

### RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Immediately after completion of the Global Offering (assuming that the Over-allotment Option is not exercised), Sky Halo will effectively hold approximately 68.65% of the total issued share capital of the Company. Sky Halo is owned by Mr. Huang as to approximately 39.72%, Mr. Huang Chih Chien as to approximately 39.72%, Mr. Chan as to approximately 6.86%, Mr. Au as to approximately 6.52%, Ms. Chang as to approximately 3.43% and Ms. Tang as to approximately 3.75%. Mr. Huang and Mr. Huang Chih Chien confirmed that they have been acting in concert for the purpose of controlling the Group throughout the Track Record Period. Sky Halo will continue to control more than 30% of our issued share capital. As such, Sky Halo, Mr. Huang and Mr. Huang Chih Chien will remain as Controlling Shareholders after the Global Offering.

Apart from the Group, the Controlling Shareholders and their respective associates currently have interests in other businesses such as the manufacture and sale of sweater knitwear products. For details of the Excluded Businesses, please refer to the paragraph headed “Excluded businesses” in this section of the prospectus. To ensure that competition will not exist in the future, the Controlling Shareholders have entered into the Deed of Non-competition with us to the effect that each of them will not, and will procure each of their respective associates not to, directly or indirectly participate in, or hold any right or interest or otherwise be involved in, any business which may be in competition with our businesses.

### EXCLUDED BUSINESSES

#### Introduction

We are an apparel supply chain services provider for woven wear and cut-and-sewn knitwear products and an operator of apparel retail businesses in the PRC. Prior to the Reorganisation, our key businesses and companies were directly and indirectly held through Peakwin Group and on trust for the Huang Brothers. Peakwin Group is held as to 50% by Mr. Huang and 50% by Mr. Huang Chih Chien. As part of the Reorganisation, our key businesses and PRC operating subsidiaries were transferred from Peakwin Group, Ms. Zhuo Meijuan and Ms. Li Minhua to companies comprising the Group as set out in the section headed “History and Corporate Structure — Reorganisation” in this prospectus. In order to focus on our businesses and in line with our strategic direction and development plan, the Controlling Shareholders have excluded certain companies which are engaged in the business of manufacturing and selling of sweater knitwear products, as part of the Reorganisation in preparation for the Listing.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

### Companies comprising the Excluded Group

The Excluded Group is principally engaged in the business of manufacturing and selling of sweater knitwear products to garment retailers, majority of which are based in Europe. The Excluded Group does not conduct any retail sales of apparel and accessory products. Details of the Excluded Group are summarised below:

Name of company in the Excluded Group	Principal activities engaged by the company in the Excluded Group	Shareholding of the company in the Excluded Group
1. Jin Feng Holdings (H.K.) Limited 金豐控股(香港)有限公司	Investment holding	Peakwin Group: 100%
2. Jun Da Holdings (H.K.) Limited 駿達控股(香港)有限公司	Investment holding	Peakwin Group: 100%
3. J&F Group Holdings Limited	Investment holding	Peakwin Group: 50% An Independent Third Party: 50%
4. Yi Cheng Holdings (H.K.) Limited 億城控股(香港)有限公司	Investment holding	Peakwin Group: 100%
5. Peakwin Group	Investment holding	Mr. Huang: 50% Mr. Huang Chih Chien: 50%
6. J&F International Holdings Limited 振豐國際實業有限公司	Investment holding and provision of management services. The management services refer to services of assigning and/or seconding its employees to various members of the Excluded Group.	J&F Group Holdings Limited: 80% An Independent Third Party: 20%
7. 金豐製衣(惠州)有限公司 (Jinfeng Garment (Huizhou) Company Limited*)	Manufacturing and selling various kinds of sweater knitwear	Jin Feng Holdings (H.K.) Limited: 100%
8. 駿達製衣廠(惠州)有限公司 (Junda Garment Factory (Huizhou) Company Limited*) ("Junda Huizhou")	Weaving, manufacturing and selling various kinds of sweater knitwear and soft toys	Jun Da Holdings (H.K.) Limited: 100%
9. Ying Feng Holdings (H.K.) Limited 瀛豐控股(香港)有限公司	Subcontracting of sweater knitwear	Peakwin Group: 100%

