severe acute respiratory syndrome or avian flu), pandemic, outbreak of disease, terrorism, strike or lockout) in or affecting any of the Relevant Jurisdictions; or

- (11) any change or development or event involving a prospective change, or a materialisation of, any of the risks set out in the section headed “Risk factors” of this Prospectus; or
- (12) any change in the system under which the value of the HK dollar or Renminbi (the lawful currency of the PRC) is linked to that of the US dollar or a material devaluation of Hong Kong dollars or the Renminbi against any foreign currency; or
- (13) any demand by any creditor for repayment or payment of any material indebtedness of any member of the Group or in respect of which any member of the Group is liable prior to its stated maturity; or
- (14) save as disclosed in this Prospectus, a material contravention by any member of the Group of the Listing Rules or applicable laws; or
- (15) a prohibition on the Company for whatever reason from offering, allotting, issuing or selling any of the Shares (including Shares under the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (16) non-compliance of any of this Prospectus, the Application Forms and the preliminary and final offering memoranda in connection with the International Placing (collectively, the “Offering Memoranda”) or any aspect of the Global Offering with the Listing Rules or any other applicable law; or
- (17) the issue or requirement to issue by the Company of a supplementary prospectus (or any other documents used in connection with the contemplated subscription and sale of the Shares) pursuant to the Companies Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (18) an order is made or a petition is presented for the winding-up or liquidation of any member of the Group or any member of the Group makes any composition or arrangement with its creditors or entering into a scheme of arrangement or any resolution is passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto in respect of any member of the Group; or
- (19) any material litigation or claim of any third party being threatened or instigated against any member of the Group; or
- (20) a Director being charged with an indictable offence or prohibited by operation of law or is otherwise disqualified from taking part in the management of a company; or
- (21) the chairman or chief executive officer of the Company vacating his or her office; or

UNDERWRITING

- (22) the commencement by any governmental, regulatory, political or judicial body or organization of any action against a Director or an announcement by any governmental, regulatory or judicial body or organization that it intends to take any such action,

which in the sole and absolute opinion of Merrill Lynch:

- (a) is or will or may individually or in the aggregate have a material adverse effect on the business, financial, trading or other condition or prospects of any member of the Group and/or the Group taken as a whole and/or to any present or prospective shareholder in its capacity as such; or
 - (b) has or will or may have a material adverse effect on the success of the Hong Kong Public Offering, the International Placing and/or the Global Offering or the level of Offer Shares being applied for or accepted or the distribution of Offer Shares; or
 - (c) is or will or may make it impracticable, inadvisable, inexpedient or not commercially viable (i) for any material part of the Hong Kong Underwriting Agreement, the International Placing Agreement, the Hong Kong Public Offering, the International Placing and/or the Global Offering to be performed or implemented in accordance with its terms or (ii) to proceed with or to market the Hong Kong Public Offering, the International Placing and/or the Global Offering on the terms and in the manner contemplated in the Offering Memoranda; or
- (B) any of the Hong Kong Underwriters shall become aware of the fact that, or have reasonable cause to believe that:
- (1) any of the warranties given by the Warrantors pursuant to the Hong Kong Underwriting Agreement is untrue, inaccurate, misleading or breached in any respect when given or as repeated, or has been declared or determined by any court or governmental authorities to be illegal, invalid or unenforceable in any material respect; or
 - (2) any statement contained in the Offering Memoranda or the the web-proof information pack required to be uploaded to the website of the Stock Exchange (the “WPIP”) was or is untrue, incorrect or misleading in any material respect, or any matter arises or is discovered which would, if the Offering Memoranda or the WPIP were to be issued at that time, constitute a material omission therefrom, or that any forecasts, expressions of opinion, intention or expectation expressed in the Offering Memoranda and/or any announcements issued by the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) are not fair and honest and based on reasonable assumptions, when taken as a whole; or
 - (3) there has been a breach on the part of any of the Warrantors of any of the provisions of the Hong Kong Underwriting Agreement or the International Placing Agreement.

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Undertakings

Pursuant to Rule 10.08 of the Listing Rules, except pursuant to the Capitalization Issue and the Global Offering (including the Over-allotment Option and any options granted under the Pre-IPO Share Option Scheme and which may be granted under the Share Option Scheme) or any issue of Shares or securities in compliance with Rule 10.08(1) to (4) of the Listing Rules, no further shares or securities convertible into equity securities of the Company (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the date on which the Shares first commence dealing on the Stock Exchange (whether or not such issue of shares or securities will be completed within six months from the commencement of dealing).

Pursuant to the Hong Kong Underwriting Agreement, the Company has undertaken to the Sole Global Coordinator and the other Hong Kong Underwriters that the Company will not, and each of the Covenantors has undertaken to the Sole Global Coordinator and the other Hong Kong Underwriters to procure that the Company will not, during the period commencing on the Latest Practicable Date up to and including the date falling six months after the Listing Date (the “Lock-up Period”), except pursuant to the Global Offering (including the Over-allotment Option and the Capitalization Issue), the exercise of any options granted under the Pre-IPO Share Option Scheme and the exercise of options which may be granted under the Share Option Scheme, without the prior written consent of the Sole Global Coordinator (on its behalf and on behalf of the Hong Kong Underwriters), and subject always to the provisions of the Listing Rules:

- (a) offer, allot, issue or sell, or agree to allot, issue or sell, hedge, grant or agree to grant any option, right or warrant over, or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by the Company), either directly or indirectly, conditionally or unconditionally, any Shares or any securities convertible into or exchangeable for such Shares; or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of Shares or such securities, whether any of the foregoing transactions is to be settled by delivery of Shares or such securities, in cash or otherwise; or
- (c) offer or agree to do any of the foregoing transactions and announce any intention to effect any such transaction,

whether or not such issue of Shares or securities will be completed within the Lock-up Period.

Pursuant to Rule 10.07(1) of the Listing Rules, each of the Controlling Shareholders has undertaken to the Company and the Stock Exchange that it shall not and shall procure that the relevant registered shareholder(s) shall not:

- (a) in the period commencing on the date of this Prospectus and ending on the date which is six months from the date on which dealings in the Shares commence on the Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those securities of the Company in respect of which he is or they are shown by this Prospectus to be the beneficial owner(s); or

UNDERWRITING

- (b) in the period of six months commencing on the date on which the period referred to in the immediately preceding paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities referred to immediately preceding paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a Controlling Shareholder.

Note (2) to Rule 10.07 of the Listing Rules provides that the rule does not prevent a Controlling Shareholder from using the Shares beneficially owned by it as security (including a charge or a pledge) in favor of an authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan.

Each of Controlling Shareholders has further undertaken to the Company and the Stock Exchange that it will, within a period of 12 months from the Listing Date, immediately inform us and the Stock Exchange of:

- (a) any pledges or charges of any Shares or securities of our Company beneficially owned by him or it in favor of any authorized institution as permitted under the Listing Rules, and the number of such Shares or securities of our Company so pledged or charged; and
- (b) any indication received by he or it, either verbal or written, from any pledgee or chargee of any Shares or other securities of our Company pledged or charged that any of such Shares or other share capital will be sold transferred or disposed of.

We will also inform the Stock Exchange as soon as we have been informed of the above matters (if any) by any of the Controlling Shareholders (or its respective shareholders) and disclose such matters by way of a press notice which is published in the newspapers as soon as possible after being so informed by any of the Controlling Shareholders (or its respective shareholders).

Pursuant to the Hong Kong Underwriting Agreement, each of the Warrantors (other than the Company) has undertaken to each of the Hong Kong Underwriters and the Company that, except pursuant to the Stock Borrowing Agreement, it will not, without the prior written consent of the Sole Global Coordinator, on behalf of the Hong Kong Underwriters, and will procure that none of its associates or companies controlled by it or any nominee or trustee holding in trust for it shall, directly or indirectly, (i) offer, pledge, sell, mortgage, assign, charge, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right, or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the share capital or other securities of the Company or any interest therein, beneficially owned by it or through such associates, companies, nominees or trustee as of the Listing Date (including, without limitation, any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such share capital or other securities of the Company or any interest therein) immediately following the completion of the Global Offering and the Capitalization Issue, (ii) enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, directly or indirectly, any of the economic consequences of subscription or ownership of any such share capital or securities or any interest therein, (iii) enter into any transaction with the same economic effect as any transaction described in (i) and (ii) above or (iv) offer to or agree to contract to, or publicly announce any intention to enter into, any of the foregoing transactions described in (i) through (iii) above whether any of the foregoing transactions described in (i), (ii) or (iii) above is to be settled by delivery of share

UNDERWRITING

capital or such other securities, in cash or otherwise, at any time during the Lock-Up Period; and it will not, and will procure that such associate, companies, nominee or trustee will not, without the prior written consent of Merrill Lynch, dispose of or otherwise create any options, rights, interests or encumbrances in respect of any Shares, shares in Ho Born Investment and Well Born Industrial or any interest therein at any time during the six months period immediately following the expiry of the Lock-up Period (the “Second Six Months Period”), such that immediately following such disposal or upon exercise or enforcement of such options, rights, interests or encumbrances shall not result in the Controlling Shareholders in aggregate, directly or indirectly, ceasing to be a Controlling Shareholder at any time during the Second Six Months Period; and it shall take all steps to ensure that any such act, if done, will not create a disorderly or false market for any Shares or other securities of the Company or any interest therein.

Each of Mr. Shi Hongliu, Mr. Shi Hongyan and Mr. Wu Changda has undertaken to each of the Hong Kong Underwriters and us that, without the prior written consent of the Sole Global Coordinator (on behalf of the Hong Kong Underwriters), he shall not, within the Lock-up Period, offer for sale, sell, transfer, contract to sell or otherwise dispose of (including without limitation, by the creation of any option, right, warrant to purchase or otherwise transfer or dispose of, or any charges, pledges or encumbrances over) any of the shares in the capital of Ho Born Investment or Well Born Industrial (as the case may be) or any other securities which are of the same class as, of convertible or exchangeable for or which carry a right to subscribe, purchase or acquire any shares of Ho Born Investment and Well Born Industrial (as the case may be) or enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any of the economic consequences of the acquisitions or ownership of any such shares, in respect of which he is the beneficial owner (directly or indirectly) and/or which are registered in his name.

Each of the Warrantors has agreed to jointly and severally indemnify the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by the Company of the Hong Kong Underwriting Agreement.

Commission

The Hong Kong Underwriters will receive a commission of 2.75% of the aggregate Offer Price of all the Hong Kong Offer Shares less any unsubscribed Hong Kong Offer Shares reallocated to the International Placing and ignoring for this purpose any Hong Kong Offer Shares reallocated from the International Placing due to over-subscription, out of which the Hong Kong Underwriters will pay any sub-underwriting commission. The underwriting commission for such reallocated Shares in each case will be payable to the International Underwriters in accordance with the International Placing Agreement. In addition, the Company may, in its sole discretion, pay the Sole Global Coordinator an additional aggregate incentive fee of up to 1.0% on the Offer Price of the total Offer Shares and any additional Shares pursuant to the Over-allotment Option.

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INTERNATIONAL PLACING

International Placing Agreement

In connection with the International Placing, it is expected that the Company will enter into the International Placing Agreement with, among others, the International Underwriters. Under the International Placing Agreement, it is expected that the International Underwriters would, subject to certain conditions, severally but not jointly, agree to subscribe for or purchase, or to procure subscribers to subscribe for or purchase, their respective applicable proportions (set out in the International Placing Agreement) of the International Placing Shares being offered pursuant to the International Placing.

Under the International Placing Agreement, the Company intends to grant to the International Underwriters the Over-allotment Option, exercisable by the Sole Global Coordinator on behalf of the International Underwriters for up to 30 days from the last day for the lodging of applications under the Hong Kong Public Offering, to require the Company to issue up to 60,000,000 additional Shares, representing 15% of the number of Offer Shares initially available under the Global Offering. These Shares will be issued and sold at the Offer Price per Share (plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% of the Offer Price) and will be for the purpose of, among other things, covering over-allocations, if any, in the International Placing.

TOTAL COMMISSIONS AND EXPENSES

Assuming an Offer Price of approximately HK\$3.49 per Share (being the midpoint of the indicative Offer Price range of HK\$2.88 to HK\$4.10 per Offer Share), the aggregate commissions and fees, together with the Stock Exchange listing fee, SFC transaction levy and Stock Exchange trading fee, legal and other professional fees, printing and other expenses relating to the Global Offering, are estimated to amount in aggregate to be approximately HK\$72.0 million (assuming that the Over-allotment Option is not exercised) in total.

SPONSORS' INDEPENDENCE

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

HONG KONG UNDERWRITERS' INTERESTS IN OUR COMPANY

Save for their respective obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding interests in our Company or any of our subsidiaries or any right or options (whether legally enforceable or not) to subscribe to or to nominate persons to subscribe to securities in our Company or any of our subsidiaries.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This Prospectus is published in connection with the Hong Kong Public Offering which forms part of the Global Offering. The Global Offering comprises (assuming the Over-allotment Option is not exercised):

- (i) the Hong Kong Public Offering of an initial 40,000,000 Shares to be offered by the Company (subject to adjustment as mentioned below) (representing 10% of the total number of Offer Shares initially available under the Global Offering) in Hong Kong as described in the paragraph headed “The Hong Kong Public Offering” below; and
- (ii) the International Placing of an initial 360,000,000 Shares to be offered by the Company (subject to adjustment as mentioned below and the Over-allotment Option) (representing 90% of the total number of Offer Shares initially available under the Global Offering) (a) in the United States to QIBs in reliance on Rule 144A or another available exemption from registration requirement under the U.S. Securities Act; and (b) outside the United States in offshore transactions in reliance on Regulation S.

Merrill Lynch International is the sole global coordinator and sole bookrunner of the Global Offering, and the sole lead manager of the International Placing. Merrill Lynch Far East Limited is the sole lead manager of the Hong Kong Public Offering.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Placing, respectively, may be subject to reallocation and, in the case of the International Placing only, the Over-allotment Option as described in the paragraph headed “Over-Allocation and stabilization” below.

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to the Company and the Sole Global Coordinator (on behalf of the Underwriters) agreeing on the Offer Price. The Company expects to enter into the International Placing Agreement relating to the International Placing on the Price Determination Date. These underwriting arrangements, and the respective Underwriting Agreements, are summarized in the section headed “Underwriting”.

THE HONG KONG PUBLIC OFFERING

Number of Shares Initially Offered

Under the Hong Kong Public Offering, the Company is initially offering 40,000,000 Shares at the Offer Price for subscription by the public in Hong Kong, representing 10% of the total number of Offer Shares initially available under the Global Offering. Subject to the reallocation of Shares between (i) the International Placing and (ii) the Hong Kong Public Offering, the Hong Kong Offer Shares will represent 2.5% of the Company’s issued share capital immediately after completion of the Global Offering and the Capitalization Issue, assuming that the Over-allotment Option is not exercised.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the paragraph headed “Conditions of the Hong Kong Public Offering” below.

STRUCTURE OF THE GLOBAL OFFERING

Conditions of the Hong Kong Public Offering

Acceptance of all applications for the Offer Shares in the Hong Kong Public Offering will be conditional on, among other things:

- (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the existing issued Shares, the Offer Shares to be issued pursuant to the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option), the Shares to be issued pursuant to the Capitalization Issue, and of the Shares issuable on the exercise of any options granted under the Pre-IPO Share Option Scheme and which may be granted under the Share Option Scheme;
- (ii) the Offer Price having been determined on the Price Determination Date;
- (iii) the execution and delivery of the International Placing Agreement on the Price Determination Date; and
- (iv) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 17 July 2011, being the 30th day after the date of this Prospectus.

If, for any reason, the Offer Price is not agreed among the Company and the Sole Global Coordinator (on behalf of the Underwriters) on or before Sunday, 26 June 2011, the Global Offering will not proceed.

The consummation of each of the Hong Kong Public Offering and the International Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived before the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by us in the South China Morning Post and the Hong Kong Economic Times on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Offer Shares”. In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving banks or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. on the Listing Date provided that (i) the Global Offering has become unconditional in all respects and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms.

STRUCTURE OF THE GLOBAL OFFERING

Allocation

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applications may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of Offer Shares available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) is to be divided equally into two pools for allocation purposes: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable). Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in this other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of the Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 50% of the 40,000,000 Hong Kong Offer Shares initially comprised in the Hong Kong Public Offering (that is, 20,000,000 Hong Kong Offer Shares) are liable to be rejected.

Reallocation

The allocation of the Offer Shares between (i) the Hong Kong Public Offering and (ii) the International Placing is subject to adjustment. If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more of the number of Offer Shares initially available under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 120,000,000 Offer Shares (in the case of (i)), 160,000,000 Offer Shares (in the case of (ii)) and 200,000,000 Offer Shares (in the case of (iii)) representing 30%, 40% and 50% of the Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option). In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Placing will be correspondingly reduced in such manner as the Sole Global Coordinator deems appropriate. In addition, the Sole Global Coordinator at its absolute discretion may allocate Offer Shares from the International Placing to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

The Offer Shares to be offered in the Hong Kong Public Offering and the International Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or if he has been or will be placed or allocated Offer Shares under the International Placing.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$4.10 per Offer Share in addition to any brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the paragraph headed “— Pricing of the Global Offering” below, is less than the maximum price of HK\$4.10 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out in the section headed “How to Apply for Hong Kong Offer Shares” in this Prospectus.

References in this Prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL PLACING

Number of Shares Offered

Subject to reallocation as described above, the International Placing will consist of 360,000,000 Offer Shares (subject to adjustment and the Over-allotment Option) to be issued by the Company, assuming that the Over-allotment Option is not exercised.

Allocation

The International Placing will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Placing will be effected in accordance with the “book-building” process described in the paragraph headed “Pricing of the Global Offering” below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its Shares, after the Listing. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of the Company and the Shareholders as a whole.

STRUCTURE OF THE GLOBAL OFFERING

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Placing, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow it to identify the relevant application under the Hong Kong Public Offering and to ensure that it is excluded from any application for Shares under the Hong Kong Public Offering.

Over-allotment Option

In connection with the Global Offering, the Company is expected to grant an Over-allotment Option to the International Underwriters exercisable by the Sole Global Coordinator on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the Sole Global Coordinator has the right, exercisable at any time from the day on which trading of the Shares commences on the Stock Exchange up to 30 days from the last day for the lodging of applications under the Hong Kong Public Offering, to require the Company to issue up to 60,000,000 additional new Shares, representing no more than 15% of the initial Offer Shares, at the same price per Offer Share under the International Placing to, among other things, cover over-allocations in the International Placing, if any. If the Over-allotment Option is exercised in full, the additional new Shares will represent approximately 3.6% of our enlarged share capital immediately after the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a press announcement will be made.

PRICING OF THE GLOBAL OFFERING

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Placing. Prospective professional and institutional investors will be required to specify the number of Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Shares for the purpose of the offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Thursday, 23 June 2011, and in any event on or before Sunday, 26 June 2011, by agreement among the Sole Global Coordinator (on behalf of the Underwriters) and the Company, and the number of Shares to be allocated under the offerings will be determined shortly thereafter.

The Offer Price will not be more than HK\$4.10 per Offer Share and is expected to be not less than HK\$2.88 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this Prospectus.**

The Sole Global Coordinator (on behalf of the Underwriters), may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of the Company reduce the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range below that stated in this

STRUCTURE OF THE GLOBAL OFFERING

Prospectus at any time on or before the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, the Company will, as soon as practicable following the decision to make any such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post and the Hong Kong Economic Times notices of any such reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range. Such notice will also be available at the websites of the Stock Exchange at www.hkex.com.hk and the Company at www.hosa.cn. Upon issue of a notice in the reduction of the Offer Price, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Sole Global Coordinator (on behalf of the Underwriters) and the Company, will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of any such reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the profit forecast for the financial year ending 31 December 2011 and the Global Offering statistics as currently set out in this Prospectus, and any other financial information which may change as a result of such reduction. **Applicants under the Hong Kong Public Offering should note that in no circumstances can applications be withdrawn once submitted, even if the number of Offer Shares being offered under the Global Offering and/or the offer price range is so reduced.** In the absence of any notice published in relation to the reduction in the Offer Price, the Offer Price, if agreed upon among the Company and the Sole Global Coordinator, will under no circumstances be set outside the offer price range as stated in this Prospectus.

The net proceeds of the Global Offering accruing to the Company (assuming that no additional Shares will be issued by the Company pursuant to the Over-allotment Option and after deduction of underwriting fees and estimated expenses payable by the Company in relation to the Global Offering) are estimated to be approximately HK\$1,086.7 million, assuming an Offer Price per Offer Share of HK\$2.88, or approximately HK\$1,561.3 million, assuming an Offer Price per Offer Share of HK\$4.10.

The final Offer Price, the indications of interest in the Global Offering, the results of applications and the basis of allocation of Shares available under the Hong Kong Public Offering, are expected to be announced on Wednesday, 29 June 2011, in the manner set out in the section headed “How to Apply for Hong Kong Offer Shares — Results of Allocation”.

OVER-ALLOCATION AND STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the market price of the securities below the offer price. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Sole Sponsor, as stabilizing manager (the “**Stabilizing Manager**”), its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate and/or effect transactions with a view to stabilizing or maintaining the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in

STRUCTURE OF THE GLOBAL OFFERING

compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager, its affiliates or any person acting for it to do this. Such stabilization, if commenced, will be conducted at the absolute discretion of the Stabilizing Manager, its affiliates or any person acting for it, and may be discontinued at any time, and must be brought to an end after a limited period. The number of Shares that may be over-allocated will not be greater than the maximum number of Shares which may be allotted and issued upon exercise of the Over-allotment Option, being 60,000,000 Shares, which is 15% of the number of Offer Shares initially available under the Global Offering.

The Stabilizing Manager, its affiliates or any person acting for it may take all or any of the following stabilizing actions in Hong Kong during the stabilization period:

- (i) purchase, or agree to purchase, any of the Shares or offer or attempt to do so for the sole purpose of preventing or minimizing any reduction in the market price of the Shares;
- (ii) in connection with any action described in paragraph (i) above;
 - (A) (1) over-allocate the Shares; or
 - (2) sell or agree to sell the Shares so as to establish a short position in them,

for the sole purpose of preventing or minimizing any reduction in the market price of the Shares;
 - (B) exercise the Over-allotment Option and purchase or subscribe for or agree to purchase or subscribe for the Shares in order to close out any position established under paragraph (A) above;
 - (C) sell or agree to sell any of the Shares acquired by it in the course of the stabilizing action referred to in paragraph (i) above in order to liquidate any position that has been established by such action; or
 - (D) offer or attempt to do anything as described in paragraphs (ii)(A)(2), (ii)(B) or (ii)(C) above.

The Stabilizing Manager, its affiliates or any person acting for it, may, in connection with the stabilizing action, maintain a long position in the Shares, and there is no certainty as to the extent to which and the time period for which it will maintain such a position. Investors should be warned of the possible impact of any liquidation of the long position by the Stabilizing Manager, its affiliates or any person acting for it, which may include a decline in the market price of the Shares.

Stabilization cannot be used to support the price of the Shares for longer than the stabilization period, which begins on the day on which trading of the Shares commences on the Stock Exchange and ends on the 30th day after the last day for lodging of applications under the Hong Kong Public Offering. The stabilization period is expected to expire on 17 July 2011, after which an announcement will be made pursuant to section 9 of, and schedule 3 to, the Securities and Futures (Price Stabilization) Rules. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore then market price, could fall.

STRUCTURE OF THE GLOBAL OFFERING

Any stabilizing action taken by the Stabilizing Manager, its affiliates or any person acting for it, may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilization period. Stabilizing bids or market purchases effected in the course of the stabilization action may be made at any price at or below the Offer Price and can therefore be done at a price below the price the investor has paid in acquiring the Shares.

STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allocations in connection with the Global Offering, the Stabilizing Manager may choose to borrow, whether on its own or through its affiliates, up to 60,000,000 Shares, representing 15% of the Offer Shares, from Ho Born Investment to cover over-allocations (being the maximum number of additional Shares which may be allotted and issued upon exercise of the Over-allotment Option), or acquire Shares from other sources, including the exercising the Over-allotment Option.

If the Stock Borrowing Agreement is entered into, it will only be effected by the Stabilizing Manager or its agent for settlement of over-allocations in the International Placing and such arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set out in Rule 10.07(3) of the Listing Rules are complied with. The same number of Shares so borrowed must be returned to Ho Born Investment or its nominees on or before the third Business Day following the earlier of (a) the last day on which the Over-allotment Option may be exercised, or (b) the day on which the Over-allotment Option is exercised in full and the relevant Offer Shares subject to the Over-allotment Option have been issued and sold. The Stock Borrowing Agreement will be effected in compliance with all applicable laws, rules and regulatory requirements. No payment will be made to Ho Born Investment in relation to the Stock Borrowing Agreement.

DEALINGS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 30 June 2011, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Thursday, 30 June 2011.

THE CORNERSTONE INVESTMENT

On 14 June 2011, as part of the International Placing, we and the Sole Global Coordinator have entered into a cornerstone investment agreement (the “Cornerstone Investment Agreement”) with SD Family Fund L.P. as a cornerstone investor (the “Cornerstone Investor”). The Cornerstone Investor is a Cayman Islands exempted liability partnership established by the family trusts of Mr. Hui Lin Chit and his family members. Mr. Hui Lin Chit is the deputy chairman and chief executive officer of Hengan International Group Company Limited (1044.HK), a company listed on the Main Board.

Pursuant to the Cornerstone Investment Agreement, the Cornerstone Investor has agreed to subscribe at the Offer Price (exclusive of brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%) for such number of Offer Shares (rounded down to the nearest board lot of 1,000 Shares) equal to an aggregate amount of US\$10 million.

Assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of any options granted under the Pre-IPO Share Option Scheme or options that may be granted under the Share Option Scheme, the Shares issued and to be issued, fully paid or credited as fully paid upon completion of the Global Offering and the Capitalization Issue is 1,600,000,000 Shares in total. The total number of Offer Shares acquired by the Cornerstone Investor calculated on the basis of the following Offer Prices and as a percentage of the total number of Shares issued and outstanding as described above and as a percentage of the total number of Offer Shares are set out below:

1. assuming an Offer Price of HK\$2.88, being the low-end of the indicative Offer Price range set out in this Prospectus, there would be approximately 27,017,000 Offer Shares, representing approximately 1.69% of the total number of Shares issued and outstanding as described above and 6.75% of the total number of Offer Shares;
2. assuming an Offer Price of HK\$3.49, being the mid-point of the indicative Offer Price range set out in this Prospectus, there would be approximately 22,295,000 Offer Shares, representing approximately 1.39% of the total number of Shares issued and outstanding as described above and 5.57% of the total number of Offer Shares; and
3. assuming an Offer Price of HK\$4.10, being the high-end of the indicative Offer Price range set out in this Prospectus, there would be approximately 18,978,000 Offer Shares, representing approximately 1.19% of the total number of Shares issued and outstanding as described above and 4.75% of the total number of Offer Shares.

Immediately following the completion of the Global Offering, the Cornerstone Investor will not have any Board representation in our Company, nor will the Cornerstone Investor become our substantial shareholder. The Offer Shares to be subscribed by the Cornerstone Investor will not be affected by any reallocation of the Offer Shares between the International Placing and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the paragraph headed “The Hong Kong Public Offering” above.

