
CONNECTED TRANSACTIONS

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

According to the Regulation on Administration of Foreign-Invested Telecommunications Enterprises, which were issued on December 11, 2001 by the State Council of the PRC and became effective on January 1, 2002, as amended on September 10, 2008, a foreign investor is currently prohibited from owning more than 50% of the equity interest in a PRC entity that provides value-added telecommunications services. Internet information services are classified as value-added telecommunications businesses, and a commercial operator of such services must obtain an ICP license from the appropriate telecommunications authorities in order to carry on any commercial Internet information services operations in the PRC. In July 2006, the MIIT issued a notice which prohibits ICP license holders from leasing, transferring or selling their licenses to any foreign investors in any form, or providing any resources, sites or facilities to any foreign investors for their illegal operation of telecommunications businesses in the PRC. The notice also requires that ICP license holders or their shareholders directly own the domain names and trademarks used by such ICP licence holders in their daily operations. For additional information regarding the notice mentioned above and other PRC regulations governing the value-added telecommunication services industry, please refer to the section headed “Regulations” in this prospectus.

As a result of the restrictions on foreign investment in value-added telecommunication service industry set by the PRC laws and in order for our Group to be able to carry on its online store business through self-owned websites in the PRC, our Group has entered into a series of Structure Contracts with Shanghai Desheng and its shareholder, Mr. Zhong. These Structure Contracts enable our Group, through its wholly-owned subsidiary, Shanghai Boshiwa, to exercise control over Shanghai Desheng and to consolidate the company’s financial results into our Group’s results. By way of the Structure Contracts, the Proxy Agreement gives the individual designated by our Group the irrevocable right to exercise the proxy right of the shareholder of Shanghai Desheng; the Management and Operation Consulting Agreement provides our Group the right to recommend for the appointment of directors, officers and senior management to Shanghai Desheng; the Exclusive Technical Consulting and Services Agreement allows Shanghai Boshiwa to determine the amount of the service fees to be paid by Shanghai Desheng to ensure that all revenue and capital distributions made by Shanghai Desheng flow to Shanghai Boshiwa; the Exclusive Call Option Agreement gives our Group the exclusive option to acquire the equity interests of Shanghai Desheng at anytime to the extent permitted by the PRC laws; and the Equity Interests Pledge Agreement guarantees the performance by Shanghai Desheng of its obligation to pay the service fees under the Exclusive Technical Consulting and Services Agreement. Shanghai Desheng is regarded as a special purpose entity of our Group in which our Group has the power to govern its financial and operating policies so as to obtain benefits from its activities. Accordingly, our Group has the right to consolidate the financial results of Shanghai Desheng as if it is a wholly owned subsidiary of our Group in accordance to IFRS 3.

Shanghai Desheng has applied to Shanghai Communications Administration for the ICP license in July 2010 and pursuant to the applicable PRC laws and regulations, Shanghai Communications Administration shall decide whether to grant the approval within 60 days after receipt of the application documents and the ICP license, once issued, shall be valid for 5 years. For details of our Group’s Structure Contracts arrangement with Shanghai Desheng, please refer to the section headed “History and Corporate Structure” in this prospectus.

Mr. Zhong, an executive Director and the chief executive officer of our Company, beneficially owns 100% equity interests in Shanghai Desheng. Accordingly, Shanghai Desheng is an associate of Mr. Zhong and therefore a connected person of our Company. Certain transactions under the Structure Contracts would therefore be considered as connected transactions and, unless an exemption is available under the Listing Rules, our Company must comply with the applicable reporting,

CONNECTED TRANSACTIONS

announcement and independent shareholders' approval requirements of Chapter 14A of the Listing Rules.

In view of our diversified sales channels and our aim to further develop our online stores sales channel, our Directors (including the independent non-executive Directors) are of the view that the Structure Contracts are fundamental to the legal structure for the operation of our online sales business through self-owned websites and are entered in the ordinary and usual course of business of our Group on normal commercial terms and are fair and reasonable or to the advantage of our Group and are in the interests of the Shareholders as a whole. Our Directors also believe that our Group's structure whereby the financial results of Shanghai Desheng are consolidated into our Group's financial statements as if it was our Group's wholly-owned subsidiary, and the economic benefit of its business flows to our Group, places our Group in a special position in relation to the connected transaction rules. Accordingly, notwithstanding that the Structure Contracts technically constitute continuing connected transactions for the purposes of Chapter 14A of the Listing Rules, our Directors consider that it would not be appropriate and that it would be unduly burdensome and impractical for all transactions under the Structure Contracts to be subject to strict compliance with the requirements set out by Chapter 14A of the Listing Rules, including, amongst other things, the periodic announcement and approval of the independent shareholders of our Company.

Our Company's legal advisers as to PRC laws have confirmed that subject to the disclosures in the section headed "Risk Factors" in this prospectus, the Structure Contracts among Shanghai Boshiwa, Shanghai Desheng and its shareholder, Mr. Zhong, are valid and legally binding under, and will not result in any violation of, the existing PRC laws or regulations.