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Name of company in the Excluded Group	Principal activities engaged by the company in the Excluded Group	Shareholding of the company in the Excluded Group
10. 瀛豐製衣(惠州)有限公司 (Yingfeng Garment (Huizhou) Company Limited*)	Manufacturing and selling various kinds of sweater knitwear	Ying Feng Holdings (H.K.) Limited: 100%
11. J&F Knitters Limited 振豐織造有限公司	Sweater knitwear trading	J&F International Holdings Limited: 100%
12. Shing Fun International Industrial Limited 勝豐國際實業有限公司	Manufacturing and trading of sweater knitwear and investment holding	Peakwin Group: 100%
13. 勝豐織造製衣(惠州)有限公司 (Shingfeng Weaving Garment (Huizhou) Company Limited*)	Weaving and dyeing of high-grade fabric and finishing process; weaving, dyeing, manufacturing and selling various kinds of sweater knitwear and soft toys	Shing Fun International Industrial Limited: 100%
14. Team Fast Limited 群迅有限公司	Trading of sweater knitwear	Shing Fun International Industrial Limited: 70% An Independent Third Party: 30%
15. 億城織造製衣(惠州)有限公司 (Yicheng Weaving Garment (Huizhou) Company Limited*)	Weaving, manufacturing and selling various kinds of sweater knitwear and soft toys	Yi Cheng Holdings (H.K.) Limited: 100%
16. Ceiba International Limited 綵裕國際有限公司	Trading and manufacturing of sweater knitwear	Shing Fun: 66.67% An Independent Third Party: 33.33%
17. 東莞勝德織造有限公司 (Dongguan Shengde Weaving Company Limited*)	Producing and selling of sweater knitwear	Shing Fun: 100%
18. First Victory Yarn Trading Company Limited 創勝毛紗貿易有限公司	Manufacturing of cotton yarn and dyeing	Shing Fun: 57.5% Independent Third Parties: 42.5%
19. Shine Way Knitting Garment Factory Limited 勝威針織製衣有限公司	No current operation	J&F International Holdings Limited: 100%
20. Shing Fun	Investment holding	Mr. Huang: 30% Mr. Huang Chih Chien: 30% Ms. Huang Li Hun, Serlina: 20% Ms. Huang Li Ming: 20%

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Name of company in the Excluded Group	Principal activities engaged by the company in the Excluded Group	Shareholding of the company in the Excluded Group
21. First Victory Trading Limited 創勝貿易有限公司	No current operation	Shing Fun: 57.5% Independent Third Parties: 42.5%
22. Wealth Famous International Limited 譽寶國際有限公司	No current operation	Fortune Elite: 100%
23. Goalwill Apparel Limited 高業服裝有限公司	No current operation	Peakwin Group: 51% An Independent Third Party: 49%

The Controlling Shareholders have no current plan to inject the Excluded Business into the Group.

Other than the above companies, the Huang Brothers are also interested in a number of companies which are not engaged in the garment manufacturing industry, such as companies engaged in the business of manufacturing of packing materials, property investment and energy saving technology and their respective holding companies.

### Comparison of financial information between the Group and the Excluded Group

The table below sets out the comparison of the revenue, gross profit, gross margin, profit for the year between the Group and the Excluded Group during the Track Record Period:

	For the year ended 31 December 2009 <i>HK\$'000</i>	For the year ended 31 December 2010 <i>HK\$'000</i>	For the year ended 31 December 2011 <i>HK\$'000</i>	For the six months ended 30 June 2012 <i>HK\$'000</i>
<b>Revenue</b>				
— Group	830,207	1,103,721	1,167,934	446,809
— Excluded Group <sup>(1)</sup>	1,311,427	1,446,648	1,610,796	481,389
— Excluded Group (Adjusted) <sup>(2)</sup>	1,210,631	1,062,434	1,168,494	337,167
<b>Gross Profit</b>				
— Group	93,723	107,855	202,233	79,834
— Excluded Group <sup>(1)</sup>	176,997	187,544	151,194	64,866
<b>Gross Margin</b>				
— Group	11.3%	9.8%	17.3%	17.9%
— Excluded Group <sup>(1)</sup>	13.5%	13.0%	9.4%	13.5%
<b>Profit for the year</b>				
— Group	23,381	21,515	83,837	21,210
— Excluded Group <sup>(1)</sup>	15,564	21,615	46,139	69,409