The Cornerstone Investor is an Independent Third Party. The Shares held by the Cornerstone Investor pursuant to the Cornerstone Investment Agreement will rank *pari passu* in all respects with the fully paid Shares in issue or to be issued as described above and will be counted towards the public float

CORNERSTONE INVESTMENT

(as part of the International Placing). The Cornerstone Investor will not apply for any Offer Shares as part of the Hong Kong Public Offering or the International Placing. It will only acquire the Offer Shares on the terms of the Cornerstone Investment Agreement. The actual number of Shares acquired by the Cornerstone Investor will be disclosed in the announcement of the results of allocation.

Conditions Precedent

The subscription obligation of the Cornerstone Investor is conditional upon, among others, the Hong Kong Underwriting Agreement and the International Placing Agreement being entered into, having become effective and unconditional and not having been terminated.

Restrictions on disposal by the Cornerstone Investor

The Cornerstone Investor has agreed that, without the prior written consent of the Sole Global Coordinator and us, it will not, at any time during the period of six months following the Listing Date (the “Lock-up Period”), directly or indirectly, dispose of any Shares it has subscribed for pursuant to the Cornerstone Investment Agreement.

The restrictions on disposals by the Cornerstone Investor will not be applicable in the circumstances where the Cornerstone Investor transfers all or part of the relevant Shares to any entity wholly-owned by it during the Lock-up Period provided that (i) at least two Business Days written notice is provided to the Sole Global Coordinator and us, (ii) the transferee undertakes to be bound by the terms of the Cornerstone Investment Agreement and give the same acknowledgements, representations and warranties as provided in the Cornerstone Investment Agreement prior to such transfer, and (iii) if the transferee is about to or will cease to be a wholly-owned subsidiary of the Cornerstone Investor, the Cornerstone Investor will procure that the transferee transfers the relevant Shares to the Cornerstone Investor or another entity wholly owned by the Cornerstone Investor.

The Cornerstone Investor has also agreed to use all reasonable endeavours to ensure that any disposal of the relevant Shares by the Cornerstone Investor after the expiration of the Lock-up Period is strictly in accordance with all applicable laws and regulations including the Listing Rules and the SFO.

HOW TO APPLY FOR HONG KONG OFFER SHARES

I. CHANNELS OF APPLICATION

There are three channels to make an application for the Hong Kong Offer Shares. You may apply for the Hong Kong Offer Shares by either (i) using a **WHITE** or **YELLOW** Application Form; (ii) applying online through the designated website of the White Form eIPO Service Provider, referred herein as the “**White Form eIPO service**”, or (iii) giving **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf. Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or applying online through **White Form eIPO** service or by giving **electronic application instructions** to HKSCC.

II. WHO CAN APPLY FOR HONG KONG OFFER SHARES

You can apply for the Hong Kong Offer Shares available for subscription by the public on a **WHITE** or **YELLOW** Application Form if you or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are not a U.S. person (as defined in Regulation S);
- are outside the United States and will be acquiring the Hong Kong Offer Shares in an offshore transaction (as defined in Regulation S); and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you wish to apply for Hong Kong Offer Shares online through the **White Form eIPO** service, in addition to the above you must also:

- have a valid Hong Kong identity card number, and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **White Form eIPO** service if you are an individual applicant. Corporations or joint applicants may not apply by means of **White Form eIPO**.

If the applicant is a firm, the application must be in the names of the individual members, not the firm's name. If the applicant is a body corporate, the Application Form must be signed by a duly authorized officer, who must state his or her representative capacity.

If an application is made by a person duly authorized under a valid power of attorney, the Sole Global Coordinator (or its agents or nominees) may accept the application at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

HOW TO APPLY FOR HONG KONG OFFER SHARES

We, the Sole Global Coordinator or the designated White Form eIPO Service Provider (where applicable) or our or their respective agents have full discretion to reject or accept any application, in full or in part, without assigning any reason.

The Hong Kong Offer Shares are not available to existing beneficial owners of Shares, or Directors or chief executives of the Company or any of its subsidiaries, or their respective associates (as defined in the Listing Rules) or any other connected persons (as defined in the Listing Rules) of the Company or its subsidiaries.

You may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest for International Placing Shares under the International Placing, but may not do both.

III. APPLYING BY USING AN APPLICATION FORM

Which Application Form to Use

Use a **WHITE** Application Form if you want the Hong Kong Offer Shares to be issued in your own name.

Use a **YELLOW** Application Form if you want the Hong Kong Offer Shares issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a Prospectus during normal business hours from 9:00 a.m. on Friday, 17 June 2011 until 12:00 noon on Wednesday, 22 June 2011 from:

Merrill Lynch Far East Limited
15/F, Citibank Tower
3 Garden Road
Central
Hong Kong

Bank of China (Hong Kong) Limited
1 Garden Road
Hong Kong

Hang Seng Bank Limited
83 Des Voeux Road Central

HOW TO APPLY FOR HONG KONG OFFER SHARES

or any of the following branches of **Bank of China (Hong Kong) Limited** and **Hang Seng Bank Limited**:

Bank of China (Hong Kong) Limited

Branch name	Branch address
Bank of China Tower Branch	3/F, 1 Garden Road
Lee Chung Street Branch	29–31 Lee Chung Street, Chai Wan
Shek Tong Tsui Branch	534 Queen's Road West, Shek Tong Tsui
Connaught Road Central Branch	13–14 Connaught Road Central
Whampoa Garden Branch	Shop G8B, Site 1, Whampoa Garden, Hung Hom
Hoi Yuen Road Branch	55 Hoi Yuen Road, Kwun Tong
Mei Foo Mount Sterling Mall Branch	Shop N47–49 Mount Sterling Mall, Mei Foo Sun Chuen
East Point City Branch	Shop 101, East Point City, Tseung Kwan O
Kau Yuk Road Branch	18–24 Kau Yuk Road, Yuen Long
Sheung Shui Branch Securities Services Centre	136 San Fung Avenue, Sheung Shui

Hang Seng Bank Limited

Branch name	Branch address
Head Office	83 Des Voeux Road Central, Central
Wanchai Branch	200 Hennessy Road, Wanchai
Quarry Bay Branch	989 King's Road, Quarry Bay
Causeway Bay Branch	28 Yee Wo Street, Causeway Bay
North Point Branch	335 King's Road, North Point
Tsimshatsui Branch	18 Carnarvon Road, Tsimshatsui
Yaumati Branch	363 Nathan Road, Yaumati
Kowloon Main Branch	618 Nathan Road, Mongkok
Shatin Branch	Shop 18 Lucky Plaza, Wang Pok Street, Shatin
Tsuen Wan Branch	289 Sha Tsui Road, Tsuen Wan

You can collect a **YELLOW** Application Form and a Prospectus during normal business hours from 9:00 a.m. on Friday, 17 June 2011 until 12:00 noon on Wednesday, 22 June 2011 from:

- (i) The Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong; or
- (ii) Your stockbroker, who may have such Application Forms and this Prospectus available.

How to Complete the Application Form

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions your application may be rejected and returned by ordinary post together with the accompanying check or banker's cashier order to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.

HOW TO APPLY FOR HONG KONG OFFER SHARES

You should note that by completing and submitting the Application Form, among other things, you:

- (i) **agree** with the Company and each shareholder of the Company, and the Company agrees with each of its shareholders, to observe and comply with the Companies Law, the Companies Ordinance, the Memorandum of Association and the Articles of Association;
- (ii) **agree** with the Company and each shareholder of the Company that the Shares in the Company are freely transferable by the holders thereof;
- (iii) **authorize** the Company to enter into a contract on your behalf with each Director and officer of the Company whereby each such Director and officer undertakes to observe and comply with his obligations to shareholders as stipulated in the Articles of Association;
- (iv) **confirm** that you have only relied on the information and representations in this Prospectus in making your application and will not rely on any other information and representations save as set out in any supplement to this Prospectus;
- (v) **agree** that the Company, the Directors, the Sole Global Coordinator, the Underwriters, their respective directors, and any other parties involved in Global Offering are liable only for the information and representations contained in this Prospectus and any supplement thereto;
- (vi) **undertake and confirm** that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for, take up or indicate an interest for, any Offer Shares under the International Placing;
- (vii) **agree** to disclose to the Company and/or the Hong Kong Share Registrar, receiving banks, Sole Global Coordinator and their respective advisers and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application.

In order for the **YELLOW** Application Forms to be valid:

- (i) **If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):**
 - (a) the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box.
- (ii) **If the application is made by an individual CCASS Investor Participant:**
 - (a) the Application Form must contain the CCASS Investor Participant's name and Hong Kong Identity Card number; and
 - (b) the CCASS Investor Participant must insert its participant I.D. in the appropriate box in the Application Form.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(iii) If the application is made by a joint individual CCASS Investor Participant:

- (a) the Application Form must contain all joint CCASS Investor Participants' names and the Hong Kong Identity Card numbers; and
- (b) the participant I.D. must be inserted in the appropriate box in the Application Form.

(iv) If the application is made by a corporate CCASS Investor Participant:

- (a) the Application Form must contain the CCASS Investor Participant's company name and Hong Kong Business Registration number; and
- (b) the participant I.D. and company chop (bearing its company name) must be inserted in the appropriate box in the Application Form.

Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of participant I.D. or other similar matters may render the application invalid.

Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application form in the box marked "For nominees" account numbers or other identification codes for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner.

If your application is made through a duly authorized attorney, the Company and the Sole Global Coordinator as its agent may accept it at their discretion, and subject to any conditions they think fit, including evidence of the authority of your attorney. The Company and the Sole Global Coordinator, in its capacity as the Company's agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

IV. APPLYING THROUGH WHITE FORM eIPO

General

- (i) You may apply through **White Form eIPO** by submitting an application through the designated website at www.eipo.com.hk if you satisfy the relevant eligibility criteria for this as set out in "II. Who can apply for Hong Kong Offer Shares" above and on the same website. If you apply through **White Form eIPO**, the Shares will be issued in your own name.
- (ii) Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at www.eipo.com.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated White Form eIPO Service Provider and may not be submitted to our Company.
- (iii) If you give **electronic application instructions** through the designated website at www.eipo.com.hk, you will have authorized the designated White Form eIPO Service Provider to apply on the terms and conditions set out in this Prospectus, as supplemented and amended by the terms and conditions applicable to the **White Form eIPO** service.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (iv) In addition to the terms and conditions set out in this Prospectus, the designated White Form eIPO Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at www.eipo.com.hk. You will be required to read, understand and agree to such terms and conditions in full before making any application.
- (v) By submitting an application to the designated White Form eIPO Service Provider through the **White Form eIPO** service, you are deemed to have authorized the designated **White Form eIPO** Service Provider to transfer the details of your application to our Company and the Hong Kong Share Registrar.
- (vi) You may submit an application through the **White Form eIPO** service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each electronic application instruction in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at www.eipo.com.hk.
- (vii) You should give **electronic application instructions** through **White Form eIPO** at the times set out in the paragraph headed “— When may applications be made” below.
- (viii) You should make payment for your application made by **White Form eIPO** service in accordance with the methods and instructions set out in the designated website at www.eipo.com.hk. **If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Wednesday, 22 June 2011, or such later time as described under the paragraph headed “— Effect of bad weather on the opening of the application lists” below, the designated White Form eIPO Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at www.eipo.com.hk.**
- (ix) Once you have completed payment in respect of any **electronic application instruction** given by you or for your benefit to the designated White Form eIPO Service Provider to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular application reference number will not constitute an actual application.
- (x) **Warning: The application for Hong Kong Offer Shares through the White Form eIPO service is only a facility provided by the designated White Form eIPO Service Provider to public investors. Our Company, our Directors, the Sole Global Coordinator and the Underwriters take no responsibility for such applications, and provide no assurance that applications through the White Form eIPO service will be submitted to our Company or that you will be allotted any Hong Kong Offer Shares.**

Environmental Protection

The obvious advantage of White Form eIPO is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated White Form eIPO Service Provider, will contribute HK\$2 per each “Hosa International Limited” **White Form eIPO** application submitted via www.eipo.com.hk to support the funding of “Source of DongJiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

HOW TO APPLY FOR HONG KONG OFFER SHARES

Please note that Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the White Form eIPO service, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offering to submit your electronic application instructions. In the event that you have problems connecting to the designated website for the White Form eIPO service, you should submit a **WHITE** Application Form. However, once you have submitted **electronic application instructions** and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE** or **YELLOW** Application Form.

Conditions of the White Form eIPO service

In using the **White Form eIPO** service to apply for the Hong Kong Offer Shares, the applicant shall be deemed to have accepted the following conditions:

That the applicant:

- **applies** for the desired number of Hong Kong Offer Shares on the terms and conditions of this Prospectus and **White Form eIPO** designated website at www.eipo.com.hk subject to the Articles of Association;
- **undertakes** and agrees to accept the Hong Kong Offer Shares applied for, or any lesser number allotted to the applicant on such application;
- **declares** that this is the only application made and the only application intended by the applicant to be made whether on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider under the **White Form eIPO** service, to benefit the applicant or the person for whose benefit the applicant is applying;
- **undertakes and confirms** that the applicant and the person for whose benefit the applicant are applying have not applied for or taken up, or indicated an interest for, or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing, nor otherwise participate in the International Placing;
- **understands** that this declaration and representation will be relied upon by the Company in deciding whether or not to make any allocation of Hong Kong Offer Shares in response to such application;
- **authorizes** the Company to place the applicant's name on the register of members of the Company as the holder of any Hong Kong Offer Shares to be allotted to the applicant, and (subject to the terms and conditions set out in this Prospectus) to send any share certificates by ordinary post at the applicant's own risk to the address given on the **White Form eIPO** Application Form except where the applicant has applied for 1,000,000 or more Hong Kong Offer Shares and that applicant collects any share certificate(s) in person in accordance with the procedures prescribed in the **White Form eIPO** designated website at www.eipo.com.hk and this Prospectus;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- **request** that e-Refund payment instructions (if any) will be dispatched to application payment account, if the applicant paid the application monies from a single bank account;
- **request** that refund cheque (if any) will be dispatched to the address specified in application instructions to the designated White Form eIPO Service Provider by ordinary post and at applicant's own risk, if the applicant used multi-bank accounts to pay the application monies;
- **have read** the terms and conditions and application procedures set out on in the **White Form eIPO** designated website at www.eipo.com.hk and this Prospectus and agree to be bound by them;
- **represents, warrants and undertakes** that the applicant, and any persons for whose benefit the applicant are applying are non-U.S. person(s) outside the United States (as defined in Regulation S), when completing and submitting this Application Form or is a person described in paragraph (h)(3) of Rule 902 of Regulation S or the allocation of or application for the Hong Kong Offer Shares to or by whom or for whose benefit this application is made would not require the Company to comply with any requirements under any law or regulation (whether or not having the force of law) of any territory outside Hong Kong; and
- **agrees** that such application, any acceptance of it and the resulting contract, will be governed by and construed in accordance with the laws of Hong Kong.

Supplemental Information

If any supplement to this Prospectus is issued, applicant(s) who have already submitted **electronic application instructions** through the **White Form eIPO** service may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications through the **White Form eIPO** service that have been submitted remain valid and may be accepted. Subject to the above and below, an application once made through the **White Form eIPO** service is irrevocable and applicants shall be deemed to have applied on the basis of this Prospectus as supplemented.

Effect of completing and submitting an application through the White Form eIPO service

By completing and submitting an application through the **White Form eIPO** service, you for yourself or as agent or nominee and on behalf of any person for whom you act as agent or nominee shall be deemed to:

- **instruct and authorize** the Company and/or the Sole Global Coordinator as agent for the Company (or their respective agents or nominees) to do on your behalf all things necessary to register any Hong Kong Offer Shares allotted to you in your name as required by the Articles of Association and otherwise to give effect to the arrangements described in this Prospectus and the **White Form eIPO** designated website at www.eipo.com.hk;
- **confirm** that you have only relied on the information and representations in this Prospectus in making your application and will not rely on any other information and representations save as set out in any supplement to this Prospectus;

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- **agree** that the Company and the Directors, are liable only for the information and representations contained in this Prospectus and any supplement thereto;
- **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (if the application is made for your own benefit) warrant that this is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider via the **White Form eIPO** service;
- (if you are an agent for another person) **warrant** reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider via the **White Form eIPO** service, and that you are duly authorized to submit the application as that other person's agent;
- **undertake and confirm** that you (if the application is made for your benefit) or the person(s) for whose benefit you have made this application have not applied for or taken up, or indicated an interest for, and will not apply for, take up or indicate an interest for, any Offer Shares under the International Placing;
- **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- **agree** to disclose to the Company, and/or the Hong Kong Share Registrar, receiving banks, Sole Global Coordinator and their respective advisers and agents personal data and any information which they require about you or the person(s) for whose benefit you have made this application;
- **agree** with the Company and each Shareholder, and the Company agrees with each of its Shareholder, to observe and comply with the Companies Law, the Companies Ordinance, the Memorandum of Association and the Articles of Association;
- **agree** with the Company and each Shareholder that the Shares in the Company are freely transferable by the holders thereof;
- **authorize** the Company to enter into a contract on your behalf with each Director and officer of the Company whereby each such Director and officer undertakes to observe and comply with his or her obligations to shareholders as stipulated in the Memorandum of Association and Articles of Association;
- **represent, warrant and undertake** that you are not, and none of the other person(s) for whose benefit you are applying is, a U.S. person (as defined in Regulation S) when completing the Application Form;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- **represent and warrant** that you understand that the Shares have not been and will not be registered under the U.S. Securities Act and you are outside the United States (as defined in Regulation S) when completing the Application Form or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- **confirm** that you have read the terms and conditions and application procedures set out in this Prospectus, the **White Form eIPO** designated website at www.eipo.com.hk and the **White Form eIPO** website and agree to be bound by them;
- **undertake and agree** to accept the Shares applied for, or any lesser number allocated to you under your application; and
- if the laws of any place outside Hong Kong are applicable to your application, **agree and warrant** that you have complied with all such laws and none of the Company, the Sole Global Coordinator and the Hong Kong Underwriters nor any of their respective officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this Prospectus, the **White Form eIPO** Application Form and the **White Form eIPO** designated website at www.eipo.com.hk.

The Company, the Sole Global Coordinator, the Underwriters and their respective directors, officers, employees, partners, agents, advisers, and any other parties involved in the Global Offering are entitled to rely on any warranty, representation or declaration made by you in such application.

Power of Attorney

If your application is made by a duly authorized attorney, the Company or the Sole Global Coordinator, as its agent, may accept it at their discretion and subject to any conditions as any of them may think fit, including evidence of the authority of your attorney.

Additional Information

For the purposes of allocating Hong Kong Offer Shares, each applicant giving **electronic application instructions** through **White Form eIPO** service to the White Form eIPO Service Provider through the designated website at www.eipo.com.hk will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Offer Shares for which you have applied, or if your application is otherwise rejected by the designated White Form eIPO Service Provider, the designated **White Form eIPO** Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated White Form eIPO Service Provider on the designated website at www.eipo.com.hk.

Otherwise, any monies payable to you due to a refund for any of the reasons set out in the paragraph headed “— Results of Allocation — Despatch/collection of share certificates and refund monies” below.

HOW TO APPLY FOR HONG KONG OFFER SHARES

V. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
2/F, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to the Company and the Hong Kong Share Registrar.

Giving electronic application instructions to HKSCC to Apply for Hong Kong Offer Shares by HKSCC Nominees On Your Behalf

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:

- (i) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this Prospectus;
- (ii) HKSCC Nominees does the following things on behalf of each such person:
 - **agrees** that the Hong Kong Offer Shares to be allocated shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- **undertakes and agrees** to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
- **undertakes and confirms** that that person has not applied for or taken up any Offer Shares under the International Placing nor otherwise participated in the International Placing;
- (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;
- (if that person is an agent for another person) **declares** that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorized to give those instructions as that other person's agent;
- **understands** that the above declaration will be relied upon by the Company, the Directors and the Sole Global Coordinator in deciding whether or not to make any allocation of Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;
- **authorizes** the Company to place the name of HKSCC Nominees on the register of members of the Company as the holder of the Hong Kong Offer Shares allocated in respect of that person's **electronic application instructions** and to send share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between the Company and HKSCC;
- **confirms** that that person has read the terms and conditions and application procedures set out in this Prospectus and agrees to be bound by them;
- **confirms** that that person has only relied on the information and representations in this Prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf;
- **agrees** that the Company, the Directors, the Sole Global Coordinator, the Underwriters, their respective directors, and any other parties involved in Global Offering are liable only for the information and representations contained in this Prospectus;
- **agrees** to disclose that person's personal data to the Company, the Sole Global Coordinator and/or their respective agents any information which they may require about that person;
- **agrees** (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;

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- **agrees** that any application made by HKSCC Nominees on behalf of that person pursuant to the **electronic application instructions** given by that person is irrevocable before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day), such agreement to take effect as a collateral contract with the Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day), except by means of one of the procedures referred to in this Prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day), if a person responsible for this Prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this Prospectus;
- **agrees** that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by the Company;
- **agrees** to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares;
- **agrees** with the Company, for itself and for the benefit of each of its shareholders (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for the Company and on behalf of each of its shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Memorandum of Association and the Articles of Association;
- **agrees** with the Company (for itself and for the benefit of each of its shareholders) that Shares in the Company are freely transferable by the holders thereof;
- **authorizes** the Company to enter into a contract on your behalf with each Directors and officers of the Company whereby each such Director and officer undertakes to observe and comply with their obligations to shareholders stipulated in the Articles of Association; and
- **agrees** that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Effect of Giving Electronic Application Instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- **instructed and authorized** HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for Hong Kong Offer Shares on your behalf;
- **instructed and authorized** HKSCC to arrange payment of the maximum offer price, brokerage, SFC transaction levy, and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the offer price per Share initially paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy, and Stock Exchange trading fee by crediting your designated bank account; and
- **instructed and authorized** HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purpose of considering whether multiple applications have been made.

Minimum Subscription Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 1,000 Hong Kong Offer Shares. Such instructions in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Section 40 of the Companies Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this Prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

Personal Data

The section of the Application Form entitled “Personal Data” applies to any personal data held by the Company and the Hong Kong Share Registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

The subscription for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. The Company, the Directors, the Sole Global Coordinator and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allocated any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input of their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either: (i) submit a **WHITE** or **YELLOW** Application Form; or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, 22 June 2011.

VI. WHEN MAY APPLICATIONS BE MADE

Applications on WHITE or YELLOW Application Forms

Completed **WHITE** or **YELLOW** Application Forms, together with payment attached, must be lodged by 12:00 noon on Wednesday, 22 June 2011, or, if the application lists are not open on that day, by the time and date stated in the paragraph headed “— Effect of bad weather on the opening of the application lists” below. Check(s) or banker’s cashier order(s) should be crossed “Account Payee Only” and made payable to “Bank of China (Hong Kong) Nominees Limited — Hosa International Public Offer”.

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Your completed Application Form, together with payment attached, should be deposited in the special collection boxes provided at any of the branches of Bank of China (Hong Kong) Limited or Hang Seng Bank Limited, listed in the paragraph headed “— Applying by using an Application Form — Where to collect the Application Form” above at the following times:

Friday, 17 June 2011 — 9:00 a.m. to 5:00 p.m.
Saturday, 18 June 2011 — 9:00 a.m. to 1:00 p.m.
Monday, 20 June 2011 — 9:00 a.m. to 5:00 p.m.
Tuesday, 21 June 2011 — 9:00 a.m. to 5:00 p.m.
Wednesday, 22 June 2011 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, 22 June 2011.

No proceedings will be taken on applications for the Shares and no allotment of any such Shares will be made until after the closing of the application lists. No allotment of any of the Shares will be made later than 17 July 2011.

White Form eIPO

You may submit your application to the designated White Form eIPO Service Provider through the designated website at www.eipo.com.hk from 9:00 a.m. on Friday, 17 June 2011 until 11:30 a.m. on Wednesday, 22 June 2011 or such later time as described under the paragraph headed “— Effect of bad weather on the opening of the application lists” below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, 22 June 2011, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the paragraph headed “— Effect of bad weather on the opening of the application lists” below.

You will not be permitted to submit your application to the designated White Form eIPO Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

Electronic application instructions to HKSCC via CCASS

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Friday, 17 June 2011 — 9:00 a.m. to 8:30 p.m.¹
Saturday, 18 June 2011 — 8:00 a.m. to 1:00 p.m.¹
Monday, 20 June 2011 — 8:00 a.m. to 8:30 p.m.¹
Tuesday, 21 June 2011 — 8:00 a.m. to 8:30 p.m.¹
Wednesday, 22 June 2011 — 8:00 a.m.¹ to 12:00 noon

Note 1: These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

HOW TO APPLY FOR HONG KONG OFFER SHARES

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, 17 June 2011 until 12:00 noon on Wednesday, 22 June 2011 (24 hours daily, except the last application day).

The latest time for inputting **electronic application instructions** via CCASS will be 12:00 noon on Wednesday, 22 June 2011, the last application day, or if the application lists are not open on that day, by the time and date stated in the paragraph headed “— Effect of bad weather on the opening of the application lists” below.

Effect of Bad Weather on the Opening of the Application Lists

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 22 June 2011. Instead, they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warning signals in force in Hong Kong at anytime between 9:00 a.m. and 12:00 noon.

If the application lists of the Hong Kong Offer do not open and close on Wednesday, 22 June 2011 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong on the other dates mentioned in the section headed “Expected Timetable” in this Prospectus, such dates mentioned in the section headed “Expected Timetable” in this Prospectus may be affected. A press announcement will be made in such event.

VII. HOW MANY APPLICATIONS YOU MAY MAKE

Multiple applications or suspected multiple applications are liable to be rejected.

You may make more than one application for Hong Kong Offer Shares if and only if:

You are a nominee, in which case you may both give **electronic application instructions** to HKSCC (if you are a CCASS Participant) and lodge more than one Application Form in your own name if each application is made on behalf of different beneficial owners. In the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code

for each beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Otherwise, multiple applications are not allowed.

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit to the designated **White Form eIPO** Service Provider to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service by giving **electronic application instructions** through the designated website at www.eipo.com.hk and completing payment in respect of such **electronic application instructions**, or of submitting one application through the **White Form eIPO** service and one or more applications by any other means, all of your applications are liable to be rejected.

If you have made an application by giving **electronic application instructions** to HKSCC and you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made. No application for any other number of Hong Kong Offer Shares will be considered any such application is liable to be rejected.

It will be a term and condition of all applications that by completing and delivering an Application Form or submitting an **electronic application instruction**, you:

- (if the application is made for your own benefit) warrant that this is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider through **White Form eIPO** service; or
- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider through **White Form eIPO** service and that you are duly authorized to sign the Application Form or give **electronic application instructions** as that other person's agent.

Save as referred to above, all of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the designated **White Form eIPO** Service Provider through **White Form eIPO** service;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- both apply (whether individually or jointly) on one WHITE Application Form and one YELLOW Application Form or on one **WHITE** or **YELLOW** Application Form and give **electronic applications instructions** to HKSCC or to the designated White Form eIPO Service Provider through **White Form eIPO** service;
- apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly) or by giving **electronic application instructions** to HKSCC or to the designated White Form eIPO Service Provider through **White Form eIPO** service for more than 20,000,000 Shares, being 50% of the Share initially being offered for public subscription under the Hong Kong Public Offering, as more particularly described in the section headed “Structure of the Global Offering — The Hong Kong Public Offering”; or
- have applied for or taken up, or indicated an interest for, or have been or will be placed (including conditionally and/or provisionally) Offer Shares under the International Placing.