The Joint Sponsors are of the view that on the basis that our Company utilizes diversified sales channels for the sale of our products and we aim to further develop our online stores sales channel, the Structure Contracts are fundamental to the legal structure for the operation of our online sales business through self-owned websites. The Joint Sponsors are also of the view that the continuing connected transactions under the Structure Contracts are entered in the ordinary and usual course of business of our Group on normal commercial terms and are fair and reasonable and in the interests of our Shareholders as a whole. Furthermore, the Joint Sponsors are of the view that the Structure Contracts are required to be of a duration of more than three years for the following reasons: (1) the Structure Contracts are to enable our Group, through our wholly-owned subsidiary, Shanghai Boshiwa, to exercise control over Shanghai Desheng and to consolidate Shanghai Desheng's financial results into our Group's results. The longer the term of the Structure Contracts would be, the more secure our Company's interests in Shanghai Desheng would be. Therefore, it would be in the interests of our Company and our Shareholders as a whole that the Structure Contracts are to be of such duration of more than three years; and (2) our Group intends that online sales will continue to be part of our business distribution channels in the future. The longer the term of the Structure Contracts would be, the less interruption would our Company suffer in our online sales, and it would be in the interests of our Company and our Shareholders as a whole. The Joint Sponsors consider that it is normal business practice for contracts of the type of the Structure Contracts of our Company to be of a duration of more than three years.

CONNECTED TRANSACTIONS

Our Group has applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of announcement, independent shareholders' approval, disclosure of maximum aggregate annual value and the basis, and fixed period for the agreements not exceeding three years, as set out in Chapter 14A of the Listing Rules in respect of the continuing connected transactions under the Structure Contracts, for so long as Shares are listed on the Stock Exchange and with the following conditions:

- no changes without independent non-executive Directors' approval: Except as described below, no changes to the Structure Contracts will be made without the approval of our independent non-executive Directors.
- no changes without independent shareholders' approval: No changes to the Structure Contracts will be made without the approval of our Company's independent shareholders.
- economic benefits flexibility: The Structure Contracts continue to enable our Group to receive the economic benefits derived by Shanghai Desheng through: (i) our Group's potential right (if and when PRC law releases the restriction on foreign investment in value-added telecommunications services) to acquire Shanghai Desheng's equity interests; (ii) the business structure under which the revenue generated by the cooperation between our Group and Shanghai Desheng is mainly retained by our Group; and (iii) our Group's right to govern the financial and operating policies as well as, in substance, all of the voting rights of Shanghai Desheng.
- renewal and cloning: The framework of the Structure Contracts may be renewed and/or cloned upon the expiry of the existing arrangements or, in relation to any existing or new wholly foreign-owned enterprise or operating company that our Group might wish to establish, without obtaining the approval of our Company's shareholders, on substantially the same terms and conditions as the Structure Contracts. The directors, chief executive or substantial shareholders (as defined in the Listing Rules) of any existing or new wholly foreign-owned enterprise or operating company that our Group may establish upon renewal and/or cloning of the Structure Contracts will be treated as our Group's connected persons and transactions between these connected persons and our Group other than those under similar Structure Contracts shall comply with Chapter 14A of the Listing Rules. This condition is subject to the relevant laws, regulations and approvals of the PRC.
- ongoing reporting and approvals: Our Group will disclose details relating to the Structure Contracts on an ongoing basis as follows:
 - details of the Structure Contracts, including parties to the contracts, brief description of the contracts and their purposes, major terms of the contracts and the transaction amount (if applicable) under each contract during the year, will be disclosed in our Company's annual reports and accounts in accordance with the relevant provisions of the Listing Rules.
 - our independent non-executive Directors will review the Structure Contracts annually, and confirm in our Company's annual reports and accounts for the relevant year that: (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Structure Contracts so that the revenue generated by Shanghai Desheng has been mainly retained by our Group; (ii) no dividends or other distributions have been made by Shanghai Desheng to its shareholders; and (iii) any new Structure Contracts entered into, renewed or reproduced between our Group and Shanghai Desheng during the relevant financial period are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of our Company's shareholders as a whole.

CONNECTED TRANSACTIONS

- our Group’s auditors will carry out review procedures annually on the transactions under the Structure Contracts and will provide a letter to our Directors with a copy to the Stock Exchange, at least ten Business Days before the bulk-printing of our Company’s annual report, confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Structure Contracts and that no dividends or other distributions have been made by Shanghai Desheng to its shareholders.
- for the purposes of Chapter 14A of the Listing Rules, Shanghai Desheng will be treated as a wholly-owned subsidiary of our Company, and the respective directors, chief executives or substantial shareholders (as defined in the Listing Rules) of Shanghai Desheng and its respective associates will be connected persons, and transactions between these connected persons and our Group, other than those under the Structure Contracts, will be subject to requirements under Chapter 14A of the Listing Rules.
- Shanghai Desheng will undertake that it will provide our Group’s management and auditors with full access to its relevant records for the purpose of our Group’s auditors’ review of the connected transactions.

In addition to the current Structure Contracts, there may be other contracts in the future between our Group and Shanghai Desheng. Given that the financial results of Shanghai Desheng are consolidated into our Group’s financial results, and given the relationship between our Group and Shanghai Desheng created by the Structure Contracts, transactions between our Group and Shanghai Desheng will be exempted from the “continuing connected transactions” provisions set out in Chapter 14A of the Listing Rules.