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Notes:

- (1) The financial information of the Excluded Group is unaudited and was derived from a pure mathematical summation of financial data stated in the audited accounts of respective companies prepared by local auditors individually and/or unaudited management accounts prepared by the management of the Excluded Group without taking into account any possible audit adjustments and might be prepared in accordance with accounting standards different from those of the Company.
- (2) The adjusted revenue of the Excluded Group represents revenue of the Excluded Group prepared by the management of the Excluded Group based on note (1) above and adjusted by elimination of intra-group sales within the Excluded Group.

The table below sets out the comparison of the total equity between the Group and the Excluded Group during the Track Record Period:

	As at 31 December 2009 <i>HK\$'000</i>	As at 31 December 2010 <i>HK\$'000</i>	As at 31 December 2011 <i>HK\$'000</i>	As at 30 June 2012 <i>HK\$'000</i>
<b>Total Equity</b>				
— Group	30,976	34,588	104,868	63,604
— Excluded Group ( <i>Note</i> )	207,910	220,107	267,720	277,801

*Note:* The financial information of the Excluded Group is unaudited and was derived from a pure mathematical summation of financial data stated in the accounts of respective companies audited by local auditors individually and/or unaudited management accounts prepared by the management of the Excluded Group without taking into account any possible audit adjustments and might be prepared in accordance with accounting standards different from those of the Company.

The table below sets out the comparison of the number of sales orders between the Group and the Excluded Group which were allocated for in-house production or in whole or partially to third-party manufacturers in 2011:

	<b>In-house production</b> <i>(‘000 units)</i>	<b>Third-party manufacturers</b> <i>(‘000 units)</i>
Group	512	23,292
Excluded Group	3,113	9,340

### Differences in the business of the Group and the Excluded Group

None of the companies within the Excluded Group carries out the business in the design, development and production management of woven wear and cut-and-sewn knitwear products produced by the Group or apparel retail business engaged by the Group. However, some of the companies within the Excluded Group are engaged in the manufacture and sale of sweater knitwear products.

The products of the Group are cut-and-sewn knitwear and woven wear and the products of the Excluded Group are sweater knitwear. The cut-and-sewn knitwear and the woven wear are apparels produced by cutting knitted fabric and woven fabric, respectively, into panels and sewing them together whereas the sweater knitwear is apparel manufactured with each component to the specific size and shape which are formed by interloping of yarns and the knitted panels are stitched together. The designs and functions of the above three kinds of products are different and they generally do not overlap with each other. The raw materials,

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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machineries, production skills and techniques used in the production of sweater knitwear products are not interchangeable with those used in the production of our cut-and-sewn knitwear products and woven wear products. On this basis, the Directors believe that there is clear delineation of the Excluded Businesses from the Group's businesses. For details, please refer to the paragraph headed "Excluded businesses — Comparison of products and manufacturing process between the Group and the Excluded Group" in this section of the prospectus.

Further, in the manufacture and sale of our woven wear and cut-and-sewn knitwear products, our major customers are garment retailers. The garment retailers are generally making procurement plans as to the quantity of each types of products (including woven wear, cut-and-sewn knitwear and sweater knitwear) in accordance with the market trend and such procurement plan would not be affected by a single garment manufacturer's pricing and quality of different types of products.

In other words, even if the Group's product price and quality do not meet the requirements of our major customers, such major customers would only purchase the same types of products (i.e woven wear and cut-and-sewn wear products) from other garment manufacturers and would not transpire to purchase different types of products (such as sweater knitwear products) from the Excluded Group as a substitute. On this basis, the Directors believe that the products of the Group are not substitutable with the products of the Excluded Group and competition between the Group and the Excluded Group does not exist.