All of your applications will also be rejected as multiple applications if more than one application is made for **your benefit** (including the part of the application made by HKSCC Nominees acting on your **electronic application instructions**). If an application is made by an unlisted company and

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

Unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control means you:

- *control the composition of the board of directors of the company; or*
- *control more than half of the voting power of the company; or*
- *hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).*

VIII. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

Full details of the circumstances in which you will not be allotted the Hong Kong Offer Shares are set out in the notes attached to the Application Forms, and you should read them carefully. You should note in particular the following situations in which Hong Kong Offer Shares will not be allotted to you:

- **If your application is revoked**

By completing and submitting an Application Form or submitting **electronic application instructions** to HKSCC or the designated White Form eIPO Service Provider through **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees or the

HOW TO APPLY FOR HONG KONG OFFER SHARES

White Form eIPO Service Provider on your behalf cannot be revoked before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day). This agreement will take effect as a collateral contract with the Company, and will become binding when you lodge your Application Form or submit your **electronic application instructions** to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly. This collateral contract will be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) except by means of one of the procedures referred to in this Prospectus.

Your application or the application made by HKSCC Nominees or the White Form eIPO Service Provider on your behalf may be revoked before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) if a person responsible for this Prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this Prospectus.

If any supplement to this Prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this Prospectus as supplemented.

If your application or the application made by HKSCC Nominees or the White Form eIPO Service Provider on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the announcement of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

- **Full discretion of the Company, the Sole Global Coordinator or the designated White Form eIPO Service Provider (where applicable) or its or their respective agent and nominees to reject or accept your application:**

The Company, and the Sole Global Coordinator (as agent for the Company) or the designated **White Form eIPO** Service Provider (where applicable), or their respective agents and nominees, have full discretion to reject or accept any application, or to accept only part of any application.

The Company, the Sole Global Coordinator and the Hong Kong Underwriters, in their capacity as the Company's agents, and their agents and nominees do not have to give any reason for any rejection or acceptance.

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- **If the allocation of Hong Kong Offer Shares is void:**

The allocation of Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** to HKSCC or apply using a **YELLOW** Application Form) will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies the Company of that longer period within three weeks of the closing date of the application lists.

- **You will not receive any allocation if:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefits you apply for have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Offer Shares in the International Placing. By filling in any of the Application Forms or apply by giving **electronic application instructions**, you agree not to apply for Hong Kong Offer Shares as well as Offer Shares in the International Placing. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received Offer Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offering;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions set out in the designated website at www.eipo.com.hk;
- your payment is not made correctly or you pay by check or banker's cashier order and the check or banker's cashier order is dishonored upon its first presentation;
- your Application Form is not completed in accordance with the instructions stated in the Application Form (if you apply by an Application Form);
- the Underwriting Agreements do not become unconditional; or
- the Underwriting Agreements are terminated in accordance with their respective terms.

You should also note that you may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest for Offer Shares under the International Placing, but may not do both.

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IX. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum offer price is HK\$4.10 per Offer Share. You must also pay a brokerage fee of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% in full. This means that for one board lot of 1,000 Shares you will pay HK\$4,141.33. The Application Forms have tables showing the exact amount payable for numbers of Hong Kong Offer Shares.

You must pay the amount payable upon application for the Shares by one check or one banker's cashier order in accordance with the terms set out in the Application Form (if you apply by an Application Form).

If your application is successful, brokerage is paid to participants of the Stock Exchange or the Stock Exchange (as the case may be), the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected on behalf of the SFC).

X. RESULTS OF ALLOCATION

Announcement of the results of allocations in the Hong Kong Public Offering, including the Offer Price, the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Placing, the basis of allocation of Hong Kong Offer Shares and the number of Hong Kong Offer Shares successfully applied for under **WHITE** and **YELLOW** Application Forms, or by giving **electronic application instructions** to HKSCC via CCASS or the designated **White Form eIPO** Service Provider through the designated **White Form eIPO** website, will be made available in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on Wednesday, 29 June 2011.

The results of allocations and the Hong Kong Identity Card/passport/Hong Kong Business Registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- Results of allocations for the Hong Kong Public Offering will be available from the Stock Exchange's website at www.hkex.com.hk;
- Results of allocation for the Hong Kong Public Offering will be available from our Hong Kong Public Offering results of allocation website at www.iporesults.com.hk on a 24-hour basis from 8:00 a.m. on Wednesday, 29 June 2011 to 12:00 midnight on Tuesday, 5 July 2011. The user will be required to key in the Hong Kong Identity Card/passport/Hong Kong business registration number provided in his/her/its application to search for his/her/its own allocation result. The Company's website (www.hosa.cn) will also publish a hyper-link to the aforesaid website during the same period;
- Results of allocations will be available from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Offer Shares allocated to them, if any, by calling **2862 8669** between 9:00 a.m. and 10:00 p.m. from Wednesday, 29 June 2011 to Saturday, 2 July 2011; and

HOW TO APPLY FOR HONG KONG OFFER SHARES

- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual locations from Wednesday, 29 June 2011 to Monday, 4 July 2011 at all the receiving banks locations at the addresses set out in the paragraph headed “— Applying by using an Application Form — Where to collect the Application Form”.

Despatch/Collection of Share Certificates and Refund Monies

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the Offer Price of HK\$4.10 per Offer Share (excluding brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee thereon) initially paid on application, or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed “Structure of the Global Offering — The Hong Kong Public Offering — Conditions of the Hong Kong Public Offering” or if any application is revoked or any allocation pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage fee, SFC transaction levy and Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

No temporary documents of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. Share certificates will only become valid certificates of title at 8:00 a.m. on Thursday, 30 June 2011 provided that the Hong Kong Public Offering has become unconditional in all respects and the right of termination described in the section headed “Underwriting — Grounds for termination” has not been exercised.

If you apply by **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** through **White Form eIPO** service, subject as mentioned below, in due course, there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on your Application Form:

- (i) (a) share certificate(s) for all the Hong Kong Offer Shares applied for, if the application is wholly successful; or (b) share certificate(s) for the number of Hong Kong Offer Shares successfully applied for, if the application is partially successful (for wholly successful and partially successful applicants on **YELLOW** Application Forms: Share certificates for their Shares successfully applied for will be deposited into CCASS as described below); and/or
- (ii) refund check(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (a) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (b) all the application monies, if the application is wholly unsuccessful; and/or (c) the difference between the Offer Price and the maximum offer price per Share paid on application in the event that the Offer Price is less than the offer price per Share initially paid on application, in each case including the brokerage fee of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, attributable to such refund/surplus monies but without interest.

Part of your Hong Kong Identity Card number/passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund check, if any. Such data would also be transferred to a third party for

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refund purposes. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund check. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate your refund check.

Subject as mentioned below, refund checks for surplus application monies (if any) in respect of wholly and partially unsuccessful applications under **WHITE** and **YELLOW** Application Forms and share certificates for successful applicants under **WHITE** Application Forms and **White Form eIPO** are expected to be posted on or before Wednesday, 29 June 2011. The right is reserved to retain any share certificates and any surplus application monies pending clearance of check(s).

If you apply by giving electronic application instructions to HKSCC, and your application is wholly or partially successful:

- (i) your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account on Wednesday, 29 June 2011 or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees; and
- (ii) refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the offer price per Offer Share initially paid on application, in each case including the related brokerage fee of 1%, SFC transaction levy of 0.003%, and Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 29 June 2011. No interest will be paid thereon.

If you apply using a WHITE Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more on a **WHITE** Application Form and have indicated your intention in your Application Form to collect your refund check(s) (where applicable) and/or share certificate(s) (where applicable), to which they are entitled, in person from the Hong Kong Share Registrar and have provided all information required by your Application Form, you may collect your refund check(s) (where applicable) and share certificate(s) from the Hong Kong Share Registrar at Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 29 June 2011 or such other date as notified by the Company in the newspapers as the date of collection/despatch of e-Refund payment instructions/refund checks/share certificates. If you are an individual who opt for personal collection, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant which opt for personal collection, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar. If you do not collect your refund check(s) (where applicable) and/or share certificate(s) (where applicable) personally within the time specified for collection, they will be sent to the address as specified in your Application Form promptly thereafter by ordinary post and at your own risk.

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If you apply for less than 1,000,000 Hong Kong Offer Shares or if you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your Application Form that you will collect your refund check(s) (where applicable) and/or share certificate(s) (where applicable) in person, your refund check(s) (where applicable) and/or share certificate(s) (where applicable) will be sent to the address on your Application Form on Wednesday, 29 June 2011, by ordinary post and at your own risk.

*If you apply using a **YELLOW** Application Form*

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund checks (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above.

If you apply for 1,000,000 Hong Kong Offer Shares or more and have not indicated on your **YELLOW** Application Form that you will collect your refund cheque(s) (if any) in person, or if you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) (if any) will be sent to the address on your **YELLOW** Application Form by ordinary post and at your own risk on 29 June 2011.

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on Wednesday, 29 June 2011, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):

- for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant:

- the Company expects to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in accordance with the details set out in this paragraph headed "— Results of Allocation". You should check the results published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 29 June 2011 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

*If you apply through **White Form eIPO***

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service by submitting an electronic application to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk and your application is wholly or partially successful, you may collect your share certificate(s) (where applicable) in person from the Hong Kong Share Registrar at

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Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 29 June 2011, or such other date as notified by our company in the newspapers as the date of despatch/collection of share certificates/e-Refund payment instructions/refund checks.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider promptly thereafter, by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions to the designated **White Form eIPO** Service Provider through the designated website at www.eipo.com.hk on Wednesday, 29 June 2011 by ordinary post and at your own risk.

If you apply through the **White Form eIPO** service and paid the application monies from a single bank account, refund monies (if any) will be despatched to the application payment account in the form of e-Refund payment instructions.

If you apply through **White Form eIPO** service and paid the application monies from multiple bank accounts, refund monies (if any) will be despatched to the address as specified on the your **White Form eIPO** application in the form of refund cheque(s), by ordinary post at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated **White Form eIPO** Service Provider set out in the paragraph headed “— Applying Through **White Form eIPO** — Additional information” above.

If you apply by giving electronic application instructions to HKSCC via CCASS

If you apply by giving **electronic application instructions** through HKSCC Nominees, the Company will publish the **application results of CCASS Participants** (and where the CCASS Participant is a broker or custodian, the Company shall include information relating to the beneficial owner, if supplied), your Hong Kong Identity Card/passport number or other identification code (Hong Kong Business Registration number for corporations) and the basis of allotment of the public offer, in the newspapers on 29 June 2011. You should check the results published by us in accordance with the details set out in this paragraph headed “— Results of Allocations” and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 29 June 2011 or such other date as shall be determined by HKSCC or HKSCC Nominees.

If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Wednesday, 29 June 2011. Immediately following the credit of the public offer shares to your stock account and the credit of the refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

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XI. REFUND OF APPLICATION MONIES

If you do not receive any Hong Kong Offer Shares for any reason, the Company will refund your application monies, including a brokerage fee of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%. No interest will be paid thereon. All interest accrued on such monies before the date of despatch of refund checks will be retained for the benefit of the Company.

If your application is accepted only in part, the Company will refund the appropriate portion of your application monies, including the related a brokerage fee of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, without interest.

If the Offer Price as finally determined is less than the offer price per Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon) initially paid on application, the Company will refund the surplus application monies, together with the related a brokerage fee of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, without interest.

In a contingency situation involving a substantial over-subscription, at the discretion of the Company and the Sole Global Coordinator, checks for applications for certain small denominations of Hong Kong Offer Shares (apart from successful applications) may not be cleared.

Refund of your application monies (if any) will be made on Wednesday, 29 June 2011 in accordance with the various arrangements as described above.

XII. DEALINGS AND SETTLEMENT

Commencement of Dealings in the Shares

Dealings in the Shares on the Stock Exchange are expected to commence on Thursday, 30 June 2011.

The Shares will be traded in board lots of 1,000 each. The stock code of the Shares is 2200.

Shares will be Eligible for Admission into CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests. All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from our Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

17 June 2011

The Directors
Hosa International Limited

Merrill Lynch Fast East Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Hosa International Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") including the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Group, for each of the years ended 31 December 2008, 2009 and 2010 (the "Relevant Period"), and the combined balance sheets of the Group as at 31 December 2008, 2009 and 2010, together with the notes thereto (the "Financial Information"), for inclusion in the prospectus of the Company dated 17 June 2011 (the "Prospectus").

The Company was incorporated in the Cayman Islands on 2 September 2010 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation completed on 16 March 2011 (the "Reorganisation") as detailed in the section headed "History and Corporate Structure" in the Prospectus, the Company became the holding company of the companies now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation.

As at the date of this report, no audited financial statements have been prepared for the Company and Hosa Investment Holdings Limited ("Hosa Investment"), as they are investment holding companies and are not subject to statutory audit requirements under the relevant rules and regulations in their respective jurisdictions of incorporation.

All the companies now comprising the Group have adopted 31 December as their financial year end date. Details of the companies comprising the Group that are subject to audit during the Relevant Period and the names of the respective auditors are set out in note 28 of Section C. The statutory financial statements of these companies were prepared in accordance with International Financial Reporting Standards ("IFRSs") or the relevant accounting rules and regulations applicable to entities in the People's Republic of China (the "PRC") in which they were incorporated and/or established.

The directors of the Company have prepared the combined financial statements of the Group for the Relevant Period in accordance with the basis of preparation set out in Section A below and the accounting policies set out in Section C below (the “Underlying Financial Statements”). The Underlying Financial Statements for each of the years ended 31 December 2008, 2009 and 2010 were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements, with no adjustments made thereon.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation and true and fair presentation of the Financial Information in accordance with IFRSs issued by the International Accounting Standards Board (the “IASB”), the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline “Prospectuses and the Reporting Accountant” (Statement 3.340) issued by the HKICPA.

We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 31 December 2010.

OPINION

In our opinion, for the purpose of this report, the Financial Information, on the basis of preparation set out in Section A below, gives a true and fair view of the Group’s combined results and cash flows for the Relevant Period, and the state of affairs of the Group as at 31 December 2008, 2009 and 2010.

A. BASIS OF PRESENTATION

The particulars of the Company's subsidiaries as at the date of this report are set out below:

Name of company	Place and date of incorporation/ establishment	Issued and fully paid up/registered capital	Proportion of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Hosa Investment	British Virgin Islands ("BVI")/ 1 September 2010	US\$1/US\$1	100%	—	Investment holding
Hosa Group Holdings Limited ("Hosa Group")	Hong Kong/ 30 August 2010	HK\$10,000/ HK\$10,000	—	100%	Investment holding
Haosha Industry (Fujian) Co., Ltd.* ("Haosha Industry") (浩沙實業 (福建)有限公司)	PRC/25 October 2005	RMB121,500,000/ RMB121,500,000	—	100%	Design, manufacture and sales of swimwear, fitness wear, sports underwear and swim and indoor sports accessories

* The English translation of the company's name is for reference only. The official name of the company is in Chinese.

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

All material intra-group transactions and balances have been eliminated on combination.

B. COMBINED FINANCIAL INFORMATION

1. Combined statements of comprehensive income

		Year ended 31 December		
	Section C	2008	2009	2010
	Note	RMB'000	RMB'000	RMB'000
<i>Continuing operations</i>				
Turnover	2	204,643	159,169	347,787
Cost of sales.		<u>(142,383)</u>	<u>(96,253)</u>	<u>(178,382)</u>
Gross profit		62,260	62,916	169,405
Other revenue	3	240	664	1,928
Other net income/(loss)	3	142	64	(379)
Selling and distribution expenses		(24,431)	(23,737)	(29,122)
Administrative and other operating expenses		<u>(10,655)</u>	<u>(10,041)</u>	<u>(26,695)</u>
Profit from operations		27,556	29,866	115,137
Finance costs	4(a)	<u>(921)</u>	<u>(2,640)</u>	<u>(6,382)</u>
Profit before taxation	4	26,635	27,226	108,755
Income tax benefit/(expense).	5	<u>1,596</u>	<u>1,382</u>	<u>(14,380)</u>
Profit for the year from continuing operations		28,231	28,608	94,375
<i>Discontinued operations</i>	6			
Profit from discontinued operations		734	79	4,135
Net gain on disposal of subsidiaries, machinery and equipment		<u>—</u>	<u>—</u>	<u>17,596</u>
Profit and total comprehensive income for the year		<u>28,965</u>	<u>28,687</u>	<u>116,106</u>
Earnings per share	10			
<i>From continuing and discontinued operations</i>				
— basic and diluted (RMB)		<u>0.02</u>	<u>0.02</u>	<u>0.10</u>
<i>From continuing operations</i>				
— basic and diluted (RMB)		0.02	0.02	0.08

2. Combined balance sheets

		As at 31 December		
	Section C	2008	2009	2010
	Note	RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment	11	15,257	15,839	51,868
Construction in progress	12	—	10,953	—
Intangible assets	13	50	231	151
Lease prepayments.	14	—	—	12,104
Deferred tax assets.	22(b)	1,723	3,279	5,277
Total non-current assets		17,030	30,302	69,400
Current assets				
Inventories	15	68,972	131,017	51,376
Trade and bill receivables	16	47,454	68,101	180,823
Prepayments and other receivables	17	49,364	101,959	110,102
Pledged deposits	18	10,290	13,240	37,920
Cash at bank and in hand		17,637	15,645	83,827
Total current assets		193,717	329,962	464,048
Total assets		210,747	360,264	533,448
Current liabilities				
Bank loans	19	39,000	126,880	98,800
Trade and other payables	20	79,819	112,769	128,966
Current taxation	22(a)	—	—	8,291
Total current liabilities		118,819	239,649	236,057
Total liabilities		118,819	239,649	236,057
Equity				
Paid-in capital.	23	60,839	60,839	121,500
Reserves	24	31,089	59,776	175,891
Total equity		91,928	120,615	297,391
Total liabilities and equity		210,747	360,264	533,448
Net current assets		74,898	90,313	227,991
Total assets less current liabilities		91,928	120,615	297,391

3. Combined statements of changes in equity

	Section C	Paid-in capital	Capital reserves	Statutory reserves	Retained profits	Total
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2008 . . .		39,060	51	233	1,840	41,184
Capital injection	23	21,779	—	—	—	21,779
Total comprehensive						
income for the year . . .		—	—	—	28,965	28,965
Appropriation to statutory						
reserves	24(b)	—	—	3,695	(3,695)	—
As at 31 December 2008 .		60,839	51	3,928	27,110	91,928
Total comprehensive						
income for the year . . .		—	—	—	28,687	28,687
Appropriation to statutory						
reserves	24(b)	—	—	4,158	(4,158)	—
As at 31 December 2009 .		60,839	51	8,086	51,639	120,615
Capital injection	23	60,661	9	—	—	60,670
Total comprehensive						
income for the year . . .		—	—	—	116,106	116,106
Appropriation to statutory						
reserves	24(b)	—	—	10,339	(10,339)	—
As at 31 December 2010 .		121,500	60	18,425	157,406	297,391

4. Combined cash flow statements

		Year ended 31 December		
Section C		2008	2009	2010
	Note	RMB'000	RMB'000	RMB'000
Operating activities				
Profit/(loss) before taxation				
— from continuing operations		26,635	27,226	108,755
— from discontinued operations		607	(95)	4,774
Adjustments for:				
— Depreciation	11	2,072	2,995	4,337
— Amortisation of intangible assets . .	13	—	97	140
— Finance costs		1,185	3,467	8,395
— Interest income		(124)	(135)	(417)
— Impairment losses on trade receivables	16	1,207	624	788
		31,582	34,179	126,772
Changes in working capital				
(Increase)/decrease in inventories		(44,864)	(62,045)	64,529
Increase in trade and bill receivables, prepayments and other receivables . . .		(39,102)	(25,583)	(138,395)
(Increase)/decrease in amounts due from directors		(8,856)	2,347	12,109
Increase in amounts due from related parties		(15,090)	(50,632)	(6,915)
Increase in trade and other payables		45,158	33,423	54,586
Increase in amounts due to directors		—	—	3,386
(Decrease)/increase in amounts due to related parties		(2,977)	(134)	20
Cash (used in)/generated from				
operations		(34,149)	(68,445)	116,092
Income tax paid		(956)	—	(8,726)
Net cash (used in)/generated from				
operating activities		(35,105)	(68,445)	107,366

		Year ended 31 December		
Section C		2008	2009	2010
Note		RMB'000	RMB'000	RMB'000
Investing activities				

C. NOTES TO COMBINED FINANCIAL INFORMATION**1. Significant accounting policies****(a) Statement of compliance**

The Financial Information set out in this report has been prepared in accordance with IFRSs, which collective term includes International Accounting Standards and related Interpretations, promulgated by the IASB. Further details of the significant accounting policies adopted are set out in the remainder of this Section C.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing the Financial Information, the Group has adopted all these new and revised IFRSs applicable to the Relevant Period, except for any new standards or interpretations that are not yet effective for the accounting period ended 31 December 2010. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period ended 31 December 2010 are set out in note 30.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) Basis of preparation and presentation

The Financial Information comprises the Company and its subsidiaries and has been prepared as a continuation of Haosha Industry, as further explained in Section A.

(c) Basis of measurement

The Financial Information is presented in Renminbi ("RMB"), rounded to the nearest thousand except per share data. RMB is the functional currency and the reporting currency for the Company's subsidiaries established in the PRC. The functional currency of the Company is Hong Kong dollar.

The Financial Information is prepared on the historical cost basis.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the Financial Information and the major sources of estimation uncertainty are discussed in note 29.

(e) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is included in the Financial Information from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Business combinations arising from transfer of interests in entities that are under the common control of the equity holders that control the Group are accounted for using book value accounting as if the acquisition had occurred at the beginning of the earliest comparative period presented.

(f) Property, plant and equipment

Items of property, plant and equipment are stated in the combined balance sheet at cost less accumulated depreciation and impairment losses (see note 1(j)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 20 years after the date of completion.
- Machinery and equipment 5–10 years
- Motor vehicles 2–4 years
- Furniture and fixtures 3–4 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(g) Construction in progress

Construction in progress represents equipment pending installation, and is stated at cost less impairment losses (see note 1(j)).

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

(h) Intangible assets

Intangible assets represent software and are stated in the combined balance sheets at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(j)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the asset's estimated useful lives. Software are amortised from the date they are available for use for 3 years.

Both the period and method of amortisation are reviewed annually.

(i) Operating lease charges

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(j) Impairment of assets*(i) Impairment of trade and other receivables and other financial assets*

Trade and other receivables and other financial assets that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses recognised in respect of trade debtors are included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- construction in progress;
- intangible assets; and
- lease prepayments.

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(k) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(j)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash

Cash comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(p) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term.

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The results of operations outside the mainland China are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into RMB at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare that asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

(v) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, the financial impacts are presented on the face of the statements of comprehensive income, which include:

- the post-tax profit or loss of the discontinued operation; and
- the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

(w) Related parties

For the purposes of the Financial Information, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making finance and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business.

2. Turnover and segment reporting

The principal activities of the Group are design, manufacture and wholesale of swimwear, fitness wear, sports underwear and swim and indoor sports accessories.

Turnover represents the sales value of goods sold less returns, discounts, and value added taxes and other sales taxes.

Segment information is presented in respect of the Group's business segments. The primary format, business segments, is based on the Group's management and internal reporting structure. No geographical segment analysis is presented as substantially all assets, liabilities, turnover and gross profit of the Group are attributable to the operation in the PRC.

The Group has four separate segments within the continuing operations:

- Design, manufacture and wholesale of swimwear ("Swimwear");
- Design, manufacture and wholesale of fitness wear ("Fitness wear");
- Design, manufacture and wholesale of sports underwear ("Sports underwear"); and
- Wholesale of swim and indoor sports accessories ("Accessories").

In presenting the information on the basis of business segments, segment turnover and results are based on the sales and gross profits of Swimwear, Fitness wear, Sports underwear and Accessories.

	<u>Swimwear</u>	<u>Fitness wear</u>	<u>Sports underwear</u>	<u>Accessories</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
<i>Continuing operations</i>					
Year ended 31 December 2008					
Revenue	59,836	87,321	54,536	2,950	204,643
Cost of sales	(41,679)	(65,234)	(34,266)	(1,204)	(142,383)
Gross profit	<u>18,157</u>	<u>22,087</u>	<u>20,270</u>	<u>1,746</u>	<u>62,260</u>
Year ended 31 December 2009					
Revenue	70,631	31,316	52,873	4,349	159,169
Cost of sales	(43,841)	(17,521)	(31,497)	(3,394)	(96,253)
Gross profit	<u>26,790</u>	<u>13,795</u>	<u>21,376</u>	<u>955</u>	<u>62,916</u>
Year ended 31 December 2010					
Revenue	143,477	73,806	111,582	18,922	347,787
Cost of sales	(72,909)	(38,011)	(59,023)	(8,439)	(178,382)
Gross profit	<u>70,568</u>	<u>35,795</u>	<u>52,559</u>	<u>10,483</u>	<u>169,405</u>

The Group does not allocate any specific assets or expenditures for property, plant and equipment to the operating segments as Chief Operating Decision Maker does not use the information to measure the performance of the reportable segments.

The Group's revenue by geographical locations is determined by the destination where the goods are delivered.

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Domestic	131,959	125,144	296,798
Overseas	72,684	34,025	50,989
Total	<u>204,643</u>	<u>159,169</u>	<u>347,787</u>

The Group had two, two and one customers with whom transactions have exceeded 10% of the Group's aggregate revenues in the years ended 31 December 2008, 2009 and 2010, respectively. The amount of sales from these customers amounted to approximately RMB94,235,000, RMB55,613,000 and RMB34,962,000 for the years ended 31 December 2008, 2009 and 2010, respectively. Details of concentrations of credit risk arising from these customers are set out in note 25(a).

3. Other revenue and other net income/(loss)

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Continuing operations			
Other revenue			
Interest income — financial institutions	123	104	415
Rental income	—	—	1,175
Government grants (note)	116	560	338
Others	<u>1</u>	<u>—</u>	<u>—</u>
	<u>240</u>	<u>664</u>	<u>1,928</u>
Other net income/(loss)			
Exchange gain/(loss)	143	66	(380)
Others	<u>(1)</u>	<u>(2)</u>	<u>1</u>
	<u>142</u>	<u>64</u>	<u>(379)</u>

Note: The government grants of the Group were not conditional and were therefore recognised as income when received.

4. Profit before taxation

Profit before taxation is arrived at after charging:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Continuing operations			
(a) Finance costs:			
Interest on bank borrowings	921	2,640	6,382
(b) Staff costs:			
Contributions to defined contribution retirement plans (note 21)	3,893	3,807	4,448
Salaries, wages and other benefits	25,637	25,319	30,518
	<u>29,530</u>	<u>29,126</u>	<u>34,966</u>
Staff costs included directors' remuneration (Note 7).			
(c) Other items:			
Amortisation of intangible assets	—	97	140
Auditor's remuneration	13	15	10
Depreciation	1,022	1,650	3,522
Donation	1,087	255	480
Impairment losses for trade receivables	1,207	458	788
Operating lease charges in respect of properties	1,491	2,747	1,886
Cost of inventories [#]	<u>142,383</u>	<u>96,253</u>	<u>178,382</u>

[#] Cost of inventories includes RMB22,282,000, RMB20,587,000 and RMB24,157,000 in the years ended 31 December 2008, 2009 and 2010 respectively relating to staff costs, depreciation and amortisation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 4(b) for each of these types of expenses.

5. Income tax in the combined statements of comprehensive income

(a) Income tax in the combined statements of comprehensive income represents:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Continuing operations			
Current tax — PRC income tax			
Provision for the year	—	—	16,289
Deferred tax			
Origination and reversal of temporary differences	(1,596)	(1,382)	(1,909)
	<u>(1,596)</u>	<u>(1,382)</u>	<u>14,380</u>

(b) Reconciliation between tax (benefit)/expense and accounting profit at applicable tax rates:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Continuing operations			
Profit before taxation	26,635	27,226	108,755
Notional tax on profit before taxation, calculated at the standard tax rate			
applicable to the respective tax jurisdiction (i)	6,659	6,807	27,189
Tax effect of PRC preferential tax treatments (ii)	(8,968)	(11,095)	(16,293)
Tax effect of non-deductible expenses	492	291	2,134
Tax rate differential on deferred tax items	150	122	295
Tax effect of unrealised profits	71	2,493	1,055
Actual tax (benefit)/expense	(1,596)	(1,382)	14,380

- (i) Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

No provision was made for Hong Kong Profits Tax as the Group did not earn any assessable profit subject to Hong Kong Profits Tax during the Relevant Period.

According to the PRC Corporate Income Tax ("CIT") Law that took effect on 1 January 2008, the statutory income tax rate of subsidiaries in mainland China is 25%.

- (ii) Prior to 1 January 2008, Haosha Industry, being a production-oriented foreign investment enterprise, was entitled to a tax holiday of 2-year full exemption followed by 3-year 50% reduction in the income tax rate commencing from its first profit-making year from a PRC tax perspective ("2+3 tax holiday"). Haosha Industry commenced operations and recorded taxable profits in 2007. Given its operating period was less than 6 months in 2007, it could defer its 2+3 tax holiday commencement to the following year based on the then prevailing tax regulations.

The CIT Law and its relevant regulations grandfather the 2+3 tax holiday and require them to commence on 1 January 2008 should they be not started earlier. Accordingly, Haosha Industry commenced its 2+3 tax holiday on 1 January 2008. It was exempt from income tax for 2008 and 2009 and is subject to income tax at 12.5% and 25% from 2010 to 2012 and from 2013 onwards, respectively.

6. Discontinued operations

In 2010, the management decided to terminate its operation in manufacture and sale of fabric ("Fabric") and the retail businesses ("Retail"). The Group changes its strategy to focus on manufacturing and sales of finished products through distributors.

On 31 July 2010, Haosha Industry disposed the production line related to Fabric at a consideration of RMB2,019,000 to Fujian Province Jinjiang City Haosha Garments Co., Ltd. which was under common control of the major shareholders (see also Note 27). The transaction was completed on 31 July 2010 and resulted in a loss of RMB26,000.

Beijing Yasha Apparel Co., Ltd. ("Beijing Yasha"), Shanghai Haote Apparel Co., Ltd. ("Shanghai Haote"), Guangzhou Yingchang Apparel Co., Ltd. ("Guangzhou Yingchang") were engaged in retail business of swimwear, fitness wear, sports underwear and swim and indoor sports accessories sourced from Haosha Industry. On 30 July 2010, the Group terminated the retail business and disposed of the entire interests in Beijing Yasha, Shanghai Haote and Guangzhou Yingchang at a consideration of RMB13,080,000 to independent third parties. The transactions were completed on 30 July 2010 and resulted in a gain of RMB17,622,000.

The combined results of discontinued operations for the years ended 31 December 2008, 2009 and 2010 are set out below.

(a) The results of the discontinued operations are as follows:

		Year ended 31 December		
	Note	2008	2009	2010
		RMB'000	RMB'000	RMB'000
Turnover	6(b)	58,985	70,826	119,270
Cost of sales	6(b)	(53,996)	(48,243)	(93,093)
Gross profit		4,989	22,583	26,177
Interest income		1	31	2
Selling and distribution expenses		(1,598)	(15,204)	(12,837)
Administrative and other operating expenses		(2,521)	(6,678)	(6,555)
Profit from operations		871	732	6,787
Finance costs	6(c)(i)	(264)	(827)	(2,013)
Profit/(loss) before taxation	6(c)	607	(95)	4,774
Income tax benefit/(expense)	6(d)	127	174	(639)
Profit from discontinued operations		<u>734</u>	<u>79</u>	<u>4,135</u>
Earnings per share from discontinued operations*	10			
— basic and diluted (RMB cents)		<u>0.06</u>	<u>0.01</u>	<u>1.81</u>

* For the purpose of calculation of earnings per share, the profit from discontinued operations for the year ended 31 December 2010 included net gain on disposal of subsidiaries, machinery and equipment of RMB17,596,000.

The net assets of Beijing Yasha, Shanghai Haote and Guangzhou Yingchang at 30 July 2010 and the effect of the disposal are as below:

	RMB'000
Assets/(liabilities) being disposed of:	
Property, plant and equipment	196
Inventories	15,112
Trade, prepayments and other receivables	20,845
Cash	1,842
Trade and other payables	<u>(42,537)</u>
Net assets	(4,542)
Gain on disposal of subsidiaries	<u>17,622</u>
Total consideration	<u>13,080</u>
Net cash outflow in respect of the disposal of subsidiaries:	
Cash consideration received as of 31 December 2010, satisfied in cash	—
Cash of subsidiaries disposed	<u>(1,842)</u>
	<u>(1,842)</u>

The cash consideration for disposal of subsidiaries was collected in January 2011.

(b) Turnover and cost of sales

	Fabric	Retail	Elimination of inter- company sales	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2008				
Revenue	58,814	1,222	(1,051)	58,985
Cost of sales	(53,996)	(1,051)	1,051	(53,996)
Gross profit	<u>4,818</u>	<u>171</u>	<u>—</u>	<u>4,989</u>
Year ended 31 December 2009				
Revenue	56,197	47,210	(32,581)	70,826
Cost of sales	(48,243)	(32,581)	32,581	(48,243)
Gross profit	<u>7,954</u>	<u>14,629</u>	<u>—</u>	<u>22,583</u>
Year ended 31 December 2010				
Revenue	106,975	35,233	(22,938)	119,270
Cost of sales	(93,093)	(22,938)	22,938	(93,093)
Gross profit	<u>13,882</u>	<u>12,295</u>	<u>—</u>	<u>26,177</u>

The net cash flows of the discontinued operations are as follows:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Net cash inflow from operating activities	44,336	42,403	60,646
Net cash outflow from investing activities	(1,911)	(11,192)	(2,340)
Net cash inflow attributable to the discontinued operations	<u>42,425</u>	<u>31,211</u>	<u>58,306</u>

(c) Profit/(loss) before taxation

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
(i) Finance costs:			
Interest on bank borrowings	<u>264</u>	<u>827</u>	<u>2,013</u>
(ii) Staff costs:			
Contributions to defined contribution retirement plans (note 21)	354	2,083	1,467
Salaries, wages and other benefits	<u>2,913</u>	<u>10,882</u>	<u>9,776</u>
	<u>3,267</u>	<u>12,965</u>	<u>11,243</u>
(iii) Other items:			
Auditor's remuneration	3	3	8
Depreciation	1,050	1,345	815
Impairment losses for trade receivables	—	166	—
Operating lease charges in respect of properties	20	357	657
Cost of inventories [#]	<u>53,996</u>	<u>48,243</u>	<u>93,093</u>

[#] Cost of inventories includes RMB2,048,000, RMB2,266,000 and RMB1,006,000 in the years ended 31 December 2008, 2009 and 2010 respectively relating to staff costs, depreciation expenses and operating lease charges, which amount is also included in the respective total amounts disclosed separately above or in note 6(c)(ii) for each of these types of expenses.

(d) Taxation

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Discontinuing operations			
Current tax — PRC income tax			
Provision for the year.	—	—	728
Deferred tax			
Origination and reversal of temporary differences.	(127)	(174)	(89)
	<u>(127)</u>	<u>(174)</u>	<u>639</u>

Beijing Yasha, Shanghai Haote and Guangzhou Yingchang are subject to income tax at 25%. These subsidiaries did not generate taxable profits and no provision of income tax was made for the years ended 31 December 2008, 2009 and 2010.

During the year ended 31 December 2010, a provision of income tax was made for the profits generated in respect of the Fabric segment based on the applicable tax rate of 12.5%.

7. Directors' remuneration

Details of directors' remuneration of the Group are set out below:

Year ended 31 December 2008

	Fee	Basic salaries, allowances and other benefits	Contributions to retirement benefit scheme	Bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr. Shi Hongliu	—	143	26	—	169
Mr. Shi Hongyan.	—	113	20	—	133
Mr. Zeng Shaoxiong	—	113	20	—	133
Mr. Zhao Yan.	—	61	11	—	72
Total	<u>—</u>	<u>430</u>	<u>77</u>	<u>—</u>	<u>507</u>

Year ended 31 December 2009

	Fee	Basic salaries, allowances and other benefits	Contributions to retirement benefit scheme	Bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr. Shi Hongliu	—	153	28	—	181
Mr. Shi Hongyan.	—	170	31	—	201
Mr. Zeng Shaoxiong	—	120	22	—	142
Mr. Zhao Yan.	—	61	11	—	72
Total	<u>—</u>	<u>504</u>	<u>92</u>	<u>—</u>	<u>596</u>

Year ended 31 December 2010

	Fee	Basic salaries, allowances and other benefits	Contributions to retirement benefit scheme	Bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors					
Mr. Shi Hongliu	—	612	99	—	711
Mr. Shi Hongyan	—	527	85	—	612
Mr. Zeng Shaoxiong	—	394	64	—	458
Mr. Zhao Yan	—	354	57	—	411
Total	—	1,887	305	—	2,192

During the Relevant Period, there were no amounts paid or payable by the Group to the directors or any of the highest paid individuals set out in note 8 below as an inducement to join or upon joining the Group or as a compensation for loss of office. There was no arrangement under which a director has waived or agreed to waive any emoluments during the Relevant Period.

8. Individual with highest emoluments

Of the five individuals with the highest emoluments, three, three and four of them in 2008, 2009 and 2010 respectively are directors whose remuneration is disclosed in note 7 above. The aggregate of the emoluments in respect of the other two, two and one individuals in 2008, 2009 and 2010 respectively are as follows:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Salaries and other emoluments	200	200	148
Contributions to retirement benefit scheme	36	36	24
	236	236	172

The emoluments of the above individuals with the highest emoluments are within the following bands:

	Year ended 31 December		
	2008	2009	2010
	Number of individuals	Number of individuals	Number of individuals
HK\$1 to 1,000,000	2	2	1

9. Dividends

The dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date. (note 31(a))

10. Earnings per share

The calculation of basic earnings per share during the Relevant Period is based on the profit attributable to equity holders of the Company for the respective years and on the assumption that 1,200,000,000 ordinary shares of the Company were in issue throughout the Relevant Period comprising 200,000 ordinary shares in issue as at the date of the Prospectus, 1,199,800,000 ordinary shares to be issued pursuant to the capitalisation issue as detailed in the section headed "Share Capital" in the Prospectus.

There were no dilutive potential ordinary shares during the Relevant Period and, therefore, diluted earnings per share are the same as the basic earnings per share.

11. *Property, plant and equipment*

	Buildings	Machinery and equipment	Motor vehicles	Furniture and fixtures	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:					
At 1 January 2008	—	11,960	—	353	12,313
Additions	—	2,789	1,547	835	5,171
At 31 December 2008	—	14,749	1,547	1,188	17,484
Additions	—	412	2,840	325	3,577
At 31 December 2009	—	15,161	4,387	1,513	21,061
Additions	28,780	1,021	996	735	31,532
Transfer from construction in progress	—	10,958	—	—	10,958
Disposals	—	(2,577)	—	(2)	(2,579)
Disposal of subsidiaries	—	—	—	(212)	(212)
At 31 December 2010	28,780	24,563	5,383	2,034	60,760
Accumulated depreciation:					
At 1 January 2008	—	147	—	8	155
Charge for the year	—	1,557	317	198	2,072
At 31 December 2008	—	1,704	317	206	2,227
Charge for the year	—	1,733	871	391	2,995
At 31 December 2009	—	3,437	1,188	597	5,222
Charge for the year	—	2,595	1,212	530	4,337
Written back on disposals	—	(651)	—	—	(651)
Disposal of subsidiaries	—	—	—	(16)	(16)
At 31 December 2010	—	5,381	2,400	1,111	8,892
Net book value:					
At 31 December 2008	—	13,045	1,230	982	15,257
At 31 December 2009	—	11,724	3,199	916	15,839
At 31 December 2010	28,780	19,182	2,983	923	51,868

All property, plant and equipment owned by the Group are located in the PRC.

Buildings are situated on leasehold land with lease term of 45 years in the PRC.

12. *Construction in progress*

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
At 1 January	—	—	10,953
Additions	—	10,953	5
Transfer to property, plant and equipment	—	—	(10,958)
At 31 December	—	10,953	—

13. *Intangible assets*

	Software
	RMB'000
Cost:	
At 1 January 2008	—
Additions	50
At 31 December 2008	50
Additions	278
At 31 December 2009	328
Additions	60
At 31 December 2010	388
Accumulated amortisation:	
At 1 January and 31 December 2008	—
Amortisation for the year	97
At 31 December 2009	97
Amortisation for the year	140
At 31 December 2010	237
Net book value:	
At 31 December 2008	50
At 31 December 2009	231
At 31 December 2010	151

14. *Lease prepayments*

	RMB'000
Cost:	
At 1 January 2008, 31 December 2008 and 2009	—
Additions	12,104
At 31 December 2010	12,104
Accumulated amortisation:	
At 1 January 2008, 31 December 2008, 2009 and 2010.	—
Net book value:	
At 31 December 2008 and 2009	—
At 31 December 2010	12,104

On 24 December 2010, Haosha Industry entered into sale and purchase agreements with related companies, Fujian Province Jinjiang City Haosha Garments Co., Ltd. ("Haosha Garments") and Jinjiang Sanxie Apparel Co., Ltd. ("Jinjiang Sanxie") pursuant to which Haosha Industry acquired interests in two pieces of leasehold land from Haosha Garments and Jinjiang Sanxie at considerations of RMB8,600,000 and RMB3,504,000, respectively. The interests in leasehold land are accounted for as lease prepayments in the Group's financial information.

As at 31 December 2010, the Group's interests in leasehold land are held on a medium-term lease of 45 years in the PRC.

15. Inventories

Inventories in the combined balances sheets comprise:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Raw materials	46,515	82,820	25,311
Work in progress	2,384	2,911	656
Finished goods	20,073	45,286	25,409
	<u>68,972</u>	<u>131,017</u>	<u>51,376</u>

In the years ended 31 December 2008, 2009 and 2010, the write-down of inventories to net realisable value amounted to nil, RMB521,000 and RMB435,000 respectively. The write-downs of inventories are included in cost of sales.

16. Trade and bill receivables

(a) Trade and bill receivables in the combined balances sheets comprise:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade receivables			
— third parties	15,700	32,021	183,442
— related parties	32,961	37,611	—
	48,661	69,632	183,442
Bills receivable	—	300	—
Less: allowance for doubtful debts	(1,207)	(1,831)	(2,619)
	<u>47,454</u>	<u>68,101</u>	<u>180,823</u>

All of the trade and other receivables are expected to be recovered or realised within one year.

The movement in the allowance for doubtful debts during the years ended 31 December 2008, 2009 and 2010, including specific loss components, is as follows:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
At 1 January	—	1,207	1,831
Impairment loss recognised	1,207	624	788
At 31 December	<u>1,207</u>	<u>1,831</u>	<u>2,619</u>

For the years ended 31 December 2008, 2009 and 2010, certain amount of turnover and trade receivables at the balance sheet dates are related to sales made to the related parties (see also note 27(a) for further details). There were no specific payment terms stated in the sales agreements. The management considers that these related parties are under common control of the Group's major shareholders and no material credit risk exists on receivables from these related parties.

In respect of sales to third parties during the Relevant Period, there are no specific payment terms stated in the sales agreements. In general, it is mutually understood between the customers and the Group that outstanding trade receivables shall be settled within 60 to 90 days. Credit evaluations are performed by the senior management on all customers demanding for credit sales.

As the sales agreements have no specific payment terms, the management considers that the disclosure of due date aging analysis is not meaningful to Group. An aging analysis based on invoice dates is presented in note 16(b) below. Normally, the Group does not obtain collateral from customers.

Since April 2011, the Group has enhanced credit evaluation and control policy and has adopted specific payment terms in its sales agreements. In general, the credit period granted to customers is 90 days.

At each of the balance sheet dates, the Group considered whether impairment provision for doubtful debts for trade and other receivable need to be set up and no addition provision was considered necessary at each of the balance sheet dates. Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables directly (see note 1(j)(i)).

(b) Ageing analysis

The aging analysis of trade receivables and bill receivable (net of allowance for doubtful debts) as of the balance sheet date is as follows:

As at 31 December			
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Within 1 month.	14,590	29,361	48,619
More than 1 month but within 3 months	19,915	17,797	85,719
More than 3 months but within 6 months	11,183	17,165	39,730
More than 6 months but within 1 year	1,387	3,778	6,754
More than 1 year.	379	—	1
	<u>47,454</u>	<u>68,101</u>	<u>180,823</u>

17. Prepayments and other receivables

Prepayments and other receivables in the combined balances sheets comprise:

As at 31 December			
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Deposits and prepayments.	10,932	15,595	19,591
Other receivables.	5,866	5,513	14,249
Amounts due from directors	14,456	12,109	—
Amounts due from related parties.	18,110	68,742	74,540
Other assets	—	—	1,722
	<u>49,364</u>	<u>101,959</u>	<u>110,102</u>

The amounts due from related parties and directors were unsecured, interest-free and had no fixed repayment terms.

18. Pledged deposits

Bank deposits have been pledged to banks for bills payable (see note 20). The pledged deposits are expected to be released within 12 months.

19. Bank loans

All bank loans were denominated in RMB and were repayable within one year.

Details of bank loans and respective effective interest rates are as follows:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Unsecured floating rate loans*.	39,000	126,880	98,800
Effective interest rates per annum	7.47%–8.22%	4.86%–8.22%	4.86%–6.39%

* Certain loans are guaranteed by certain related parties. See note 27(b)(ii) for further details.

At 31 December 2010, a subsidiary had a banking facility amounted to RMB444,000,000. The facility of Rmb414,000,000 was guaranteed by the certain shareholders and certain related companies. See note 27(b)(ii) for further details.

20. Trade and other payables

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade payables			
— third parties	20,513	30,418	12,127
— related parties	1,727	10,727	—
	22,240	41,145	12,127
Bills payable.	41,450	48,860	77,306
Receipts in advance	2,979	5,010	4,293
Other payables and accruals	13,016	17,754	31,834
Amounts due to related parties	134	—	3,406
	79,819	112,769	128,966

Bills payable as at 31 December 2008, 2009 and 2010 were secured by pledged bank deposits (see note 18).

All of the trade and other payables are expected to be settled within one year.

The amounts due to related parties were unsecured, interest-free and had no fixed repayment terms.

An ageing analysis of the trade and bills payables based on the invoice date is as follows:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Within 1 month.	14,251	23,753	9,003
More than 1 month but within 3 months	14,796	8,313	7,675
More than 3 months but within 6 months	33,883	44,555	71,728
More than 6 months.	760	13,384	1,027
	63,690	90,005	89,433

21. Employee retirement benefits**Defined contribution retirement plans**

Pursuant to the relevant labour rules and regulations in the PRC, the Group's subsidiaries in the PRC participate in defined contribution retirement benefit schemes (the "Schemes") organised by the PRC municipal government authorities whereby the Group is required to make contributions to the Schemes at the rates of 18% to 20% of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to retired employees.

The Group has no other material obligation for the payment of pension benefits associated with the Schemes beyond the annual contributions described above.

22. Income tax in the combined balance sheets

(a) Current taxation in the combined balance sheets represents:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Provision for PRC income tax	—	—	8,291

(b) Deferred tax assets

Recognised deferred tax assets are attributable to the following:

	Provision for impairment of trade receivables	Provision for impairment of inventories	Accruals	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008	—	—	—	—
Credited to combined statements of comprehensive income of continued operations	151	—	1,445	1,596
Credited to combined statements of comprehensive income of discontinued operations	—	—	127	127
At 31 December 2008	151	—	1,572	1,723
Credited to combined statements of comprehensive income of continued operations	57	66	1,259	1,382
Credited to combined statements of comprehensive income of discontinued operations	21	—	153	174
At 31 December 2009	229	66	2,984	3,279
Credited to combined statements of comprehensive income of continued operations	98	197	1,614	1,909
Credited to combined statements of comprehensive income of discontinued operations	—	—	89	89
At 31 December 2010	327	263	4,687	5,277

(c) Deferred tax assets not recognised:

In accordance with note 1(q) of Section C, the Group did not recognise deferred tax assets as at 31 December 2008 and 2009 in respect of cumulative tax losses of RMB569,000 and RMB2,419,000 and unrealised profits of intra-group sales of RMB282,000 and RMB10,255,000, respectively, as it was not probable that future taxable profits against which the losses could be utilised would be available in the relevant tax jurisdiction and entity. The tax losses expire within 5 years under the current tax legislation. All unrecognised deferred tax assets are related to entities within the discontinued operations.

23. Paid-in capital

The Company was incorporated on 2 September 2010. The Reorganisation was not completed as at 31 December 2010, hence the paid-in capital in the combined balance sheets as at the respective balance sheet dates represented the paid-in capital of Haosha Industry.

During the years ended 31 December 2008 and 2010, Haosha Industry increased its paid-in capital by RMB21,779,000 and RMB60,661,000, respectively.

24. Reserves**(a) Capital reserve**

The capital reserves in the combined balance sheets as at 31 December 2008, 2009 and 2010 represented exchange differences and the excess of value of assets injected to the Company by the investors, which was accounted for in equity under capital reserve.

(b) Statutory reserve

PRC statutory reserves were established in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiary established in the PRC. Transfers to the reserves were approved by the respective boards of directors.

According to the Articles of Association of Haosha Industry, Beijing Yasha, Shanghai Haote and Guangzhou Yingchang, these entities are required to transfer part of its net profits (after offsetting prior year losses), as determined under the approval by the respective boards of directors, to statutory general reserve. For the years ended 31 December 2008, 2009 and 2010, appropriations were made by Haosha Industry to the general reserve at 10% of their profit after taxation determined under PRC GAAP.

(c) Distributable reserves

The Company was incorporated on 2 September 2010 and had not commenced operation as at 31 December 2010. Accordingly, there was no reserve available for distribution to its shareholders as at 31 December 2010.

On the basis set out in Section A above, the aggregate amount of distributable reserves as at 31 December 2008, 2009 and 2010 of the companies now comprising the Group were RMB27,110,000, RMB51,639,000 and RMB157,406,000, respectively.

(d) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for its shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Company defines "capital" as including all components of equity. The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes bank loans and bills payable), plus unaccrued proposed dividends, less cash and capital is defined as the total equity.

The Group's adjusted net debt-to-capital ratio was 68%, 133% and 31% as at 31 December 2008, 2009 and 2010. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

Neither the Company nor any of the companies now comprising the Group are subject to externally imposed capital requirements.

25. Financial risk management and fair value

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables.

For the years ended 31 December 2008 and 2009, certain amounts of turnover and trade receivables are related to sales to the related parties (see note 27(a) for further details). The management considers that related parties are under common control of the Group's major shareholders, hence no material credit risk exists on related companies sales.

For sales to third party customers, credit evaluations are performed by the senior management on customers requiring credit terms. Normally, the Group does not obtain collateral from customers.

At 31 December 2008 and 2009, the Group has certain concentration of credit risk as 69% and 55% of the total trade receivables were due from the Group's related party customers. There were no trade receivables outstanding from related parties as at 31 December 2010 as these parties ceased to carry on the retail business. As at 31 December 2008, 2009 and 2010, 9%, 9% and 35% of the total trade receivables were due from the Group's five largest non-related customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the combined balance sheets after deducting any impairment allowance.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer terms.

(c) Interest rate risk

The interest rate risk of the Group is mainly derived from its bank loans, which expose the Group to interest rate risk. The interest rates of the Group's bank loans are disclosed in note 19.

A general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have (increase)/decrease the Group's interest expense and (decreased)/increased profit after tax by an amount as follows:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
100 basis point increase	(390)	(1,269)	(865)

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date.

(d) Foreign currency risk

Renminbi is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rates adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand.

As at 31 December 2008, 2009 and 2010, cash at bank that were placed with banks in the PRC amounted to RMB16,417,000, RMB14,023,000 and RMB82,489,000 respectively. Remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

The Group is also exposed to foreign currency risk primarily through sales that are denominated in currencies other than the functional currency of the Group. However, the Group's exposures to currency risk are insignificant as at 31 December 2008, 2009 and 2010, as the Group usually receives prepayments before delivery for the export sales.

(e) Fair value

The carrying amounts of the Group's financial instruments are carried at amounts not materially different from their fair values as at 31 December 2008, 2009 and 2010. The carrying values of the Group's financial instruments approximate their fair values because of the short maturities of these instruments.

26. Operating leases commitments

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Within 1 year	2,498	1,449	1,833
After 1 year but within 5 years	5,671	5,491	2,749
After 5 years.	4,393	3,295	—
	<u>12,562</u>	<u>10,235</u>	<u>4,582</u>

The Group leases properties and land under operating leases. The leases typically run for an initial period for two to ten years, with an option to renew when all terms are renegotiated. None of the lease includes contingent rentals.

27. Material related party transactions

In addition to the related party information disclosed elsewhere in the Financial Information, the Group entered into the following material related party transactions.