### **Comparison of products and manufacturing process between the Group and the Excluded Group**

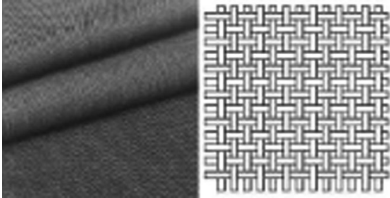
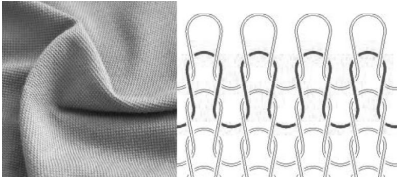

The details of the difference in terms of the products and manufacturing process between the Group and those of the Excluded Group are set out below:

	<b>The Group</b>	<b>The Excluded Group</b>
(1) Different types of products	<p>The Group's woven and cut-and-sewn knitwear products mainly include:</p> <p>(a) Upper-outer-wear: mainly woven products such as coat and jackets</p> <p>(b) Upper-wear: mainly cut-and-sewn knitwear products such as t-shirts, polo-shirt, sweat shirt and track shirt</p> <p>(c) Bottom-wear: mainly woven products such as denim jeans and smart casual or sport pants</p>	<p>The Excluded Group's sweater knitwear products mainly include upper-wear, such as cardigans, knitted sweaters and knitted outer coats</p>

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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	The Group	The Excluded Group
(2) Different raw materials	<p>The major raw materials that the Group purchases for the production of its woven wear are woven fabric and those for cut-and-sewn knitwear are knitted fabric</p> <p>Woven fabric</p>  <p>Knitted fabric</p> 	<p>The major raw materials that the Excluded Group purchases for the production of its sweater knitwear are yarns</p> 
(3) Different and independent access to suppliers	<p>Fabric mills provide fabrics of different specifications (such as weight, composition and construction) according to the Group's requirements</p>	<p>Suppliers provide yarns of different specifications (such as composition and yarn count) according to the Excluded Group's requirements</p>
(4) Different production techniques, technical process and workflow	<p>(a) Manufacturing of woven wear and cut-and-sewn knitwear products are through cutting woven and knitted fabrics to different shapes and sewn together to form a garment</p>	<p>(a) Manufacturing of sweater knitwear products are through knitting the yarn into different components of specific size and shape and then stitched together to form a garment</p>

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

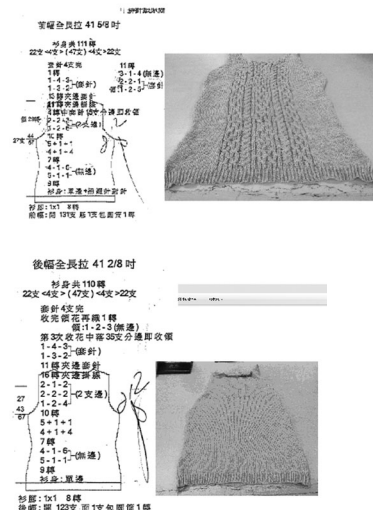
### The Group

- (b) The technical staff transfers the dimensions to paper patterns according to the design of garments



### The Excluded Group

- (b) The technical staff uses design software to create stitching patterns according to the design of garments



- (c) The fabrics are cut to the dimensions of the paper patterns and the panels consisting of separate front and back sections, sleeves and trims



- (c) The flat knitting machine knits the yarn into different components including front and back sections, sleeves and trims (also known as "swatches")





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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### The Group

- (d) The production staff carries out assembling procedures by using sewing machines to assemble the panels into a garment. The machines used to produce the woven wear and cut-and-sewn knitwear products are interchangeable by replacing the needles of the sewing machines. But these sewing machines cannot be applied to sewing the swatches of sweater knitwear products together to form a garment



- (e) The woven wear and cut-and-sewn knitwear products only undergo washing process under specific request by the customers

### The Excluded Group

- (d) The production staff carries out linking procedures by using the looping machines to link the swatches together to form a garment. But these looping machines cannot be applied to looping the panels of the woven wear and cut-and-sewn knitwear products together to form a garment