During the Relevant Period, the directors are of the view that the following are related parties of the companies now comprising the Group:

Name of party	Relationship
Mr. Shi Hongliu	Shareholder, brother of Mr. Shi Hongyan and Mr. Shi Huangpao
Mr. Shi Hongyan	Shareholder, brother of Mr. Shi Hongliu and Mr. Shi Huangpao
Mr. Shi Huangpao	Shareholder, brother of Mr. Shi Hongliu and Mr. Shi Hongyan
Haosha International (H.K.) Ltd. ("Haosha H.K.")	Effectively 41% and 22% owned by Mr. Shi Hongliu and Mr. Shi Hongyan respectively
Haosha (China) Co., Ltd.* ("Haosha China") 浩沙 (中國) 有限公司	100% owned by Haosha H.K.
Haosha (Shanghai) Textile Technology Co., Ltd.* ("Haosha Textile") 浩沙 (上海) 紡織科技有限公司	100% owned by Haosha H.K.
Fujian Province Jinjiang City Haosha Garments Co., Ltd.* ("Haosha Garments") 福建省晉江市浩沙製衣有限公司	55% and 25% owned by Mr. Shi Hongliu and Mr. Shi Hongyan respectively
Haosha Aiya (Beijing) Fitness Service Co., Ltd.* ("Beijing Aiya") 浩沙艾雅 (北京) 健身服務有限公司	50% and 50% owned by Mr. Shi Hongliu and Mr. Shi Hongyan respectively
Shanghai Xingchi Apparel Co., Ltd.* ("Shanghai Xingchi") 上海興馳服飾有限公司	80% and 20% owned by Mr. Shi Hongliu and Mr. Shi Hongyan respectively (ceased to be related party since 30 July 2010)
Guangzhou Huayuan Apparel Co., Ltd.* ("Guangzhou Huayuan") 廣州華源服飾有限公司	60% and 40% owned by Mr. Shi Hongyan and Ms. Xu Jinfeng, the spouse of Mr. Shi Hongyan respectively (ceased to be related party since 30 July 2010)
Jinjiang Shahe Fabric Trading Co., Ltd.* ("Jinjiang Shahe") 晉江沙禾布業貿易有限公司	50% owned by Ms. Shi Liming, the sister of Mr. Shi Hongyan, Mr. Shi Hongliu and Mr. Shi Huangpao
Jinjiang Sanxie Apparel Co., Ltd.* ("Jinjiang Sanxie") 晉江三協服裝有限公司	55% and 45% owned by Mr. Shi Hongliu and Mr. Shi Hongyan
Shanghai Haosha Fitness Management Co., Ltd.* ("Fitness Management") 上海浩沙健身管理有限公司	55% and 45% owned by Mr. Shi Hongyan and Mr. Shi Hongliu respectively
Shanghai Haosha Fitness services Co., Ltd.* ("Fitness Services") 上海浩沙健身服務有限公司	100% owned by Fitness Management
Hosa International Fitness Management Co., Ltd.* ("International Fitness") 浩沙國際健身管理有限公司	70% and 30% owned by Mr. Shi Hongliu and Ms. Lam Yau Yung, the spouse of Mr. Shi Hongliu respectively
Fujian Hosa investment Co., Ltd.* ("Fujian Haosha Investment") 福建浩沙投資有限公司	67% and 33% owned by Mr. Shi Hongyan and Mr. Wu Changda, the brother-in-law to Mr. Shi Hongyan respectively

* The English translation of the companies' names are for reference only. The official names of these companies are in Chinese.

Included in the balances as at 31 December 2008, 2009 and 2010 set out in note 27(b) are unsecured, interest free advance made to/from related parties of the Group. Advances to and from related parties are set out as below:

(a) Related parties transactions

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Purchases of products			
— Beijing Aiya	469	9,639	7,166
— Guangzhou Huayuan	—	619	304
	<u>469</u>	<u>10,258</u>	<u>7,470</u>
Leases from			
— Mr. Shi Hongyan	<u>14</u>	<u>24</u>	<u>14</u>
Leases from			
— Haosha Garments	<u>384</u>	<u>1,098</u>	<u>981</u>
Purchases of buildings			
— Haosha Garments	2,940	—	24,301
— Jinjiang Sanxie	—	—	4,479
	<u>2,940</u>	<u>—</u>	<u>28,780</u>
Disposal of property, plant and equipment			
— Haosha Garments	<u>—</u>	<u>—</u>	<u>2,019</u>
Purchase of interest in leasehold land			
— Haosha Garments	—	—	8,600
— Jinjiang Sanxie	—	—	3,504
	<u>—</u>	<u>—</u>	<u>12,104</u>
Leases equipments to			
— Haosha Garments	<u>—</u>	<u>—</u>	<u>1,175</u>
Short-term advances to related parties of the Group			
— Mr. Shi Hongliu	15,950	2,400	4,880
— Mr. Shi Hongyan	15,500	16,930	12,027
— Haosha Garments	—	7,532	30,301
— Beijing Aiya	—	19,000	47,070
— Shanghai Xingchi	—	2,800	—
— Haosha China	—	27,689	1,769
— Fitness Services	1,000	13,700	11,660
— Jinjiang Sanxie	11,000	39,950	15,910
— Fitness Management	—	136	23,000
— Jinjiang Shahe	—	72,170	128,140
— Guangzhou Huayuan	—	—	160
— Guangzhou Yingchang	—	—	2,700
— Fujian Haosha Investment	—	—	5,000
	<u>43,450</u>	<u>202,307</u>	<u>282,617</u>
Sales of products			
— Beijing Aiya	45,662	4,854	—
— Shanghai Xingchi (up to 30 July 2010)	48,573	36,798	15,906
— Guangzhou Huayuan (up to 30 July 2010)	19,569	18,815	8,191
— International Fitness	—	7,182	53
	<u>113,804</u>	<u>67,649</u>	<u>24,150</u>

The Group sold products to Beijing Aiya, Shanghai Xingchi and Guangzhou Huayuan with average profit margin from 44% to 47% to 51% during the years ended 31 December 2008, 2009 and 2010, respectively. The directors consider that no further sales will be made to Beijing Aiya, Shanghai Xingchi and Guangzhou Huayuan as these entities have ceased to carry on its retail business.

The directors of the Company have confirmed that the above transactions will not be continued in the future after the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

In addition, the Group had the following significant transactions with related parties. The directors expect the transactions below will be continued in the future, after the listing of the Company's share on The Stock Exchange of Hong Kong Limited.

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Purchases of products			
— Haosha Garments	16,168	1,669	1,203
Receiving processing services			
— Haosha Garments	9,801	12,605	21,241

(b) Balances with directors and related parties

As at each balance sheet date, the Group had the following balances with directors and related parties:

(i) Amounts due from directors and related parties

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade-related			
Trade receivables			
— Beijing Aiya	12,760	10,155	—
— Shanghai Xingchi	14,099	18,291	—
— Guangzhou Huayuan	6,102	9,096	—
— International Fitness	—	69	—
	32,961	37,611	—
Prepayments			
— Haosha Garments	—	2,792	—
	32,961	40,403	—
Non-trade related			
Other receivables			
— Haosha Garments	17,110	8,775	—
— Beijing Aiya	—	19,000	45,360
— Shanghai Xingchi	—	2,800	—
— Fitness Service	1,000	7,500	11,180
— Jinjiang Sanxie	—	4,870	—
— Haosha China	—	11,491	—
— Jinjiang Shahe	—	14,170	—
— Fitness Management	—	136	18,000
— Shi Hongliu	8,606	1,789	—
— Shi Hongyan	5,850	10,320	—
	32,566	80,851	74,540
	65,527	121,254	74,540

(ii) Amounts due to directors and related parties

	As at 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Trade related			
Trade payables			
— Haosha Garments	1,258	—	—
— Beijing Aiya	469	10,108	—
— Guangzhou Huayuan	—	619	—
	1,727	10,727	—
Non-trade related			
Other payables			
— Haosha China	134	—	20
— Shi Hongliu	—	—	3,386
	1,861	10,727	3,406

The amounts due from/to related parties as at 31 December 2008, 2009 and 2010 are unsecured, interest free and have no fixed repayment terms. These amounts are expected to be recovered/repaid within one year. There was no provision made against these amounts due from related parties as at 31 December 2008, 2009 and 2010. The above amounts were settled in June 2011.

As at 31 December 2008, 2009 and 2010, guarantees were given by Mr. Shi Hongyan, Mr. Shi Hongliu, Mr. Shi Huangpao, Jinjiang Sanxie and Haosha Garments in respect of loans to the Group totalling to RMB39,000,000, RMB107,080,100 and RMB65,800,000 respectively.

At 31 December 2010, the banking facilities of a subsidiary amounted to RMB414,000,000 was guaranteed by Mr. Shi Hongyan, Mr. Shi Hongliu, Mr. Shi Huangpao, Jinjiang Sanxie and Haosha Garments.

All of the above financial guarantees were discharged in June 2011.

(c) Key management personnel compensation

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7, is as follows:

	Year ended 31 December		
	2008	2009	2010
	RMB'000	RMB'000	RMB'000
Short-term employee benefits	1,323	1,491	2,639
Contributions to retirement benefit scheme	228	257	427
Total	1,551	1,748	3,066

Total remuneration is included in "staff costs" (note 4(b)).

28. Subsidiaries

- (a) At 31 December 2008 and 2009, Haosha Industry had direct interests in the followings subsidiaries, all of which are private companies, particulars of which are set out below:

<u>Name of company</u>	<u>Place and date of incorporation/ establishment</u>	<u>Issued and fully paid up/registered capital</u>	<u>Proportion of equity direct interest attributable to Haosha Industry</u>	<u>Principal Activities</u>
Beijing Yasha Apparel Co., Ltd.* (北京雅莎服飾有限公司)	PRC/26 June 2008	RMB5,000,000/ RMB5,000,000	100%	Retail of swimwear, fitness wear, sports underwear and swim and indoor sports accessories
Shanghai Haote Apparel Co., Ltd.* (上海浩特服飾有限公司)	PRC/8 July 2008	RMB5,000,000/ RMB5,000,000	100%	Dormant
Guangzhou Yingchang Apparel Co., Ltd.* (廣州穎昌服飾有限公司)	PRC/10 June 2008	RMB3,080,000/ RMB3,080,000	100%	Retail of swimwear, fitness wear, sports underwear and swim and indoor sports accessories

* The English translation of the companies' names is for reference only. The official names of the companies are in Chinese.

As at 30 July 2010, all of the above three subsidiaries were disposed to third party buyers.

- (b) The following list contains details of the companies included in the Financial Information that are subject to audit during the Relevant Period and the names of the respective auditors.

<u>Name of company</u>	<u>Financial period</u>	<u>Statutory auditors</u>
Hosa Group	Period ended 31 December 2010	KPMG
Haosha Industry	Year ended 31 December 2008	Xiamen Dashan Certified Public Accountants Co., Ltd.* 廈門達山會計師事務所有限公司
	Year ended 31 December 2009	Xiamen Liangcheng Certified Public Accountants Co., Ltd.* 廈門良誠會計師事務所
	Year ended 31 December 2010	Quanzhou Fengze Chengyuan Certified Public Accountants Co., Ltd. 泉州豐澤誠源聯合會計師事務所
Guangzhou Yingchang	Period ended 31 December 2008 and year ended 31 December 2009	Guangzhou Haizheng Certified Public Accountants Co., Ltd.* 廣州海正會計師事務所有限公司

No statutory auditors have been appointed by Beijing Yasha and Shanghai Haote since these were established and before these were disposed by the Group.

* The English translation of the auditors is for reference only. The official names of these companies are in Chinese.

29. Significant accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the Financial Information. The principal accounting policies are set forth in note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the Financial Information.

(a) Impairments

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

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

(b) Net realisable value of inventories

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

(c) Impairment of trade and other receivables

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

(d) Depreciation and amortisation

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

30. Possible impact of amendments, new standards and interpretations issued but not yet effective for the Relevant Period

Up to the date of issue of this report, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the Relevant Period and which have not been adopted in preparing the Financial Information.

		Effective for accounting periods beginning on or after
Improvements to HKFRSs (2010)		1 July 2010 or 1 January 2011
Revised HKAS 24	Related party disclosures	1 January 2011
Consequential amendment to HKFRS 8	Operating segments	1 January 2011
HKFRS 9	Financial instruments	1 January 2013
Amendments to IAS 12	Deferred tax: Recovery of underlying assets	1 January 2012

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application.

So far it has concluded that the adoption of them is unlikely to result in material impacts to the Group's results of operations and financial position.

31. Subsequent events

The following events took place subsequent to 31 December 2010:

(a) Dividends declared after 31 December 2010

On 12 January 2011, the Company declared dividend of RMB151,705,000 to Haosha H.K. and Haosha Garments. No withholding tax provision has been recorded by the Group in relation to such dividend distribution since Haosha H.K. was the holding company of Haosha Industry prior to the completion of the Reorganisation and was the obligor of any related PRC withholding tax liability.

(b) Group reorganisation

Upon the completion of the Reorganisation on 16 March 2011, Haosha Industry became a wholly owned subsidiary of the Company. According to the share transfer agreement, the entitlement to the undistributed earnings of Haosha Industry as at the equity interest transfer date will also transfer to the new holding companies within the Group. The distribution of the retained profits by Haosha Industry to its holding company will result in the holding company being liable for a 10% PRC withholding tax, unless reduced by a tax treaty or similar arrangement. As at 31 December 2010, the undistributed earnings of Haosha Industry amounted to RMB157,406,000, of which RMB151,705,000 was distributed subsequent to 31 December 2010. Upon the completion of the Reorganisation, the Group will be required to record a deferred withholding tax liability on any remaining undistributed earnings to the extent it is probable, in the opinion of the directors of the Company, that such unremitted earnings will be distributed by Haosha Industry in the foreseeable future.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or its subsidiaries in respect of any period subsequent to 31 December 2010.

Yours faithfully

KPMG

Certified Public Accountants

Hong Kong

The information set forth in this appendix does not form part of the Accountants' Report prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this Prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this Prospectus and the Accountants' Report set forth in Appendix I to this Prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules, is for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on the net tangible assets of the Group attributable to the equity holders of the Company as of 31 December 2010 as if the Global Offering had taken place on 31 December 2010.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at 31 December 2010 or at any future date.

	Combined net tangible assets attributable to the equity holders of the Company as at 31 December 2010 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted net tangible assets ⁽³⁾	Unaudited pro forma adjusted net tangible assets per share ⁽⁴⁾	
	RMB'000	RMB'000	RMB'000	RMB	HK\$
Based on an Offer Price of HK\$4.10 per share.	285,136	1,328,522	1,613,658	1.01	1.19
Based on an Offer Price of HK\$2.88 per share.	285,136	924,721	1,209,857	0.76	0.89

Notes:

1. The combined net tangible assets attributable to equity holders of the Company as at 31 December 2010 is based on the combined net assets attributable to the equity holders of the Company of RMB297.4 million as at 31 December 2010 extracted from the Accountants' Report set out in Appendix I to this Prospectus.
2. The estimated net proceeds from the Global Offering are based on the Offer Prices of HK\$2.88 and HK\$4.10, after deduction of the underwriting fees and other related expenses payable by the Company. No account has been taken of the shares which may fall to be issued upon the exercise of the Over-allotment Option and the options that may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme. The estimated net proceeds have been converted to Renminbi at the PBOC rate of HK\$1.00 to RMB0.85093 prevailing on 31 December 2010.

3. The unaudited pro forma adjusted net tangible assets is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,600,000,000 Shares expected to be in issue following the Global Offering and Capitalization Issue and the respective Offer Prices of HK\$2.88 and HK\$4.10, but takes no account of any shares which may fall to be issued upon the exercise of the Over-allotment Option and the options that may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme.
4. The unaudited pro forma adjusted net tangible assets per share are converted into Hong Kong Dollar at the PBOC rate of HK\$1.00 to RMB0.85093 prevailing on 31 December 2010.
5. With reference to the valuation of property interests of the Group as set out in Appendix IV to this Prospectus, the aggregate revalued amount of the property interests of the Group as at 31 May 2011 was approximately RMB41 million. The net book value of these property interests as at 31 May 2011 was RMB40 million. The revaluation surplus for properties for own use and lease prepayments is approximately RMB1 million and has not been included in the above adjusted net tangible assets of the Group. Such revaluation surplus has not been recorded in the Financial Information as set out in Appendix I to this Prospectus and will not be recorded in the consolidated financial statements of the Group for the year ending 31 December 2011 as the Group's property, plant and equipment and lease prepayments are stated at cost less accumulated depreciation or amortisation and impairment losses if any.
6. No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 31 December 2010 and no account has been taken in respect of the special dividend of RMB151.7 million declared by our Company in January 2011.

B. UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following unaudited pro forma forecast earnings per share for the year ending 31 December 2011 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 1 January 2011. This unaudited pro forma forecast earnings per share had been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial results of the Group for the year ending 31 December 2011 or for any future period.

Forecast consolidated profit attributable to
equity holders of the Company⁽¹⁾⁽³⁾ Not less than RMB280.7 million
(approximately HK\$329.9 million)

Unaudited pro forma forecast earnings per share⁽²⁾⁽³⁾ Not less than RMB0.175
(approximately HK\$0.206)

Notes:

1. The bases and assumptions on which the above profit forecast has been prepared are summarised in Appendix III to this Prospectus. The Directors have prepared the forecast consolidated profit attributable to equity holders of the Company for the year ending 31 December 2011 based on the actual unaudited consolidated results for the three months ended 31 March 2011 and the forecast consolidated results for the remaining nine months ending 31 December 2011.
2. The calculation of the unaudited pro forma forecast earnings per share is based on the actual unaudited consolidated profit for the three months ended 31 March 2011 and the forecast consolidated results for the nine months ending 31 December 2011 attributable to equity holders of the Company, assuming that a total of 1,600,000,000 shares had been in issued during the entire year. The calculation of the forecast earnings per share does not take into account any shares which may be issued upon the exercise of the Over-allotment Option, any options granted under the Pre-IPO Share Option Scheme or options that may be granted under the Share Option Scheme.
3. The forecast consolidated profit attributable to equity holders of the Company and the unaudited pro forma forecast earnings per share are converted into Hong Kong Dollars at the PBOC rate of HK\$1.00 to RMB0.85093 prevailing on 31 December 2010.

C. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

17 June 2011

The Board of Directors
Hosa International Limited

Dear Sirs,

We report on the unaudited pro forma financial information (the "Pro Forma Financial Information") of Hosa International Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out in Part A and B of Appendix II to the prospectus dated 17 June 2011 (the "Prospectus"), which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the proposed offering might have affected the financial information presented. The basis of preparation of the unaudited Pro Forma Financial Information is set out in Part A and B of Appendix II to the Prospectus.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the unaudited Pro Forma Financial Information in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Our procedures on the unaudited Pro Forma Financial Information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

The unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 31 December 2010 or any future date; or
- the earnings per share of the Group for the year ending 31 December 2011 or any future periods.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described under "Future Plans and Use of Proceeds" set out in the Prospectus.

Opinion

In our opinion:

- (a) the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group, and
- (c) the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

KPMG

Certified Public Accountants

Hong Kong

The forecast of the consolidated profit after taxation of our Group for the year ending 31 December 2011 is set out in the section headed “Financial Information — Profit forecast” in this Prospectus.

(1) Basis and assumptions

The forecast of the consolidated profit after taxation of our Group for the year ending 31 December 2011 prepared by the Directors is based on the unaudited consolidated results of the Group for the three months ended 31 March 2011 and a forecast of the consolidated results of our Group for the remaining nine months ending 31 December 2011. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ending 31 December 2011. The forecast has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by our Group as summarized in the Accountants’ Report, the text of which is set out in Appendix I to this Prospectus and is based on the following principal assumptions:

- (a) there will be no material changes in existing government policies or political, legal (including changes in legislation or regulations or rules), fiscal or economic conditions in Hong Kong, the PRC or any other places in which any member of our Group is incorporated, carries on business;
- (b) there will be no material changes in the bases or rates of taxation or duties applicable to the activities of our Group in Hong Kong, in the PRC, or any other place in which our Group operates or in which any member of our Group is incorporated; and
- (c) there will be no material adverse changes in the foreign currency exchange rates and interest rates from those currently prevailing.

(2) Letters

Set out below are texts of letters received by the Directors from (i) KPMG, the reporting accountants of our Company and (ii) the Sole Sponsor prepared for the purpose of incorporation in this Prospectus in connection with the profit forecast of our Group for the year ending 31 December 2011.

(i) *Letter from KPMG.*



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

17 June 2011

The Directors
Hosa International Limited

Merrill Lynch Far East Limited

Dear Sirs

We have reviewed, in accordance with the Auditing Guideline 3.341 "Accountants' report on profit forecasts" issued by the Hong Kong Institute of Certified Public Accountants, the accounting policies adopted and calculations made in arriving at the forecast of the consolidated profit attributable to equity shareholders of Hosa International Limited ("the Company") and its subsidiaries (collectively referred to as "the Group") for the year ending 31 December 2011 ("the Profit Forecast"), for which the directors of the Company are solely responsible, as set forth in the section headed "Financial Information" in the prospectus of the Company dated 17 June 2011 ("the Prospectus").

The Profit Forecast has been prepared by the directors of the Company based on the unaudited consolidated management accounts of the Group for the three months ended 31 March 2011 and a forecast of the consolidated results of the Group for the remaining nine months ending 31 December 2011.

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Forecast has been properly compiled in accordance with the assumptions made by the directors as set out in Appendix III of the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our Accountants' Report dated 17 June 2011, the text of which is set out in Appendix I to the Prospectus.

Yours faithfully,
KPMG
Certified Public Accountants
Hong Kong

(ii) *Letter from the Sole Sponsor.*

BofA Merrill Lynch

The Directors

Hosa International Limited

17 June 2011

Dear Sirs,

We refer to the forecast consolidated net profit attributable to the shareholders of Hosa International Limited (the “**Company**”) and its subsidiaries for the year ending 31 December 2011 (the “**Forecast**”) as set out in the prospectus issued by the Company dated 17 June 2011 (the “**Prospectus**”).

The Forecast, for which the Directors of the Company are solely responsible, has been prepared by them based on the unaudited management accounts of the Company and its subsidiaries (collectively the “**Group**”) for the three months ended 31 March 2011 and a forecast of the results of the Group for the remaining nine months ending 31 December 2011.

We have discussed with you the bases and assumptions made by the Directors of the Company as set out in Appendix III to the Prospectus upon which the Forecast has been made. We have also considered the letter dated 17 June 2011 addressed to yourselves and ourselves from KPMG regarding the accounting policies and calculations upon which the Forecast has been made.

On the basis of the information comprising the Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by KPMG, we are of the opinion that the Forecast, for which you as Directors of the Company are solely responsible, has been made after due and careful enquiry.

For and on behalf of
Merrill Lynch Far East Limited
John C. Lee
Managing Director

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this Prospectus received from BMI Appraisals Limited, an independent valuer, in connection with its valuations as at 31 May 2011 of the properties located in the PRC.

BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

33rd Floor, Shui On Centre, Nos. 6-8 Harbour Road, Wanchai, Hong Kong

香港灣仔港灣道6-8號瑞安中心33樓

Tel電話：(852) 2802 2191 Fax傳真：(852) 2802 0863

Email電郵：info@bmintelligence.com Website網址：www.bmi-appraisals.com

17 June 2011

The Directors

Hosa International Limited

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Dear Sirs,

INSTRUCTIONS

We refer to the instructions from Hosa International Limited (the “Company”) for us to value the properties held or leased by the Company and/or its subsidiaries (together referred to as the “Group”) located in the People’s Republic of China (the “PRC”). We confirm that we have performed inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the properties as at 31 May 2011 (the “date of valuation”).

BASIS OF VALUATION

Our valuations of the concerned properties have been based on the Market Value, which is defined as “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

PROPERTY CATEGORIZATION

In the course of our valuations, the portfolio of properties of the Group is categorized into the following groups:

Group I — Property held and occupied by the Group in the PRC

Group II — Property leased by the Group in the PRC

VALUATION METHODOLOGIES

In valuing the property in Group I, we have adopted the Depreciated Replacement Cost Approach. Depreciated replacement cost is defined as “the aggregate amount of the value of the land for the existing use or a notional replacement site in the same locality and the new replacement cost of the buildings and other site works, from which appropriate deductions may then be made to allow for the age, condition, economic or functional obsolescence and environmental factors, etc.; all of these might result in the existing property being worth less to the undertaking in occupation than would a new replacement”. This basis has been used due to the lack of an established market upon which to base comparable transactions, which generally furnishes the most reliable indication of values for assets without a known used market. This opinion of value does not necessarily represent the amount that might be realized from the disposition of the subject asset in the market and is subject to adequate profitability of the business compared to the value of the total assets employed.

We have attributed no commercial value to the property in Group II which is leased by the Group, due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

TITLE INVESTIGATION

We have been provided with copies of title documents/tenancy information and have been advised by the Group that no further relevant documents have been produced. However, we have not examined the original documents to verify ownership or to ascertain the existence of any amendment documents, which may not appear on the copies handed to us. In the course of our valuations, we have relied upon the advice and information given by the Group’s PRC legal advisor — Jingtian & Gongcheng Attorneys at Law (競天公誠律師事務所) regarding the title of the properties located in the PRC. All documents have been used for reference only.

VALUATION ASSUMPTIONS

Our valuations have been made on the assumption that the properties are sold in the market in their existing state without the benefit of deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which might serve to affect the values of the properties.

In addition, no account has been taken of any option or right of pre-emption concerning or effecting sale of the properties and no forced sale situation in any manner is assumed in our valuations.

In valuing the properties, we have relied on the advice given by the Group that the Group has valid and enforceable titles to the properties which are freely transferable, and have free and uninterrupted rights to use the same, for the whole of the unexpired term granted subject to the payment of annual government rent/land use fees and all requisite land premium/purchase consideration payable have been fully settled.

VALUATION CONSIDERATIONS

We have inspected the exterior and wherever possible, the interior of the properties. During the course of our inspections, we did not note any serious defects. However, no structural surveys have been made nor have any tests been carried out on any of the services provided in the properties. We are, therefore, unable to report that the properties are free from rot, infestation or any other structural defects.

In the course of our valuations, we have relied to a considerable extent on the information given by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenures, particulars of occupancy, site/floor areas, identification of the properties and other relevant information.

We have not carried out detailed on-site measurements to verify the correctness of the site/floor areas in respect of the properties but have assumed that the site/floor areas shown on the documents handed to us are correct. Dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Group and are therefore only approximations.

We have no reason to doubt the truth and accuracy of the information provided to us by the Group and we have relied on your confirmation that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information for us to reach an informed view.

No allowances have been made in our valuations for any charges, mortgages or amounts owing on the properties or for any expenses or taxation, which may be incurred in effecting a sale or purchase.

Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

Our valuations have been prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

Our valuations have been prepared under the generally accepted valuation procedures and are in compliance with the requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

REMARKS

Unless otherwise stated, all money amounts stated herein are in Renminbi (RMB) and no allowances have been made for any exchange transfers.

Our Summary of Values and the Valuation Certificates are attached herewith.

Yours faithfully,
For and on behalf of

BMI APPRAISALS LIMITED

Dr. Tony C. H. Cheng

BSc., MUD, MBA(Finance), MSc.(Eng), PhD(Econ),

MHKIS, MCI Arb, AFA, SIFM, FCIM, MASCE,

MIET, MIEEE, MASME, MIIIE

Managing Director

Joannau W. F. Chan

BSc., MSc., MRICS, MHKIS, RPS(GP)

Senior Director

Notes:

Dr. Tony C.H. Cheng is a member of The Hong Kong Institute of Surveyors (General Practice) who has over 18 years' experience in valuations of properties in Hong Kong and the People's Republic of China.

Ms. Joannau W.F. Chan is a member of The Hong Kong Institute of Surveyors (General Practice) who has over 18 years' experience in valuations of properties in Hong Kong and over 12 years' experience in valuations of properties in the People's Republic of China.

SUMMARY OF VALUES

No.	Property	Market Value in existing state as at 31 May 2011 RMB
Group I — Property held and occupied by the Group in the PRC		
1.	An industrial complex located at Huashan Industrial Zone, Shenhu Town, Jinjiang City, Fujian Province, The PRC	41,000,000
Sub-total:		41,000,000
Group II — Property leased by the Group in the PRC		
2.	Unit Nos. 3201–3202 on Level 32, Blocks A and B, SK Tower, No. 6 Jianguomenwai Jia Main Street, Chaoyang District, Beijing, The PRC	No Commercial Value
Sub-total:		Nil
Grand-total:		41,000,000

VALUATION CERTIFICATE

Group I — Property held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 May 2011 RMB
1.	An industrial complex located at Huashan Industrial Zone, Shenhu Town, Jinjiang City, Fujian Province, The PRC	The property comprises 5 land parcels with a total site area of approximately 24,243 sq.m. and 8 buildings and various ancillary structures completed in various stages between 1997 and 2006 erected thereon. The total gross floor area (“GFA”) of the buildings is approximately 36,762.4 sq.m. The buildings mainly include warehouses, factories and dormitories. The structures mainly include roads, walls and a gate. The land use rights of the property have been granted for various terms of 50 years with the latest expiry date on 30 June 2057 for industrial use.	The property is occupied by the Group for industrial use.	41,000,000

Notes:

- Pursuant to 2 Land and Building Sale and Purchase Contracts both dated 24 December 2010, the property was contracted to be transferred to Haosha Industry (Fujian) Co., Ltd. (浩沙實業(福建)有限公司) (“Haosha Industry”) at a total consideration of RMB40,884,000.
- Pursuant to 5 State-owned Land Use Rights Certificates, the land use rights of the property with a total site area of approximately 24,243 sq.m. have been granted to Haosha Industry for various terms of 50 years with the latest expiry date on 30 June 2057 for industrial use. The details of which are summarized in the table below:

No.	Certificate No.	Site Area (sq.m.)	Expiry Date
1.	Jin Guo Yong (2011) Di No. 00019	497	30 June 2057
2.	Jin Guo Yong (2011) Di No. 00020	1,960	8 March 2055
3.	Jin Guo Yong (2011) Di No. 00021	5,132	24 March 2055
4.	Jin Guo Yong (2011) Di No. 00022	5,382	8 March 2055
5.	Jin Guo Yong (2011) Di No. 00023	11,272	30 June 2057
		Total: 24,243	

3. Pursuant to 3 Building Ownership Certificates, Jin Fang Quan Zheng Shen Hu Zi Di Nos. 003830, 003832 and 003844, the building ownership rights of 8 buildings of the property with a total GFA of approximately 36,762.4 sq.m. are legally owned by Haosha Industry.
4. The status of title and grant of major approvals and licences in accordance with the information provided by the Group is as follows:

State-owned Land Use Rights Certificates	Yes
Building Ownership Certificates	Yes
5. The opinion given by the PRC legal advisor to the Group is as follows:
 - a. The land use rights and building ownership rights of the property are legally vested in Haosha Industry; and
 - b. Haosha Industry has the rights to legally occupy, use, transfer, lease and mortgage the land use rights and building ownership rights of the property.
6. Haosha Industry is an indirectly wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

Group II — Property leased by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 May 2011 RMB
2.	Unit Nos. 3201–3202 on Level 32, Blocks A and B, SK Tower, No. 6 Jianguomenwai Jia Main Street, Chaoyang District, Beijing, The PRC	The property comprises 2 office units on Level 32 of a 35-storey office building completed in about 2006. The total lettable area of the property is approximately 803.76 sq.m. Pursuant to a Lease Contract, the property is leased to Haosha Industry at a monthly rent of RMB152,714.4 for a term of 3 years expiring on 7 July 2013.	The property is occupied by the Group for office use.	No Commercial Value

Notes:

1. Pursuant to the aforesaid Lease Contract, entered into between Haosha Industry (Fujian) Co., Ltd. (浩沙實業(福建)有限公司) (“Haosha Industry”) and an independent third party, the property is leased to Haosha Industry for a term of 3 years expiring on 7 July 2013 at a monthly rent of RMB152,714.4 exclusive of all relevant outgoings.
2. The opinion given by the PRC legal advisor to the Group is as follows:
 - a. If the lessor of the property has obtained the land use rights of the property or is authorized to sign the relevant lease agreement, the Lease Contract is legal and valid and the lessee has the rights to use the property;
 - b. The Lease Contract has not been registered; and
 - c. The non-registration will not affect the legality of the Lease Contract.
3. Haosha Industry is an indirectly wholly-owned subsidiary of the Company.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of our Company and of certain aspects of Cayman Islands company law.

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 2 September 2010 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, *inter alia*, that the liability of members of our Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which our Company is established are unrestricted (including acting as an investment company), and that our Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that our Company is an exempted company that our Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of our Company carried on outside the Cayman Islands.
- (b) Our Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 7 June 2011 (with effect from the Listing Date). The following is a summary of certain provisions of the Articles:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as our Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of our Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of our Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in our Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither our Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of our Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of our Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Articles or the Companies Law to be exercised or done by our Company in general meeting.

(iii) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by our Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) *Disclosure of interests in contracts with our Company or any of its subsidiaries*

A Director may hold any other office or place of profit with our Company (except that of the auditor of our Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by our Company or any other company in which our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the

board may also cause the voting power conferred by the shares in any other company held or owned by our Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with our Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to our Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with our Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of our Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of our Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by our Company or any other company which our Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of our Company by virtue only of his/their interest in shares or debentures or other securities of our Company;

- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of our Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by our Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all traveling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of our Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of our Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of our Company or companies with which it is associated in business) in establishing and making contributions out of our Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any

Director or ex Director who may hold or have held any executive office or any office of profit with our Company or any of its subsidiaries) and ex employees of our Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re election or appointment but as between persons who became or were last re elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in our Company by way of qualification.

A Director may be removed by an ordinary resolution of our Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and our Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by our Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to our Company at the registered office of our Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;

- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with our Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) *Borrowing powers*

The board may exercise all the powers of our Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of our Company and, subject to the Companies Law, to issue debentures, bonds and other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of our Company.

(ix) *Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) *Register of Directors and Officers*

The Companies Law and the Articles provide that our Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

Articles may be rescinded, altered or amended by our Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of our Company.

(c) Alteration of capital

Our Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as our Company in general meeting or as the directors may determine;
- (iv) sub divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as our Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

Our Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of our Company must be passed by a majority of not less than three fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of our Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized

representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognized clearing house (or its nominee(s)) is a member of our Company it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting of our Company or at any meeting of any class of members of our Company provided that, if more than one person is so authorized, the authorisation shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of the shares of our Company held by that clearing house (or its nominee(s)).

Where our Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of our Company or restricted to voting only for or only against any particular resolution of our Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of our Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by our Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of our Company and of all other matters required by the Companies Law or necessary to give a true and fair view of our Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of our Company except as conferred by law or authorized by the board or our Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before our Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less

than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of our Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), our Company may send to such persons summarized financial statements derived from our Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on our Company, demand that our Company sends to him, in addition to summarized financial statements, a complete printed copy of our Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by our Company in general meeting or in such manner as the members may determine.

The financial statements of our Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of our Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from our Company, and also to the auditors for the time being of our Company.

Notwithstanding that a meeting of our Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of our Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of our Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of our Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which our Company has a lien.

The board may decline to recognize any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to our Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for our Company to purchase its own shares

Our Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of our Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of our Company to own shares in our Company and financial assistance to purchase shares of our Company

There are no provisions in the Articles relating to ownership of shares in our Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, our Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in our Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, our Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of our Company, realized or unrealized, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to our Company on account of calls or otherwise.

Whenever the board or our Company in general meeting has resolved that a dividend be paid or declared on the share capital of our Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. Our Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of our Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of our Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to our Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or our Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of our Company until claimed and our Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to our Company.

No dividend or other monies payable by our Company on or in respect of any share shall bear interest against our Company.

(n) Proxies

Any member of our Company entitled to attend and vote at a meeting of our Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of our Company or at a class meeting. A proxy need not be a member of our Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or installment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced our Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to our Company all monies which, at the date of forfeiture, were payable by him to our Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of our Company or at any relevant general meeting of any class of members of our Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of our Company under Cayman law, as summarized in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that our Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if our Company shall be wound up and the assets available for distribution amongst the members of our Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if our Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If our Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of our Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, our Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, our Company has not during that time received any indication of the existence of the member; and (iii) our Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to our Company and upon receipt by our Company of such net proceeds, it shall become indebted to the former member of our Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by our Company and our Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

Our Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, our Company's operations must be conducted mainly outside the Cayman Islands. Our Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by our Company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of our Company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of our Company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of our Company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, our Company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, our Company may give financial assistance to Directors and employees of our Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in our Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, our Company may give financial assistance to a trustee for the acquisition of Shares in our Company or shares in any such subsidiary or holding company to be held for the benefit of employees of our Company, its subsidiaries, any holding company of our Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of our Company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of our Company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of our Company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorized by an ordinary resolution of our Company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued Shares of our Company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, our Company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association

or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of our Company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of our Company to challenge (a) an act which is ultra vires our Company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of our Company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of our Company in issue, appoint an inspector to examine into the affairs of our Company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that our Company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of our Company's affairs in the future, (b) an order requiring our Company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorizing civil proceedings to be brought in the name and on behalf of our Company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of our Company by other shareholders or by our Company itself and, in the case of a purchase by our Company itself, a reduction of our Company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by our Company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of our Company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by our Company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by our Company; and (iii) the assets and liabilities of our Company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of our Company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, our Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to our Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of our Company.

The undertaking for our Company is for a period of twenty years from 21 September 2010.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to our Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of our Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of our Company. They will, however, have such rights as may be set out in our Company's Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of our Company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that our Company is to be dissolved, or, our Company does not commence business for a year from its incorporation (or suspends its business for a year), or, our Company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorized to be done by the official

liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of our Company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, our Company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of our Company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for our Company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of our Company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge our Company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of our Company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of our Company has been disposed of, and thereupon call a general meeting of our Company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorized by our Company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to

transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, our Company's special legal counsel on Cayman Islands law, have sent to our Company a letter of advice summarizing certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Appendix VII — Documents available for inspection" in this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 2 September 2010. Our Company has been registered as a non-Hong Kong company under Part XI of the Companies Ordinance on 16 March 2011 and our Company's principal place of business in Hong Kong is at 4105–4108, 41/F, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong. Mr. Lai Ho Man, Dickson of Flat C, 16/F, Block T7, Yat Wing Mansion, 43 Tai Hong Street, Sai Wan Ho, Hong Kong, a Hong Kong resident, has been appointed as the authorized representative of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company is incorporated in the Cayman Islands, it operates subject to the relevant laws of the Cayman Islands and to its constitutional documents, which comprise the Memorandum of Association and the Articles of Association. A summary of the relevant aspects of the Companies Law and certain provisions of the Articles of Association is set out in Appendix V to this Prospectus.

2. Changes in share capital of our Company

As of the date of incorporation of our Company, its authorized share capital was HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. The following sets out the changes in the share capital of our Company since the date of its incorporation:

- (a) On 2 September 2010, our Company allotted and issued one fully paid Share to Codan Trust Company (Cayman) Limited, who is the initial subscriber, and such Share was subsequently transferred to Ho Born Investment on the same date.
- (b) On 2 September 2010, our Company allotted and issued 71,999, 9,984, 10,016 and 8,000 new Shares, credited as fully paid, to Ho Born Investment, Well Born Industrial, Zehui Investment and Yixin Investment, respectively.
- (c) On 16 March 2011, as the consideration for the acquisition of the 75% equity interests in Haosha Industry from Haosha H.K., our Company allotted and issued 72,000, 9,984, 10,016 and 8,000 Shares, credited as fully paid, to Ho Born Investment, Well Born Industrial, Zehui Investment and Yixin Investment, respectively, and such Shares rank *pari passu* in all respects with all other Shares then in issue. After such allotment and issue, Ho Born Investment, Well Born Industrial, Zehui Investment and Yixin Investment held 144,000, 19,968, 20,032 and 16,000 Shares (which constituted the then entire issued share capital of our Company) in our Company, respectively.
- (d) On 7 June 2011, the authorized share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each to HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.01 each by the creation of 9,962,000,000 Shares of HK\$0.01 each.

Immediately after completion of the Global Offering and the Capitalization Issue and assuming that the Over-allotment Option is not exercised, the authorized share capital of our Company will be HK\$100,000,000 divided into 10,000,000,000 Shares, of which 1,600,000,000 Shares will be issued

fully paid or credited as fully paid, and 8,400,000,000 Shares will remain unissued. Other than pursuant to the general mandate to issue our Shares referred to in the paragraph headed “— Written resolutions of our Shareholders passed on 7 June 2011” in this Appendix, our Directors do not have any present intention to issue any of the authorized but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made to effectively alter the control of our Company.

Save as disclosed in this Prospectus, there has been no alteration in the share capital of our Company since its incorporation.

3. Changes in share capital of our subsidiaries

The following alterations in the share capital or registered capital of our subsidiaries took place within the two years immediately preceding the date of this Prospectus:

Haosha Industry

On 14 January 2011, Hosa Group and Haosha Garments entered into an equity transfer agreement, pursuant to which Hosa Group acquired the 25% equity interests in Haosha Industry from Haosha Garments at a consideration of RMB30.38 million. The consideration was determined with reference to the paid-in registered capital represented by such equity interests.

On 14 January 2011, Hosa Group and Haosha H.K. also entered into an equity transfer agreement, pursuant to which Hosa Group acquired the 75% equity interests in Haosha Industry from Haosha H.K., in consideration of which on 16 March 2011, our Company allotted and issued 72,000, 9,984, 10,016 and 8,000 new Shares, credited as fully paid, to Ho Born Investment, Well Born Industrial, Zehui Investment and Yixin Investment, respectively.

After the equity transfers, Haosha Industry became an indirectly wholly-owned subsidiary of our Company.

Hosa Group

On 16 March 2011, Hosa Investment, Ms. Lam Yau Yung, Mr. Shi Hongliu, Mr. Shi Hongyan, Mr. Wu Changda, Mr. Xu Zehui and Mr. Zeng Shaoxiong entered into a sale and purchase agreement, pursuant to which Hosa Investment acquired the entire share capital of Hosa Group from Ms. Lam Yau Yung, Mr. Shi Hongliu, Mr. Shi Hongyan, Mr. Wu Changda, Mr. Xu Zehui and Mr. Zeng Shaoxiong at a consideration of HK\$1.0. After the share transfer, Hosa Group became an indirectly wholly-owned subsidiary of our Company.

Save as set out above, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this Prospectus.

4. Written resolutions of our Shareholders passed on 7 June 2011

Pursuant to the written resolutions of our Shareholders entitled to vote at general meetings of our Company, which were passed on 7 June 2011:

- (a) the authorized share capital of our Company was increased from HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each to HK\$100,000,000 divided into 10,000,000,000 shares of HK\$0.01 each by the creation of 9,962,000,000 shares of HK\$0.01 each which rank *pari passu* in all respects with our Shares in issue as of the date of passing of the written resolutions;
- (b) conditional upon (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, our Shares in issue and to be issued (pursuant to the Global Offering, the Capitalization Issue, the Over-allotment Option, the Pre-IPO Share Option Scheme and the Share Option Scheme) as mentioned in this Prospectus; and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Sole Global Coordinator (on behalf of the Underwriters)) and the Underwriting Agreements not being terminated in accordance with the terms of the Underwriting Agreements or otherwise:
 - (i) conditional on the share premium account of our Company being credited as a result of the Global Offering, our Directors were authorized to capitalize the sum of HK\$11,198,000 and apply towards paying up in full at par 1,119,800,000 Shares for allotment and issue to our Shareholders whose names were on the register of members of our Company as of the close of business on 29 June 2011 (or as they may direct) in proportion (as nearly as possible without involving fractions) to its (their) then existing shareholdings in our Company and such Shares to be allotted and issued pursuant to the written resolutions shall rank *pari passu* in all respects with the existing issued Shares;
 - (ii) the Global Offering and the Over-allotment Option were approved and our Directors were authorized to allot and issue the Offer Shares and the Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option on and subject to the terms and conditions stated in this Prospectus and in the relevant Application Forms and our Directors be authorized to do all things and execute all documents in connection with or incidental to the Global Offering and the Over-allotment Option with such amendments or modifications (if any) as our Directors may consider necessary or appropriate;
 - (iii) the rules of the Pre-IPO Share Option Scheme, the principal terms of which are set out in the paragraph headed “— Pre-IPO Share Option Scheme” in this Appendix, were approved and adopted and our Directors were authorized to take all such actions as they consider necessary and/or desirable to implement and give effect to the Pre-IPO Share Option Scheme and to grant options to subscribe for Shares thereunder and to issue, allot and deal with Shares pursuant to the exercise of options granted thereunder;

- (iv) the rules of the Share Option Scheme were approved and adopted, and our Directors or any committee thereof established by our Board were authorized, at their sole discretion, to: (i) administer the Share Option Scheme; (ii) modify or amend the Share Option Scheme from time to time as requested by the Stock Exchange; (iii) grant options to subscribe for Shares under the Share Option Scheme up to the limits referred to in the Share Option Scheme; (iv) allot, issue and deal with Shares pursuant to the exercise of any option which may be granted under the Share Option Scheme; (v) make application at the appropriate time or times to the Stock Exchange for the listing of, and permission to deal in, any Shares or any part thereof that may hereafter from time to time be issued and allotted pursuant to the exercise of the options granted under the Share Option Scheme; and (vi) take all such actions as they consider necessary, desirable or expedient to implement or give effect to the Share Option Scheme; and (vii) sign the Share Option Scheme offer letters;
- (c) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than by way of Rights Issue, or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or pursuant to the issue of Shares upon the exercise of any subscription rights attached to any warrants of our Company or pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme or which may be granted under the Share Option Scheme or any other option scheme(s) or similar arrangement for the time being adopted for the grant or issue to directors and/or officers and/or employees of our Group or rights to acquire Shares or pursuant to a specific authority granted by the Shareholders in general meeting, the Shares with an aggregate nominal amount not exceeding 20% of the aggregate nominal amount of the share capital of our Company in issue immediately after completion of the Global Offering and the Capitalization Issue but before any exercise of the Over-allotment Option or any options which may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme;

For the purpose of this paragraph, “Rights Issue” means an offer of shares in our Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by our Directors to holders of shares in our Company on the register on a fixed record date in proportion to their holdings of shares (subject to such exclusion or other arrangements as our Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to our Company, or any recognized regulatory body or any stock exchange applicable to our Company);

- (d) a general unconditional mandate was given to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, such number of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of our Company

in issue immediately after completion of the Global Offering and the Capitalization Issue but before the exercise of the Over-allotment Option or any options which may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme;

- (e) the extension of the general mandate to allot, issue and deal with Shares as mentioned in paragraph (c) above by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to paragraph (d) above, provided that such extended amount shall not exceed 10% of the aggregate of the total nominal value of the share capital of our Company in issue immediately after completion of the Global Offering and the Capitalization Issue but before the exercise of the Over-allotment Option was approved; and
- (f) the Memorandum of Association and the Articles of Association were conditionally approved and adopted with effect from the Listing Date.

Each of the general mandates referred to in paragraphs (c), (d) and (e) above will remain in effect until whichever is the earliest of:

- (1) the conclusion of our next annual general meeting, unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;
- (2) the expiration of the period within which our next annual general meeting is required by any applicable law of the Cayman Islands or the Articles of Association to hold our next annual general meeting; or
- (3) the passing of an ordinary resolution by our Shareholders in our general meeting varying or revoking the authority given to our Directors.

5. Repurchase of our Shares

This section includes information relating to the repurchases of securities, including information required by the Stock Exchange to be included in this Prospectus concerning such repurchase.

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important restrictions are summarized below:

(i) *Shareholders' approval*

All proposed repurchases of Shares must be approved in advance by an ordinary resolution of the Shareholders in a general meeting, either by way of general mandate or by specific approval in relation to a particular transaction.

Pursuant to the written resolutions passed on 7 June 2011 by all our Shareholders, a general unconditional mandate (the “Repurchase Mandate”) was given to our Directors to exercise all powers of our Company to repurchase Shares (Shares which may be listed on the Stock Exchange) with a total nominal value of not more than 10% of the aggregate nominal value of our share capital in issue or to be issued immediately after completion of the Global Offering (without taking into account the exercise of the Over-allotment Option), further details of which have been described above in the paragraph headed “— Written resolutions of our Shareholders passed on 7 June 2011” of this Appendix to this Prospectus.

(ii) *Source of funds*

Any repurchase of Shares by us must be paid out of funds legally available for the purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws and regulations of the Cayman Islands. We may not repurchase our Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(iii) *Shares to be repurchased*

The Listing Rules provide that the Shares which are proposed to be repurchased by us must be fully paid-up.

(b) *Reasons for repurchases*

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of our net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit our Company and our Shareholders as a whole.

(c) *Funding of repurchases*

In repurchasing Shares, we may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of our Company’s current financial position as disclosed in this Prospectus and taking into account its current working capital position, our Directors consider that, if the Repurchase Mandate is exercised in full, it might have a material adverse effect on our working capital and/or gearing position as compared with the position disclosed in this Prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(d) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the Listing Rules) has a present intention to sell any Shares to us.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Articles of Association, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"). Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of us and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

We have not made any repurchases of our own securities in the past six months.

No connected person (as defined in the Listing Rules) has notified us that he/she has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. CORPORATE REORGANIZATION

In order to rationalize our corporate structure and business, our Group underwent the Corporate Reorganization. Please see the sub-section headed "History and Corporate Structure — Corporate Reorganization" in this Prospectus for details.

C. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of the material contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Group within the two years preceding the date of this Prospectus and are or may be material:

- (1) an equity transfer agreement in Chinese and its supplemental agreement in Chinese dated 30 July 2010 entered into by Haosha Industry and Ms. Shi Fenglian, pursuant to which Haosha Industry transferred the entire equity interests of Beijing Yasha to Ms. Shi Fenglian at a consideration of RMB5.0 million;
- (2) an equity transfer agreement in Chinese and its supplemental agreement in Chinese dated 30 July 2010 entered into by Haosha Industry and Mr. Xu Tianshi, pursuant to which Haosha Industry transferred the entire equity interests of Shanghai Haote to Mr. Xu Tianshi at a consideration of RMB5.0 million;

- (3) an equity transfer agreement in Chinese and its supplemental agreement in Chinese dated 30 July 2010 entered into by Haosha Industry, Mr. Xu Liangang and Ms. Shi Qingli, pursuant to which Haosha Industry transferred the entire equity interests of Guangzhou Yingchang to Mr. Xu Liangang and Ms. Shi Qingli at considerations of RMB3.05 million and RMB0.03 million, respectively;
- (4) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha Garments, pursuant to which Haosha Garments transferred the trademark with the registration number of 1293226 registered in its name in the PRC to Haosha Industry at nil consideration;
- (5) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha Garments, pursuant to which Haosha Garments transferred the trademark with the registration number of 1130836 registered in its name in the PRC to Haosha Industry at nil consideration;
- (6) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha Garments, pursuant to which Haosha Garments transferred the trademark with the registration number of 1761057 registered in its name in the PRC to Haosha Industry at nil consideration;
- (7) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha Garments, pursuant to which Haosha Garments transferred the trademark with the registration number of 1765326 registered in its name in the PRC to Haosha Industry at nil consideration;
- (8) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha Garments, pursuant to which Haosha Garments transferred the trademark with the registration number of 1692654 registered in its name in the PRC to Haosha Industry at nil consideration;
- (9) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha Garments, pursuant to which Haosha Garments transferred the trademark with the registration number of 1128673 registered in its name in the PRC to Haosha Industry at nil consideration;
- (10) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha Garments, pursuant to which Haosha Garments transferred the trademark with the registration number of 1700486 registered in its name in the PRC to Haosha Industry at nil consideration;
- (11) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha Garments, pursuant to which Haosha Garments transferred the trademark with the registration number of 1335954 registered in its name in the PRC to Haosha Industry at nil consideration;

- (12) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha Garments, pursuant to which Haosha Garments transferred the trademark with the registration number of 1692039 registered in its name in the PRC to Haosha Industry at nil consideration;
- (13) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha Garments, pursuant to which Haosha Garments transferred the trademark with the registration number of 1708350 registered in its name in the PRC to Haosha Industry at nil consideration;
- (14) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha Garments, pursuant to which Haosha Garments transferred the trademark with the registration number of 1148647 registered in its name in the PRC to Haosha Industry at nil consideration;
- (15) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha Garments, pursuant to which Haosha Garments transferred the trademark with the registration number of 1134018 registered in its name in the PRC to Haosha Industry at nil consideration;
- (16) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha Garments, pursuant to which Haosha Garments transferred the trademark with the registration number of 1712884 registered in its name in the PRC to Haosha Industry at nil consideration;
- (17) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha Garments, pursuant to which Haosha Garments transferred the trademark with the registration number of 1744576 registered in its name in the PRC to Haosha Industry at nil consideration;
- (18) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha Garments, pursuant to which Haosha Garments transferred the trademark with the registration number of 1298493 registered in its name in the PRC to Haosha Industry at nil consideration;
- (19) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha Garments, pursuant to which Haosha Garments transferred the trademark with the registration number of 1132332 registered in its name in the PRC to Haosha Industry at nil consideration;
- (20) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha Garments, pursuant to which Haosha Garments transferred the trademark with the registration number of 1266215 registered in its name in the PRC to Haosha Industry at nil consideration;

- (21) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha Garments, pursuant to which Haosha Garments transferred the trademark with the registration number of 991285 registered in its name in the PRC to Haosha Industry at nil consideration;
- (22) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha H.K., pursuant to which Haosha H.K. transferred the trademark with the registration number of 4905983 registered in its name in the PRC to Haosha Industry at nil consideration;
- (23) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha H.K., pursuant to which Haosha H.K. transferred the trademark with the registration number of 4905972 registered in its name in the PRC to Haosha Industry at nil consideration;
- (24) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha H.K., pursuant to which Haosha H.K. transferred the trademark with the registration number of 4861827 registered in its name in the PRC to Haosha Industry at nil consideration;
- (25) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha H.K., pursuant to which Haosha H.K. transferred the trademark with the registration number of 4905992 registered in its name in the PRC to Haosha Industry at nil consideration;
- (26) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha H.K., pursuant to which Haosha H.K. transferred the trademark with the registration number of 4653318 registered in its name in the PRC to Haosha Industry at nil consideration;
- (27) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha H.K., pursuant to which Haosha H.K. transferred the trademark with the registration number of 4905979 registered in its name in the PRC to Haosha Industry at nil consideration;
- (28) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha H.K., pursuant to which Haosha H.K. transferred the trademark with the registration number of 3297649 registered in its name in the PRC to Haosha Industry at nil consideration;
- (29) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha H.K., pursuant to which Haosha H.K. transferred the trademark with the registration number of 4653319 registered in its name in the PRC to Haosha Industry at nil consideration;