- (e) Nearly 100% of the sweater knitwear products undergo washing process. The washing process can make the sweater knitwear products to meet the requirements of the customers




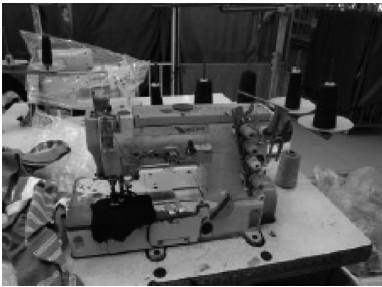
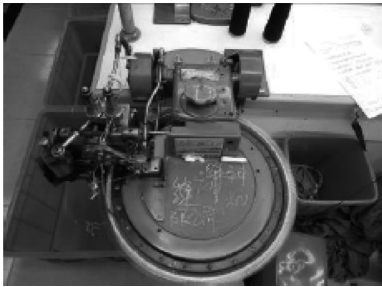
- (f) No ironing board is needed to maintain the shape of the products during the ironing process



- (f) Ironing board is required to maintain the shape of the products during the ironing process



## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

	The Group	The Excluded Group
(5) Different production machineries	<p>The major production machineries are as follows:</p> <p>Lockstitch machine (平縫機)</p>  <p>Coverstitch machine (裝飾縫機)</p> 	<p>The major production machineries are as follows:</p> <p>Computerised flat knitting machine (電腦針織橫機)</p>  <p>Looping machine (縫合機)</p> 

### DELINEATION IN BUSINESS BETWEEN THE GROUP AND THE EXCLUDED GROUP AND INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS AND THEIR ASSOCIATES (OTHER THAN THE GROUP)

The Directors consider that despite the fact that the Excluded Businesses also fall within the garment industry, given the dissimilarities between the operations and products of the Excluded Group and those of the Group, there is a clear delineation in business between the Group and the Excluded Group. Further, the Directors are also satisfied that the Group can carry on businesses independently of the Excluded Group and its associates after the Listing and will be operationally and financially independent from the Controlling Shareholders and their associates (other than the Group) on the basis of the following:

#### (1) Separate lines of business

The operations of the Group are independent of and separate from the businesses of the Excluded Group. The Directors are of the view that there is a clear delineation between the Excluded Businesses and our businesses for the reason as set out in the paragraph headed “Excluded Businesses — Comparison of products and manufacturing process between the Group and the Excluded Group” in this section of the prospectus. The Excluded Businesses were not injected into the Group as part of the Reorganisation, as the Directors are of the view that such Excluded Businesses neither form part of our businesses nor are in line with our overall strategy to engage in the design, development

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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and production management of woven wear and cut-and-sewn knitwear products under the provision of apparel supply chain services and the operation of apparel retail business in the PRC.

### (2) Independence of boards and management

The Board comprises four executive Directors and four independent non-executive Directors. Despite the interests of Mr. Huang and Mr. Huang Chin Chien, two of the Controlling Shareholders, in certain businesses outside the Group, we consider that our Board will function independently from the Controlling Shareholders because:

- (a) each Director, including Mr. Huang, is aware of his fiduciary duties as a Director which requires, among other things, that he acts for the benefit and in the best interests of the Company and does not allow any conflict between his duties as a Director and his personal interest;
- (b) in the event that there is any potential conflict of interest arising out of any transaction to be entered into between the Company and the Directors or their respective associates, each of the interested Directors shall abstain from voting at the relevant board of directors meetings of the Company in respect of such transactions; and
- (c) the Board comprises eight Directors and four of them are independent non-executive Directors, which represents more than one-third of the members of the Board. This is in line with the requirements as set out in the Listing Rules.