- (30) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha H.K., pursuant to which Haosha H.K. transferred the trademark with the registration number of 4905982 registered in its name in the PRC to Haosha Industry at nil consideration;
- (31) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha H.K., pursuant to which Haosha H.K. transferred the trademark with the registration number of 4905977 registered in its name in the PRC to Haosha Industry at nil consideration;
- (32) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha H.K., pursuant to which Haosha H.K. transferred the trademark with the registration number of 4905981 registered in its name in the PRC to Haosha Industry at nil consideration;
- (33) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha H.K., pursuant to which Haosha H.K. transferred the trademark with the registration number of 4905978 registered in its name in the PRC to Haosha Industry at nil consideration;
- (34) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha H.K., pursuant to which Haosha H.K. transferred the trademark with the registration number of 4905996 registered in its name in the PRC to Haosha Industry at nil consideration;
- (35) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha H.K., pursuant to which Haosha H.K. transferred the trademark with the registration number of 4905994 registered in its name in the PRC to Haosha Industry at nil consideration;
- (36) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha H.K., pursuant to which Haosha H.K. transferred the trademark with the registration number of 6613790 registered in its name in the PRC to Haosha Industry at nil consideration;
- (37) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha H.K., pursuant to which Haosha H.K. transferred the trademark with the registration number of 3106644 registered in its name in the PRC to Haosha Industry at nil consideration;
- (38) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha H.K., pursuant to which Haosha H.K. transferred the trademark with the registration number of 4905995 registered in its name in the PRC to Haosha Industry at nil consideration;

- (39) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha H.K., pursuant to which Haosha H.K. transferred the trademark with the registration number of 4905988 registered in its name in the PRC to Haosha Industry at nil consideration;
- (40) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha H.K., pursuant to which Haosha H.K. transferred the trademark with the registration number of 4742871 registered in its name in the PRC to Haosha Industry at nil consideration;
- (41) a trademark transfer agreement in Chinese dated 5 September 2010 entered into by Haosha Industry and Haosha H.K., pursuant to which Haosha H.K. transferred the trademark with the registration number of 3297650 registered in its name in the PRC to Haosha Industry at nil consideration;
- (42) an assignment dated 1 December 2010 entered into by Hosa Group and Haosha H.K., pursuant to which Haosha H.K. agreed to transfer the trademark with the registration number of 1060073 registered in Australia, the trademark with the registration number of TMA 674,828 registered in Canada, the trademark with the registration number of 004426871 in the European Union, the trademark with the registration number of 4932224 registered in Japan, the trademark with the registration number of 40-0681645 registered in South Korea, the trademark with the registration number of 01196517 registered in Taiwan, the trademark with the registration number of 3353479 registered in the United States, the trademark with the registration number of 300252161 registered in Hong Kong, the trademark with the registration number of 300433160 registered in Hong Kong and the trademark with the registration number of 300686223 registered in Hong Kong, all of which are registered in the name of Haosha H.K., to Hosa Group at nil consideration;
- (43) an asset transfer confirmation agreement in Chinese dated 10 December 2010 entered into by Haosha Industry and Haosha Garments, in which Haosha Industry and Haosha Garments confirmed that, among other things, Haosha Industry had transferred certain machinery and equipment to Haosha Garments and ceased to carry out its fabric business on 31 July 2010 at a consideration of RMB2.02 million;
- (44) a sale and purchase agreement in Chinese dated 24 December 2010 entered into by Haosha Industry and Haosha Garments, pursuant to which Haosha Industry agreed to acquired a piece of land of approximately 17,151 sq.m. and premises of approximately 30,736.4 sq.m. situated on such land in Jinjiang from Haosha Garments at a consideration of RMB32.9 million;
- (45) a sale and purchase agreement in Chinese dated 24 December 2010 entered into by Haosha Industry and Jinjiang Sanxie, pursuant to which Haosha Industry agreed to acquired a piece of land and premises situated on such land in Jinjiang from Jinjiang Sanxie at a consideration of RMB7.98 million;

- (46) an equity transfer agreement in Chinese dated 14 January 2011 entered into by Hosa Group and Haosha Garments, pursuant to which Haosha Garments agreed to transfer its 25% equity interests in Haosha Industry to Hosa Group at a consideration of RMB30.38 million;
- (47) an equity transfer agreement in Chinese dated 14 January 2011 entered into by Hosa Group and Haosha H.K., pursuant to which Haosha H.K. agreed to transfer its 75% equity interests in Haosha Industry to Hosa Group, in consideration of which our Company agreed to allot and issue 72,000, 9,984, 10,016 and 8,000 new Shares, credited as fully paid, to Ho Born Investment, Well Born Industrial, Zehui Investment and Yixin Investment, respectively;
- (48) a sale and purchase agreement dated 16 March 2011 entered into by Ms. Lam Yau Yung, Mr. Shi Hongliu, Mr. Shi Hongyan, Mr. Wu Changda, Mr. Xu Zehui, Mr. Zeng Shaoxiong and Hosa Investment, pursuant to which Ms. Lam Yau Yung, Mr. Shi Hongliu, Mr. Shi Hongyan, Mr. Wu Changda, Mr. Xu Zehui and Mr. Zeng Shaoxiong agreed to transfer the entire share capital in Hosa Group to Hosa Investment at a consideration of HK\$1.0;
- (49) a trademark license agreement dated 11 June 2011 entered into by Hosa Group and Haosha H.K., pursuant to which Haosha H.K. granted an irrevocable, non-exclusive and royalty free license to Hosa Group to use the relevant trademarks;
- (50) a cornerstone investment agreement dated 14 June 2011 entered into among our Company, SD Family Fund L.P. and the Sole Global Coordinator, pursuant to which SD Family Fund L.P. agreed to subscribe for such number of Shares as may be subscribed for with an amount of US\$10 million at the Offer Price (exclusive of brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%) (rounded down to the nearest board lot of Shares) in the International Placing;
- (51) the Deed of Non-Competition;
- (52) the Hong Kong Underwriting Agreement; and
- (53) the Deed of Indemnity.

2. Intellectual property rights of our Group

Trademarks

As of the Latest Practicable Date, we were the registered owner of the following trademarks:

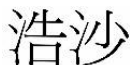
Trademark	Registered Owner	Place of Registration	Class	Registration Number	Expiry Date
	Hosa Group	Australia	25	1060073	11 June 2015
	Hosa Group	Canada	—	TMA674,828	12 October 2021
	Hosa Group	European Union	9, 25	004426871	6 June 2015

Trademark	Registered Owner	Place of Registration	Class	Registration Number	Expiry Date
	Hosa Group	Japan	25	4932224	24 February 2016
	Hosa Group	South Korea	25	40-0681645	13 October 2016
	Hosa Group	United States	25	3353479	11 December 2017

As of the Latest Practicable Date, we were in the process of applying for the transfer of the following trademarks registered by Haosha H.K. and Haosha Garments to our Group and were granted with irrevocable licenses to use these trademarks by Haosha H.K. and Haosha Garments at nil consideration until the date of completion of such transfer.

Trademark	Registered Owner	Place of Registration	Class	Registration Number	Expiry Date
	Haosha H.K.	PRC	03	4905988	20 April 2019
	Haosha H.K.	PRC	09	4905992	6 September 2018
	Haosha H.K.	PRC	14	4905994	13 February 2019
	Haosha H.K.	PRC	17	4905996	20 December 2019
	Haosha H.K.	PRC	18	4742871	20 February 2019
	Haosha H.K.	PRC	20	4905977	13 February 2019
	Haosha H.K.	PRC	21	4905978	13 February 2019
	Haosha H.K.	PRC	22	4905979	6 May 2019
	Haosha H.K.	PRC	24	4905981	20 April 2019
	Haosha H.K.	PRC	26	4905982	6 May 2019
	Haosha H.K.	PRC	27	4905983	20 April 2019
	Haosha H.K.	PRC	28	4861827	6 October 2019
	Haosha H.K.	PRC	40	4905972	13 May 2019
	Haosha H.K.	PRC	16	4905995	13 February 2019
	Haosha H.K.	PRC	25	4653319	20 December 2019
	Haosha H.K.	PRC	25	4653318	6 January 2019

Trademark	Registered Owner	Place of Registration	Class	Registration Number	Expiry Date
	Haosha H.K.	PRC	25	3297650	6 April 2014
HOSA	Haosha H.K.	PRC	25	3106644	13 July 2013
	Haosha H.K.	PRC	25	3297649	6 April 2014
好莎	Haosha H.K.	PRC	25	6613790	20 July 2020
HAOSHA 	Haosha Garments	PRC	03	1708350	6 February 2012
HAOSHA 	Haosha Garments	PRC	14	1765326	13 May 2012
HAOSHA 	Haosha Garments	PRC	17	1692039	6 January 2012
HAOSHA 	Haosha Garments	PRC	21	1761057	6 May 2012
HAOSHA 	Haosha Garments	PRC	22	1700486	20 January 2012
HAOSHA 	Haosha Garments	PRC	24	1692654	6 January 2012
HAOSHA 	Haosha Garments	PRC	40	1744576	6 April 2012
	Haosha Garments	PRC	09	1266215	20 April 2019
	Haosha Garments	PRC	18	1130836	27 November 2017
	Haosha Garments	PRC	24	1293226	13 July 2019
	Haosha Garments	PRC	26	1132332	6 December 2017
	Haosha Garments	PRC	28	1134018	13 December 2017

Trademark	Registered Owner	Place of Registration	Class	Registration Number	Expiry Date
	Haosha Garments	PRC	25	1335954	20 November 2019
	Haosha Garments	PRC	25	1148647	6 February 2018
	Haosha Garments	PRC	25	991285	27 April 2017
	Haosha Garments	PRC	25	1128673	20 November 2017
	Haosha Garments	PRC	16	1712884	13 February 2012
	Haosha Garments	PRC	25	1298493	27 July 2019
	Haosha H.K.	Taiwan	25	01196517	15 February 2016
	Haosha H.K.	Hong Kong	25	300252161	19 July 2014
	Haosha H.K.	Hong Kong	25	300433160	3 June 2015
	Haosha H.K.	Hong Kong	25	300686223	23 July 2016

As of the Latest Practicable Date, we had made application to register the following trademark:

Trademark	Applicant	Place of Registration	Class	Application Number	Application Date
	Haosha Industry	PRC	25	8793380	29 October 2010

Domain Names

As of the Latest Practicable Date, we had registered the following domain names:

Registered Owner	Domain Name	Date of Registration	Expiry Date
Haosha Industry	hosa.cn	19 November 2004	19 November 2011
Haosha Industry	hosa.com.cn	19 November 2004	19 November 2011
Haosha Industry	浩沙.網絡	8 June 2005	8 June 2015
Haosha Industry	浩沙.公司	8 June 2005	8 June 2015
Haosha Industry	浩沙.中國	11 December 2008	11 December 2018
Haosha Industry	浩沙.cn	11 December 2008	11 December 2018
Haosha Industry	浩沙.com	21 June 2009	21 June 2012
Haosha Industry	hosa.mobi	4 January 2009	4 January 2014

Internet keyword

As of the Latest Practicable Date, we had registered the following internet keyword:

<u>Registered Owner</u>	<u>Internet Keyword</u>	<u>Expiry Date</u>
Haosha Industry	浩沙	12 September 2015

3. Further information about our PRC establishment*Haosha Industry*

(i) nature of the company:	wholly foreign-owned enterprise
(ii) term of business operation:	from 25 October 2005 to 24 October 2055
(iii) total investment:	RMB128.16 million
(iv) registered capital:	RMB121.5 million (fully paid)
(v) attributable interest of our Company:	100%
(vi) scope of business:	High quality fabric weaving and finishing process; manufacturing top grade underwear, swimwear, fitness wear and other apparel and accessories, sports products, rubber and wrapping products (excluding bleaching and dyeing categories and categories under export quota license administration)

D. FURTHER INFORMATION ABOUT OUR DIRECTORS**1. Directors' service contracts**

Each of our Directors has entered into a service contract with us for an initial fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. The notice shall not expire until after the fixed term.

Each of our Directors is entitled to the respective basic salary (subject to an annual adjustment at the discretion of our remuneration committee). Each of the executive Directors is also entitled to a discretionary bonus, provided that the aggregate amount of the bonuses payable to all our executive Directors in respect of any financial year of our Company may not exceed 5% of our audited consolidated or combined net profit (after taxation and minority interests and payment of such bonuses but excluding extraordinary and exceptional items) in respect of that financial year. A Director may not vote on any resolution of our Directors regarding the increment of annual salary and the amount of the discretionary bonus payable to him.

The current basic annual salaries of our Directors are as follows:

Name	Annual Salary
	RMB'000
Mr. Shi Hongliu	1,040
Mr. Shi Hongyan.	910
Mr. Zeng Shaoxiong	650
Mr. Zhao Yan.	650
Mr. Mak Kin Kwong	400
Mr. Sun Ruizhe.	180
Mr. Yao Ge	180

Save as aforesaid, none of our Directors has or is proposed to have a service contract with us or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

2. Directors' remuneration during the Track Record Period

For the three years ended 31 December 2008, 2009 and 2010, the aggregate of the remuneration paid and benefits in kind granted to our Directors by us and our subsidiaries was RMB507,000, RMB596,000 and RMB2,192,000, respectively.

Save as disclosed in this Prospectus, no other emoluments have been paid or are payable, in respect of the three years ended 31 December 2008, 2009 and 2010 by us to our Directors.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary bonus) for the year ending 31 December 2011 will be approximately RMB3.63 million.

E. DISCLOSURE OF INTERESTS

1. Disclosure of interests

(a) *Interests and short positions of our Directors in the share capital of our Company and our associated corporations following the Global Offering and Capitalization Issue*

Immediately after completion of the Global Offering and Capitalization Issue and taking no account of any Shares which may be allotted and issued pursuant to the Pre-IPO Share Option Scheme and the Share Option Scheme or the exercise of the Over-allotment Option, the interests or short positions of our Directors and the chief executive in our Shares, underlying Shares and debentures of our associated corporations, within the meaning of Part XV of the SFO which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant

to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

Interests and short positions in the Shares, underlying Shares and debentures and associated corporations:

Name of Director	Capacity/Nature of interest	Number of Shares	Number of Shares subject to options granted under the Pre-IPO Share Option Scheme	Percentage of enlarged issued share capital of our Company after full exercise of the Pre-IPO Share Option⁽¹⁾
Mr. Shi Hongliu . . .	Interest in control corporations ⁽²⁾	983,808,000	N/A	60.710%
Mr. Zeng Shaoxiong	Interest in control corporation/Beneficial owner	96,000,000 ⁽³⁾	2,610,000 ⁽⁴⁾	6.085%
Mr. Zhao Yan	Beneficial owner	N/A	3,800,000 ⁽⁵⁾	0.2345%

Notes:

- (1) The relevant percentages are calculated based the Shares in issue on the Listing Date immediately after completion of the Global Offering, assuming the Over-allotment Option is not exercised and taking no account of any Shares which may be allotted and issued pursuant to the Pre-IPO Share Option Scheme or the Share Option Scheme.
- (2) Ho Born Investment and Well Born Industrial are beneficially owned as to 49.851% by Mr. Shi Hongliu. Mr. Shi Hongliu is therefore deemed to be interested in 983,808,000 Shares held by Ho Born Investment and Well Born Industrial, respectively.
- (3) Yixin Investment is wholly owned by Mr. Zeng Shaoxiong and Mr. Zeng Shaoxiong is therefore deemed to be interested in 96,000,000 Shares held by Yixin Investment.
- (4) Mr. Zeng Shaoxiong has been granted an option for 2,610,000 Shares under the Pre-IPO Share Option Scheme.
- (5) Mr. Zhao Yan has been granted an option for 3,800,000 Shares under the Pre-IPO Share Option Scheme.

(b) *Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO*

Immediately after completion of the Global Offering and the Capitalization Issue and taking no account of any Shares which may be allotted and issued pursuant to the Pre-IPO Share Option Scheme and the Share Option Scheme or the exercise of the Over-allotment Option, in addition to the interests disclosed under paragraph (a) above, so far as our Directors are aware, the following persons are expected to have interests or short positions in our Shares or underlying Shares which are required to be disclosed to the provisions of Divisions 2 and 3

of Part XV of the SFO or, are expected to be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group.

Interests and short positions in our Shares and underlying Shares:

<u>Name</u>	<u>Capacity/Nature of interest</u>	<u>Number of Shares</u>	<u>Approximate percentage of shareholding^{Note}</u>
Ho Born Investment. . . .	Beneficial owner	864,000,000	54%
Well Born Industrial . . .	Beneficial owner	119,808,000	7.488%
Mr. Shi Hongliu	Interest in the controlled corporations	983,808,000	61.488%
Zehui Investment.	Beneficial owner	120,192,000	7.512%
Mr. Xu Zehui	Interest in a controlled corporation	120,192,000	7.512%
Yixin Investment.	Beneficial owner	96,000,000	6%
Mr. Zeng Shaoxiong . . .	Interest in a controlled corporation	96,000,000	6%

Note: Assuming the Over-allotment Option is not exercised and no options granted under the Pre-IPO Share Option Scheme prior to the Listing Date.

2. Disclaimers

Save as disclosed in this Prospectus:

- (a) save as disclosed in the paragraph headed “— Disclosure of interests” in this Appendix, our Directors are not aware of any person (not being our Director or chief executive officer) who will, immediately after completion of the Global Offering (taking no account of the Over-allotment Option or any Shares which may be issued pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme and to be granted the Share Option Scheme and the Capitalization Issue), have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at our general meetings;
- (b) save as disclosed in the paragraph headed “— Disclosure of interests” in this Appendix, none of our Directors has any interest or short position in any of our Shares, underlying Shares or debentures or any shares, underlying shares or debentures of any associated corporation within the meaning of Part XV of the SFO, which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered

in the register referred to therein or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, in each case once the Shares are listed;

- (c) none of our Directors nor any of the parties listed in the paragraph headed “— Other information — Consents of experts” of this Appendix is interested in the promotion of our Company, or in any assets which have been, within the two years immediately preceding the date of this Prospectus, acquired or disposed of by or leased to our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of our subsidiaries;
- (d) none of our Directors nor any of the parties listed in the paragraph headed “— Other information — Consents of experts” of this Appendix is materially interested in any contract or arrangement subsisting at the date of this Prospectus which is significant in relation to our business;
- (e) save in connection with the Underwriting Agreements, none of the parties listed in the section headed “— Other information — Consents of experts” in this Appendix:
 - (i) is interested legally or beneficially in any securities of our Company or any of our subsidiaries; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of our Company or any of our subsidiaries;
- (f) none of our Directors or their respective associates (as defined in the Listing Rules) or the existing Shareholders (who, to the knowledge of our Directors, owns more than 5% of our issued share capital) has any interest in any of the five largest customers or the five largest suppliers of our Group.

F. PRE-IPO SHARE OPTION SCHEME

1. Summary of terms

The purpose of the Pre-IPO Share Option Scheme is to give our Directors, senior management, employees and distributors an opportunity to have a personal stake in our Company and help motivate them to optimize their performance and efficiency to our Company and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with our Directors, senior management, employees and distributors who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group. The principal terms of the Pre-IPO Share Option Scheme, approved by written resolutions of our Shareholders dated 7 June 2011, are substantially the same as the terms of the Share Option Scheme except that:

- (a) the subscription price per Share under the Pre-IPO Share Option Scheme shall be at a 20% discount to the Offer Price;

- (b) the total number of Shares which may be issued upon the exercise of all options granted under the Pre-IPO Share Option Scheme is 20,500,000 Shares, representing approximately 1.2813% of the enlarged share capital of our Company immediately after completion of the Global Offering Issue and the Capitalization Issue (assuming that the Over-allotment Option is not exercised);
- (c) all options granted under the Pre-IPO Share Option Scheme can only be exercised in the following manner:

<u>Exercise period</u>	<u>Maximum percentage of options exercisable</u>
Any time after the first anniversary of the Listing Date	30% of the total number of options granted
Any time after the second anniversary of the Listing Date	30% of the total number of options granted
Any time after the third anniversary of the Listing Date	40% of the total number of options granted

- (d) save for the options which had been granted as of the Latest Practicable Date, no further options will be granted under the Pre-IPO Share Option Scheme on or after the Listing Date; and
- (e) each option granted under the Pre-IPO Share Option Scheme shall be exercised within a period of 5 years commencing from 7 June 2011.

Application has been made to the Listing Committee of the Stock Exchange for the approval of the listing of and permission to deal in the 20,500,000 Shares to be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme.

2. Outstanding options granted

As of the date of this Prospectus, options to subscribe for an aggregate of 20,500,000 Shares, representing approximately 1.2813% of the issued share capital of our Company immediately after completion of the Global Offering and the Capitalization Issue (without taking into account any Shares which may be allotted and issued upon the exercise of any options which have been granted under the Pre-IPO Share Option Scheme or which may be granted under the Share Option Scheme or the exercise of the Over-allotment Option) at an exercise price equal to a 20% discount to the Offer Price had been conditionally granted to 61 participants by our Company under the Pre-IPO Share Option Scheme. Each grant of all the options under the Pre-IPO Share Option Scheme was granted on 7 June 2011 at a consideration of HK\$1.0 and no further options will be granted under the Pre-IPO Share Option Scheme prior to the Listing Date.

A total of 61 employees, including two executive Directors and five members of the senior management of our Group (set out in the section headed “Directors and Senior Management” of this Prospectus), have been conditionally granted options under the Pre-IPO Share Option Scheme.

A full list of such grantees containing all the details in respect of each option required under paragraph 10 of the Third Schedule to the Companies Ordinance and Rule 17.02(1)(b) of and paragraph 27 of Part A of Appendix I to the Listing Rules is set out below:

Grantee	Position	Address	Number of shares to be issued upon full exercise of the Pre-IPO Share Option	Percentage of enlarged issued share capital of our Company after full exercise of the Pre-IPO Share Option (Note)
Directors				
Mr. Zhao Yan	executive Director	Room 901, No. 17, Lane 91, South Jinhui Road, Shanghai, the PRC	3,800,000	0.2345%
Mr. Zeng Shaoxiong . . .	executive Director	Room 1006, Haofu Plaza 3/F, Zengkengduan, Northern part of Baqi Road, Shishi, Fujian Province, the PRC	2,610,000	0.1611%
Sub-total:			6,410,000	0.3956%
Senior management				
Mr. Lai Ho Man, Dickson	chief financial officer company secretary of our Company	Flat C, 16/F, Block T7, Yat Wing Mansion, 43 Tai Hong Street, Sai Wan Ho, Hong Kong	600,000	0.0370%
Mr. Chen Rui	sales director of Haosha Industry	Room 2403, Tower C, Yuanyang International Center, No. 60 Dongsihuan Road Central, Chaoyang District, Beijing, the PRC	1,200,000	0.0740%
Mr. Zhang Dingxiong . .	operation director of Haosha Industry	Room 1807, No. 14 Guanzhuangjingtongyuan, Chaoyang District, Beijing, the PRC	1,000,000	0.0617%
Mr. Liu Tongjie	production director of Haosha Industry	Huashan Industrial Zone, Shenhui, Jinjiang, Fujian, the PRC	300,000	0.0185%
Mr. Wen Quan	product research and development director of Haosha Industry	No. 3 Huagong Road, Chaoyang District, Beijing, the PRC	300,000	0.0185%
Sub-total:			3,400,000	0.2097%
Other employees				
Ms. Tang Danyu	market director of Haosha Industry	Room 1003, Building No. 63, Yuanyangtiandi, Chaoyang District, Beijing, the PRC	500,000	0.0308%
Ms. Shi Lijun	deputy chief financial officer of Haosha Industry	Room 504, No. 52 Jiashenghaoyuan, Siming District, Xiamen, Fujian Province, the PRC	1,560,000	0.0963%
Mr. Lin LEPAN	regional manager of Haosha Industry	Room 501, No. 651 Lane Luocheng Road, Xuhui District, Shanghai, the PRC	560,000	0.0345%
Mr. Ouyang Wenxin . . .	regional manager of Haosha Industry	Room 402, Tower A1, Huananyujingyuan, No. 1402 Huaguan Road, Tianhe District, Guangzhou, Guangdong Province, the PRC	660,000	0.0407%
Mr. Li Wenliang	regional manager of Haosha Industry	No. 7-17, Dafabaidu Town, Yuefujie, Chengdu, Sichuan Province, the PRC	600,000	0.0370%
Ms. Liu Yanping	regional manager of Haosha Industry	No. 205, Building A, Geoscience University Neighbourhood, Wuhan, Hubei Province, the PRC	300,000	0.0185%
Mr. Tian Xiaoguang . . .	regional manager of Haosha Industry	No. 15-1-6-3, Zhulin Neighbourhood, Dadong District, Shenyang, Liaoning Province, the PRC	300,000	0.0185%
Mr. Xu Lu	regional manager of Haosha Industry	Room 3-302, Building No.10, Xinghaijiayuan, Xihong Men, Daxing District, Beijing, the PRC	300,000	0.0185%
Mr. Xia Liping	regional manager of Haosha Industry	Room 12-2-602, Zijing Garden, Shimen Neighbourhood, Huaizhong Road, Shijiazhuang, Hebei Province, the PRC	440,000	0.0271%
Mr. Huang Chenxi	regional manager of Haosha Industry	Room 1001, Floor 3, Jingcheng Garden, Ninguo Road South, Hefei, Anhui Province, the PRC	250,000	0.0154%
Mr. Lan Feng	regional manager of Haosha Industry	Room 702, Floor 7, Block 1, Building No. 6, No. 2805 Jiefang Road, Jiangnan District, Wuhan, Hubei Province, the PRC	150,000	0.0092%
Mr. Lu Xiaohua	regional manager of Haosha Industry	No. 53-6-4-1, Gusaoshuzhayangang, Hankou, Wuhan, Hubei Province, the PRC	100,000	0.0062%

Grantee	Position	Address	Number of shares to be issued upon full exercise of the Pre-IPO Share Option	Percentage of enlarged issued share capital of our Company after full exercise of the Pre-IPO Share Option (Note)
Mr. Zhu Chenhui	manager of Haosha Industry	Room 241, No. 5 Xinhua Neighbourhood, Gucheng Road East, Tongzhou District, Beijing, the PRC	50,000	0.0031%
Mr. Wu Dong	manager of Haosha Industry	Room 404, No. 3 Furongyuan, Changsha, Hunan Province, the PRC	50,000	0.0031%
Mr. Li Xiongbing.	manager of Haosha Industry	Room 1503, Ren Ai Building, Hanlai Square, Wuhan, Hubei Province, the PRC	50,000	0.0031%
Mr. Ouyang Chunlong. . .	manager of Haosha Industry	Room 1-2-17A-2, Meiyu Garden, Guanshui Road, Nanming District, Guiyang, Guizhou Province, the PRC	50,000	0.0031%
Mr. Zhou Qing	manager of Haosha Industry	Floor 6, Unit 1, Building No. 4, No. 71 Gongyuan Road North, Xincheng District, Xian, Shaanxi Province, the PRC	50,000	0.0031%
Mr. Shen Ran	manager of Haosha Industry	Room 506, Building No. 8, Tianfujiayuan, Changchun, Jilin Province, the PRC	50,000	0.0031%
Mr. Wang Jun.	manager of Haosha Industry	Room 1908, Building No. 32, Nanding Village, Fengtai District, Beijing, the PRC	50,000	0.0031%
Ms. Xu Xiuqiong.	product manager of Haosha Industry	Room 522, No. 8 Hualianjinyuan, Tongzhou District, Beijing, the PRC	100,000	0.0062%
Mr. Qi Xiaokai	product manager of Haosha Industry	Room 706, Building No. 7, Xuantejiayuan, No. 1 Shilibao, Chaoyang District, Beijing, the PRC	100,000	0.0062%
Ms. Ma Junxiu	product manager of Haosha Industry	No. 11, Gate 1, Building No. 221, Jingsongqu, Chaoyang District, Beijing, the PRC	50,000	0.0031%
Ms. Li Jing	training manager of Haosha Industry	Room 5095, Building No. 2, Jinxing Garden, Taiyangxingcheng, Chaoyang District, Beijing, the PRC	100,000	0.0062%
Mr. Song Ming	engineering manager of Haosha Industry	Room 2303, No. 15 Yiyuan, Yanchang Road, Yanjiao Development Zone, Sanhe, Hebei Province, the PRC	100,000	0.0062%
Mr. Peng Danrong	promotion manager of Haosha Industry	Room 704, No. 70, Lane No. 530 Gubei Road, Shanghai, the PRC	200,000	0.0123%
Mr. Shi Yangda.	procurement manager of Haosha Industry	Huashan Industrial Zone,Shenhu, Jinjiang, Fujian, the PRC	100,000	0.0062%
Mr. Wang Shanting	technician of Haosha Industry	Huashan Industrial Zone,Shenhu, Jinjiang, Fujian, the PRC	30,000	0.0019%
Mr. Cheng Jun	technician of Haosha Industry	Huashan Industrial Zone,Shenhu, Jinjiang, Fujian, the PRC	30,000	0.0019%
Ms. Guo Liyu	designer of Haosha Industry	Huashan Industrial Zone,Shenhu, Jinjiang, Fujian, the PRC	30,000	0.0019%
Ms. Chen Xiaogin	designer of Haosha Industry	Huashan Industrial Zone,Shenhu, Jinjiang, Fujian, the PRC	30,000	0.0019%
Ms. Chen Yu	HR manager of Haosha Industry	Room 305, Building 28, Nongguang Road South, Chaoyang District, Beijing, the PRC	200,000	0.0123%
Mr. Qiu Shuang.	administration manager of Haosha Industry	Room 1202, Tower A, Beiyuan Garden 1, Tongzhou District, Beijing, the PRC	50,000	0.0031%
Mr. Li Xiongshui.	HR administration manager of Haosha Industry	Huashan Industrial Zone, Shenhu, Jinjiang, Fujian, the PRC	100,000	0.0062%
Ms. Zhu Sha	marketing financial manager of Haosha Industry	Room 301, Building No. 3, Gongfusucun No. 101, Baoshan District, Shanghai, the PRC	260,000	0.0160%
Mr. Hong Weidong	factory financial manager of Haosha Industry	Huashan Industrial Zone, Shenhu, Jinjiang, Fujian, the PRC	660,000	0.0407%
Ms. Pu Yujun	cost manager of Haosha Industry	Huashan Industrial Zone, Shenhu, Jinjiang, Fujian, the PRC	50,000	0.0031%
Ms. Liu Youhong.	factory accounting director of Haosha Industry	Huashan Industrial Zone, Shenhu, Jinjiang, Fujian, the PRC	80,000	0.0049%
Mr. Qiu Rongfang	information director of Haosha Industry	Huashan Industrial Zone,Shenhu, Jinjiang, Fujian, the PRC	100,000	0.0062%
Ms. Lin Caihong	management accounting director of Haosha Industry	Room 3-101, Building No. 1, Xiaobeiguanli, Chaoyang District, Beijing, PRC	50,000	0.0031%
Mr. Kong Linghao	quality control manager of Haosha Industry	Huashan Industrial Zone, Shenhu, Jinjiang, Fujian, the PRC	100,000	0.0062%

Grantee	Position	Address	Number of shares to be issued upon full exercise of the Pre-IPO Share Option	Percentage of enlarged issued share capital of our Company after full exercise of the Pre-IPO Share Option (Note)
Ms. Wang Zhiyun	deputy manager of technology Department of Haosha Industry	Huashan Industrial Zone, Shenhui, Jinjiang, Fujian, the PRC	50,000	0.0031%
Ms. Gao Zishu	sub-production manager of Haosha Industry	Huashan Industrial Zone, Shenhui, Jinjiang, Fujian, the PRC	50,000	0.0031%
Sub-total:			8,690,000	0.5364%
<i>Shareholders of our distributors</i>				
Mr. Shi Wenzhong	N/A	Room 701, Changqingbeili No. 74, Siming District, Xiamen, Fujian Province, the PRC	200,000	0.0123%
Mr. Shi Jiande	N/A	Room 602, Block 1, Building 31, Wansongyuanjie Neighbourhood, Wuhan, the PRC	200,000	0.0123%
Mr. Wu Changhang . . .	N/A	No. 14, Maliandao Road, Xuanwu District, Beijing, the PRC	200,000	0.0123%
Mr. Shi Wenxi	N/A	Unit 4, Building No. 2, No. 50 Guiwangqiao Road South, Chengdu, Sichuan Province, the PRC	200,000	0.0123%
Ms. Shi Fenglian	N/A	No. 181 Dongzhimen Road, Dongcheng, Beijing, the PRC	300,000	0.0185%
Mr. Xu Tianshi	N/A	No. 192, North Longhuting, Longyu Village, Longhu Town, Jinjiang, Fujian Province, the PRC	200,000	0.0123%
Mr. Xu Liangang	N/A	No. 187, North Longhuting, Longyu Village, Longhu Town, Jinjiang, Fujian Province, PRC	200,000	0.0123%
Mr. Yang Guoxi	N/A	Room 17-0903, Unit 2, Jinyuan Xinsiji A-17, Xi'an, Shaanxi Province, PRC	100,000	0.0062%
Mr. Zhao Gongmin . . .	N/A	No. 6, Unit 3, Building No. 13, No. 29 Economic and Technological Development Zone, Henan Province, PRC	100,000	0.0062%
Mr. Luo Liehong	N/A	Room 1502, Lvzhouzhixin, Chaohui Road, Hangzhou, Zhejiang Province, PRC	100,000	0.0062%
Mr. Wang Jiancheng . .	N/A	Room 1605, Deyuan Garden, No. 12 Beidajie, Chaoyang Men, Chaoyang District, Beijing, PRC	100,000	0.0062%
Mr. Zhou Ping	N/A	Room 1601, Unit 3, Building No. 5, 5 Zu Tuan, Shanshuiqiancheng, Nanming District, Guiyang, Guizhou Province, PRC	100,000	0.0062%
Sub-total:			2,000,000	0.1233%
Total:			20,500,000	1.2650%

The total number of Shares to be issued under all options granted under the Pre-IPO Share Option Scheme represents approximately 1.2813% of our Company's enlarged issued share capital immediately after completion of the Global Offering and the Capitalization Issue (assuming the Over-allotment Option is not exercised). If all options are exercised, this would have a dilutive effect on the shareholdings of our Shareholders of approximately 1.265% and a dilutive effect of approximately HK\$0.0026 on earnings per Share such that the forecast earnings per Share for the year ending 31 December 2011 will be diluted from approximately HK\$0.2062 to approximately HK\$0.2036. However, as the options are exercisable for a period of up to 5 years, any such dilution and impact on earnings per Share will be staggered over several years. No further options will be granted under the Pre-IPO Share Option Scheme after the Listing Date.

Our Directors have undertaken to our Company that they will not exercise the options granted under the Pre-IPO Share Option Scheme to such extent that the Shares held by the public (as defined in the Listing Rules) after completion of the Global Offering and the Capitalization Issue will fall below the required percentage set out in Rule 8.08 of the Listing Rules or such other percentage as approved by the Stock Exchange from time to time.

Note: Assuming that the Over-allotment Option is not exercised.

G. SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme conditionally approved by a resolution of our Shareholders passed on 7 June 2011 and adopted by a resolution of our Board on 7 June 2011. The terms of the Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

1. Purpose

The purpose of the Share Option Scheme is to give the Eligible Persons (as mentioned in the following paragraph) an opportunity to have a personal stake in our Company and help motivate them to optimize their future performance and efficiency to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group, and additionally in the case of Executives (as defined below), to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

2. Who may join

Our Board may, at its absolute discretion, offer options (“Options”) to subscribe for such number of Shares in accordance with the terms set out in the Share Option Scheme to:

- (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group (“Executive”), any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of our Group (“Employee”);
- (b) a director or proposed director (including an independent non-executive director) of any member of our Group;
- (c) a direct or indirect Shareholder of any member of our Group;
- (d) a supplier of goods or services to any member of our Group;
- (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group;
- (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and
- (g) an associate of any of the persons referred to in paragraphs (a) to (e) above.

(the persons referred to above are the “Eligible Persons”.)

3. Maximum number of Shares

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of our Group shall not in aggregate exceed 10% of the Shares in issue as at the Listing Date, excluding Shares which may fall to be issued upon the exercise of any over-allotment option granted by our Company (the “Scheme Mandate Limit”) provided that:

- (a) Our Company may at any time as our Board may think fit seek approval from our Shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of our Company shall not exceed 10% of the Shares in issue as at the date of approval by our Shareholders in general meeting where the Scheme Mandate Limit is refreshed. Options previously granted under the Scheme and any other schemes of our Company (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Scheme or any other schemes of our Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. Our Company shall send to our Shareholders a circular containing the details and information required under the Listing Rules;
- (b) Our Company may seek separate approval from our Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit, provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Person specified by our Company before such approval is obtained. Our Company shall issue a circular to our Shareholders containing the details and information required under the Listing Rules; and
- (c) The maximum number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and any other options granted and yet to be exercised under any other scheme shall not exceed 30% of our Company’s issued share capital from time to time. No options may be granted under the Share Option Scheme and any other share option scheme of our Company if this will result in such limit being exceeded.

4. Maximum entitlement of each participant

No Option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of our Company’s issued share capital from time to time. Where any further grant of Options to such an Eligible Person would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted to such Eligible Person (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant shall be separately approved by our Shareholders in general meeting with such Eligible Person and his associates abstaining from voting. Our Company shall send a circular to our Shareholders disclosing the identity of the Eligible Person, the number and terms of the Options to be granted (and Options previously granted) to such Eligible Person, and containing the details and information required under the Listing Rules. The number and terms (including the subscription

price) of the Options to be granted to such Eligible Person must be fixed before the approval of our Shareholders and the date of our Board meeting proposing such grant shall be taken as the offer date for the purpose of calculating the subscription price of those Options.

5. Offer and grant of Options

Subject to the terms of the Share Option Scheme, our Board shall be entitled at any time within 10 years from the adoption date to offer the grant of an Option to any Eligible Person as our Board may in its absolute discretion select to subscribe at the subscription price for such number of Shares as our Board may (subject to the terms of the Share Option Scheme) determine (provided the same shall be a board lot for dealing in the Shares on the Stock Exchange or an integral multiple thereof).

6. Granting Options to connected persons

- (a) Any Options to be granted to a Director, chief executive officer or substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates (as defined in the Listing Rules) must first be approved by the independent non-executive Directors (excluding any independent non-executive Director who or whose associate is the proposed grantee of the Options).
- (b) Without prejudice to the generality of the sub-paragraph (a) above, if any Options to be granted to a substantial shareholder or independent non-executive Director of our Company, or any of their respective associates, would result in the total number of Shares issued and to be issued upon exercise of all the Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the period of 12 months up to and including the date of the grant:
 - (i) representing in aggregate over 0.1% of the Shares in issue; and
 - (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million,

such further grant of Options must be approved by our Shareholders in general meeting and subject to the issue of a circular by our Company to its shareholders containing such information as required under sub-paragraph (c) below. All connected persons shall abstain from voting in favor at such general meeting, and any vote taken at such meeting must be taken on a poll.

- (c) The circular to be issued by our Company to our Shareholders pursuant to the above sub-paragraph (b) shall contain the following information:
 - (i) the details of the number and terms (including the exercise price) of the options to be granted to each participants, which must be fixed before the Shareholders' meeting and the date of our Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;

- (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Directors who is the grantee of the options) to the independent Shareholders as to voting;
- (iii) the information required under Rule 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
- (iv) the information required under Rule 2.17 of the Listing Rules.

7. Restriction on the time of grant of Options

Our Board shall not grant any Option under the Share Option Scheme after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the Listing Rules. In particular, no Options shall be granted during the period commencing one month immediately preceding the earlier of the date of our Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period and the deadline for our Company to publish an announcement of its results for any year, half-year, quarterly or any other interim period, and ending on the date of the results announcements.

8. Minimum holding period and vesting

- (a) The Share Option Scheme does not contain any minimum period(s) for which an Option must be held before it can be exercised. However, at the time of grant of the Options, our Company may specify any such minimum period(s).
- (b) The Options granted will be subject to vesting periods of up to 10 years, which will vary from Option Holder to Option Holder. Upon the expiry of the vesting period, the Shares will become vested and the Option Holders will become entitled to exercise the Options in accordance with the terms of the Share Option Scheme. No performance target needs to be achieved by the grantee before the Option can be exercised.

9. Offer Period and Number Accepted

An offer of the grant of an Option shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the offer date provided that no such grant of an Option may be accepted after the expiry of the effective period of the Share Option Scheme. An Option shall be deemed to have been granted and accepted by the Eligible Person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the Option duly signed by the grantee together with a remittance in favor of our Company of HK\$1 by way of consideration for the grant thereof is received by our Company on or before the date upon which an offer of an Option must be accepted by the relevant Eligible Person, being a date not later than 28 days after the Offer Date (the "Acceptance Date"). Such remittance shall in no circumstances be refundable.

Any offer of the grant of an Option may be accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in respect of board lots for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly

stated in the duplicate offer letter comprising acceptance of the offer of the Option. To the extent that the offer of the grant of an Option is not accepted by the Acceptance Date, it will be deemed to have been irrevocably declined.

10. Amount payable for Options

The amount payable on acceptance of an Option is HK\$1.0.

11. Exercise price

The amount payable for each Share to be subscribed for under an Option upon exercise shall be determined by our Board and notified to a proposed beneficiary at the time of offer of the Option and shall be not less than the higher of:

- (a) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date, which must be a business day, of the date of grant;
- (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant; and
- (c) the nominal value of the Shares.

12. Exercise of Option

- (a) An Option shall be exercised in whole or in part (but if in part only, in respect of a board lot or any integral multiple thereof) within the Option Period in the manner as set out in this Share Option Scheme by the grantee (or his legal personal representative(s)) by giving notice in writing to our Company stating that the Option is thereby exercised and specifying the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given. Within 30 days after receipt of the notice and, where appropriate, receipt of a certificate from our auditors pursuant to the Share Option Scheme, our Company shall accordingly allot and issue the relevant number of Shares to the grantee (or his legal personal representative(s)) credited as fully paid with effect from (but excluding) the relevant exercise date and issue to the grantee (or his legal personal representative(s)) share certificate(s) in respect of the Shares so allotted.
- (b) The exercise of any Option may be subject to a vesting schedule to be determined by our Board in its absolute discretion, which shall be specified in the offer letter.
- (c) The exercise of any Option shall be subject to the members of our Company in general meeting approving any necessary increase in the authorized share capital of our Company.

- (d) Subject as hereinafter provided:
- (i) in the event that the grantee dies or becomes permanently disabled before exercising an Option (or exercising it in full), he (or his legal representative(s)) may exercise the Option up to the grantee's entitlement (to the extent not already exercised) within a period of 12 months following his death or permanent disability or such longer period as our Board may determine;
 - (ii) in the event that the grantee ceases to be an Executive for any reason (including his employing company ceasing to be a member of our Group) other than his death, permanent disability, retirement pursuant to such retirement scheme applicable to our Group at the relevant time or the transfer of his employment to an affiliate company or the termination of his employment with the relevant member of our Group by resignation or termination on the ground of misconduct, the Option (to the extent not already exercised) shall lapse on the date of cessation of such employment and not be exercisable unless our Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as our Board may in its absolute discretion determine following the date of such cessation;
 - (iii) if a general offer is made to all holders of Shares and such offer becomes or is declared unconditional (in the case of a takeover offer) or is approved by the requisite majorities at the relevant meetings of Shareholders of our Company (in the case of a scheme of arrangement), the grantee shall be entitled to exercise the Option (to the extent not already exercised) at any time (in the case of a takeover offer) within one month after the date on which the offer becomes or is declared unconditional or (in the case of a scheme of arrangement) prior to such time and date as shall be notified by our Company;
 - (iv) if a compromise or arrangement between our Company and its members or creditors is proposed for the purpose of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company, our Company shall give notice thereof to the grantees who have Options unexercised at the same time as it dispatches notices to all members or creditors of our Company summoning the meeting to consider such a compromise or arrangement and thereupon each grantee (or his legal representatives or receiver) may until the expiry of the earlier of:
 - (1) the "Option Period" (in respect of any particular Option, the period commencing immediately after the business day (as defined in the Listing Rules) on which the Option is deemed to be granted and accepted in accordance with the Share Option Scheme and expiring on a date to be determined and notified by our Directors to each grantee provided that such period shall not exceed the period of 10 years from the date of the grant of a particular Option but subject to the provisions for early termination thereof contained in the Share Option Scheme);
 - (2) the period of two months from the date of such notice; or

- (3) the date on which such compromise or arrangement is sanctioned by the court, exercise in whole or in part his Option.
- (v) in the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it dispatches such notice to each member of our Company give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than two Business Days (as defined in the Listing Rules) prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day (as defined in the Listing Rules) immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

13. Life of Share Option Scheme

Unless otherwise terminated by our Board or our Shareholders in general meeting in accordance with the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting Options granted prior to the expiry of the 10-years period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

14. Lapse of Share Option Scheme

An Option shall lapse automatically and not be exercisable, to the extent not already exercised, on the earliest of:

- (a) the expiry of the Option Period;
- (b) the expiry of any of the period referred to paragraphs related to exercise of Option;
- (c) subject to the period mentioned in paragraph (d)(v) of “Exercise of Option” in this section, the date of the commencement of the winding-up of our Company;
- (d) there is an unsatisfied judgement, order or award outstanding against the Grantee or the Board has reason to believe that the Grantee is unable to pay or to have no reasonable prospect of being able to pay his/its debts; or
- (e) there are circumstances which entitle any person to take any action, appoint any person, commence proceedings or obtain any order of the type mentioned in the Share Option Scheme; or

- (f) a bankruptcy order has been made against any director or shareholder of the Grantee (being a corporation) in any jurisdiction.

15. Adjustment

In the event of a Capitalization Issue, rights issue, sub-division or consolidation of Shares or reduction of our Company's share capital while any Option remains exercisable, but excluding, for the avoidance of doubt, any alteration in our Company's capital structure as a result of an issue of Shares as consideration in a transaction to which our Company is a party, the auditors or the financial adviser engaged by our Company for such purpose shall determine what adjustment is required to be made to the subscription price, the number of Shares to be issued on exercise of the Options (or any combination of the foregoing), provided that any such adjustments give the Option Holder the same proportion of our Company's equity capital and no adjustment may be made to the extent that Shares would be issued at less than their nominal value.

16. Cancellation of Options not exercised

Any Options granted but not exercised may be cancelled if the Option Holder so agrees and new Options may be granted to the same Option Holder provided such Options fall within the limits, specified in paragraph (3)(a) above and are otherwise granted in accordance with the terms of the Share Option Scheme.

17. Ranking of Shares

The Shares to be allotted and issued to an Option Holder upon the exercise of an Option shall be subject to all the provisions of the Articles of Association for the time being in force and will rank *pari passu* with the fully paid Shares in issue on the date the name of the Option Holder is registered on our Company's register of members. Prior to the Option Holder being registered on our Company's register of members, the Option Holder shall not have any voting rights, or rights to participate in any dividends or distributions (including those arising on a liquidation of our Company), in respect of the Shares to be issued upon the exercise of the Option.

18. Termination

Our Company, by ordinary resolution of our shareholders, or our Board, may at any time terminate the operation of the Share Option Scheme and in such event no further Options will be offered or granted, but in all other respects the Share Option Scheme shall remain in full force and effect. Any granted but unexercised and unexpired Options shall continue to be exercisable in accordance with their terms of issue after the termination of the Share Option Scheme.

19. Transferability

The Options are personal to the Option Holders and are not transferable, except for the transmission of an Option on the death of an Option Holder to his personal representative(s) on the terms of the Share Option Scheme.

20. Amendment

Subject to the terms set out in the paragraph below, our Board may amend any of the provisions of the Share Option Scheme (including without limitation amendments in order to comply with changes in legal or regulatory requirements and amendments in order to waive any restrictions, imposed by the provisions of the Share Option Scheme, which are not found in Chapter 17 of the Listing Rules) at any time (but not so as to affect adversely any rights which have accrued to any Option Holder at that date).

Those specific provisions of the Share Option Scheme which relate to the matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of Option Holders, and no changes to the authority of the Directors or administrator of the Share Option Scheme in relation to any alteration of the terms herein shall be made, without the prior approval of the shareholders in general meeting. Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature, or any change to the terms of Options granted, must be approved by the shareholders in general meetings, except where the alterations take effect automatically under the existing terms of the Share Option Scheme. The Share Option Scheme so altered must comply with Chapter 17 of the Listing Rules.

21. Conditions of the Share Option Scheme

The Share Option Scheme is conditional on:

- (a) the Listing Committee granting approval of the listing of, and permission to deal in, the Shares which may be issued pursuant to the exercise of Options under the Share Option Scheme; and
- (b) the commencement of dealings in the Shares on the Stock Exchange.

If any of the above conditions are not satisfied within two calendar months after the adoption date of the Share Option Scheme (or such later date as our Board may decide), the Share Option Scheme shall forthwith terminate and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme. Application has been made to the Stock Exchange for the listing of 160,000,000 Shares which may be issued pursuant to the exercise of Options under the Share Option Scheme.

H. OTHER INFORMATION**1. Estate duty, tax and other indemnity**

Each of our Controlling Shareholders has entered into a Deed of Indemnity with and in favor of our Company (for itself and as trustee for each of its present subsidiaries) to provide indemnities on a joint and several basis, in respect of, among other things:

- (a) any taxation which might be payable by any member of our Group in respect of any income, profits or gains earned, accrued or received or which are alleged to have, or which are deemed to be earned or accrued or received on or before the Listing Date;

- (b) any taxation claim which might be payable by any member of our Group under or by reason of any transfer of any property to any member of our Group or to any other person, entity or company made or deemed to have been made on or before the Listing Date; and
- (c) all damages, losses and liabilities arising from or in connection with any property claim and/or any other liability claim including but not limited to any breach or non-compliance with any applicable laws and regulations (including without limitation, any inter-enterprise lending or any advances made to a director of the Group that violates the General Regulation of Loans promulgated by the People's Bank of China) to the extent that the events leading to such damages, losses and liabilities occurred prior to the Listing Date and any such damages, losses and liabilities are not paid by the insurer under any relevant insurance policy (if any).

Each of our Controlling Shareholders will however not be liable under the Deed of Indemnity for taxation claim or liability to the extent that:

- (a) provision, reserve or allowance has been made for such taxation in the combined audited accounts of our Group for the three years ended 31 December 2010;
- (b) such taxation or liability is discharged by another person and that no member of our Group is required to reimburse such person in respect of the discharge of the taxation or liability;
- (c) our Company is primarily liable for such taxation or liability as a result of transactions entered into or pursuant to a legally binding commitment created in the ordinary course of business of any member of our Group after the Listing Date; or
- (d) such claim arises or is incurred as a consequence of any retrospective change in the law or regulation or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the tax authorities of the PRC, Cayman Islands, BVI or any other authority in any part of the world coming into effect after the Listing Date or such claim arises or is increased by an increase in rates of taxation after the Listing Date with retrospective effect.

Each of the PRC Shareholders has entered into a deed of indemnity with and in favor of our Company (for itself and as trustee for each of its present subsidiaries) to provide indemnities on a joint and several basis, in respect of all damages, losses and liabilities arising from or in connection with their non-compliance with Circular 75.

2. Litigation

As of the Latest Practicable Date, neither we nor any of our subsidiaries were/was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on its results of operations or financial condition.

3. Preliminary expenses

Our estimated preliminary expenses are approximately HK\$113,470 and have been paid by us.

4. Promoter

There are no promoters of our Company.

5. Sponsor

The Sole Sponsor made an application on our behalf to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue as mentioned herein, the Shares to be issued pursuant to the Capitalization Issue and any Shares falling to be issued pursuant to the exercise of the Over-allotment Option, and the Shares that may be issued upon the exercise of options granted under the Pre-IPO Share Option Scheme and that may be granted under the Share Option Scheme. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

6. No material adverse change

Our Directors confirm that there has been no material adverse change in their financial or trading position or prospects since 31 December 2010 (being the date to which our latest audited combined financial statements were made up).

7. Binding effect

This Prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

8. Miscellaneous

(1) Save as disclosed in this Prospectus:

- (a) within the two years immediately preceding the date of this Prospectus, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (b) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (c) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
- (d) within the two years immediately preceding the date of this Prospectus, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group;

- (e) within the two years preceding the date of this Prospectus, no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company;
 - (f) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought; and
 - (g) we have no outstanding convertible debt securities.
- (2) There has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this Prospectus.

9. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice contained in this Prospectus:

<u>Name</u>	<u>Qualification</u>
Merrill Lynch Far East Limited (Sole Sponsor)	Licensed under the SFO for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
KPMG	Certified Public Accountants
BMI Appraisals Limited	Independent professional property valuer
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Jingtian & Gongcheng	PRC legal adviser to our Company

10. Consents of experts

Each of Merrill Lynch Far East Limited, KPMG, BMI Appraisals Limited, Conyers Dill & Pearman and Jingtian & Gongcheng has given and has not withdrawn its consent to the issue of this Prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

11. Bilingual prospectus

The English language and the Chinese language versions of this Prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this Prospectus and delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms, the written consents referred to in the section headed “Appendix VI — Consents of experts” in this Prospectus and copies of the material contracts set out in the section headed “Appendix VI — Summary of the material contracts” in this Prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Orrick, Herrington & Sutcliffe at 43rd Floor, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong, during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this Prospectus:

- (1) the Memorandum and the Articles of Association;
- (2) the Accountants’ Report prepared by KPMG, the text of which is set out in Appendix I to this Prospectus;
- (3) the audited financial statements as have been prepared for the companies now comprising our Group for each of the three years ended 31 December 2010;
- (4) the letter received from KPMG on unaudited pro forma financial information, the text of which is set out in Appendix II to this Prospectus;
- (5) the letters relating to the profit forecast, the texts of which are set out in Appendix III to this Prospectus;
- (6) the letter, summary of values and valuation certificates relating to the property interests of our Group prepared by BMI Appraisals Limited, the texts of which are set out in Appendix IV to this Prospectus;
- (7) the material contracts set out in the section headed “Appendix VI — Summary of the material contracts” in this Prospectus;
- (8) the service contracts with our Directors set out in the paragraph headed “Appendix VI — Directors’ service contracts” in this Prospectus;
- (9) the written consents set out in the paragraph headed “Appendix VI — Consents of experts” in this Prospectus;
- (10) the PRC legal opinions prepared by Jingtian & Gongcheng, our PRC legal adviser, in respect of certain aspects of our Group and our property interests;
- (11) the letter of advice prepared by Conyers Dill & Pearman summarizing certain aspects of Companies Law referred to in Appendix V to this Prospectus;
- (12) the Companies Law; and
- (13) the rules of the Pre-IPO Share Option Scheme and the Share Option Scheme.



hosa

HOSA INTERNATIONAL LIMITED
浩沙國際有限公司