The Group and the Excluded Group have boards of directors that function independently of each other. The following table sets forth details of the position of the Directors within the Group and the Excluded Group immediately upon the Listing:

<u>Name</u>	<u>Position within the Group</u>	<u>Position within the Excluded Group</u>
Mr. Huang	Executive Director	Nil
Mr. Chan	Executive Director	Nil
Ms. Tang	Executive Director	Nil
Mr. Au	Executive Director	Nil
Mr. Wong Ting Kon	Independent non-executive Director	Nil
Ms. Pang Yuen Shan, Christina	Independent non-executive Director	Nil
Mr. Chang Cheuk Cheung, Terence	Independent non-executive Director	Nil
Mr. Chan Chung Bun, Bunny	Independent non-executive Director	Nil

There is no common director between the Company and the Excluded Group as at the Latest Practicable Date.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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Since the Group commenced its operation in May 2003, Mr. Huang has focused on the management and business of the Group and not participated in the day-to-day management of the Excluded Group. On the other hand, Mr. Huang Chih Chien has remained his executive role and performed the daily management in the Excluded Group.

To ensure there is independence between us and the Excluded Group, Mr. Huang, the executive Director, resigned from all his directorships in the Excluded Group before the Listing Date and will not maintain any other role in the Excluded Group.

The executive Directors have entered into service agreements with the Company which include non-compete undertakings (“**Executive Directors Non-competition Undertakings**”) and the principal terms of which are summarised as follows:

- (a) Each executive Director will not directly or indirectly be involved in or undertake any business that directly or indirectly competes with the Group’s business or undertaking, or invest or be interested in any companies or business that compete directly or indirectly with the Group’s business on and subject to the terms of the Executive Directors Non-competition Undertakings.
- (b) Each executive Director undertakes to provide all information necessary for conducting annual review and the enforcement of the Executive Directors Non-competition Undertakings by the independent non-executive Directors, including but not limited to, confirmations stating their equity interest and directorship in other businesses and copy of audited accounts of companies in which he/she is interested.
- (c) Each executive Director undertakes to make an annual declaration on compliance with the Executive Directors Non-competition Undertakings, and the contents of the declaration will be disclosed in the annual reports of the Company.

The independent non-executive Directors would review the compliance with the terms contained in the Executive Directors Non-competition Undertakings on an annual basis. The Company would disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the Executive Directors Non-competition Undertakings in the annual reports of the Company.

Disclosure on how the Executive Directors Non-competition Undertakings has been complied with and enforced would be consistent with the principles of making voluntary disclosures under the Corporate Governance Code and Corporate Governance Report under appendix 14 to the Listing Rules.

Pursuant to the Executive Directors Non-competition Undertakings, Mr. Huang shall continue to be bound by the terms of the Deed of Non-competition in the event that he ceases to be an executive Director but remains as a Controlling Shareholder.

The interested Director shall abstain from the meeting where there is any actual or potential conflict of interest.

Save for the aforesaid, none of the Directors or senior management of the Group holds any office in or is employed by the Excluded Group.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### (3) Independent production facilities and offices

Our production facilities and offices situate in separate and distinct locations from the Excluded Group's facilities. Our production facilities and offices are located in the following locations in PRC and Hong Kong:

<b>Premises occupied by the Group</b>	<b>Location</b>
Dongguan plant	Nanmian Industrial District, Xiangang Village, Changan Town, Dongguan, the PRC
Huizhou plant	5/F, Tower 2, Shengfeng Industrial Park, Julong Village, Yuanzhou Town, Boluo County, Huizhou, the PRC
Office of Unisex Trading	5/F, Tower 3, Shengfeng Industrial Park, Julong Village, Yuanzhou Town, Boluo County, Huizhou, the PRC
Office of Shanghai Shining	8D, Tower 3, Qilai Industrial Park, No. 889 Yishan Road, Xuhui District, Shanghai, the PRC
Office of Speedy Garment and Jointex Garment	Workshops A to D, 13th Floor, Wing Chai Industrial Building, Nos. 222-224 Choi Hung Road, Nos. 27-29, Ng Fong Street, San Po Kong, Hong Kong

Although our Huizhou plant and office of Unisex Trading and certain facilities of the Excluded Group are located in the same industrial park, they are in separate floors and are operated separately. Furthermore, there is no overlap of personnel between the Group and Excluded Group in Huizhou. The utilities costs of the Huizhou plant and office of Unisex Trading are borne by the Group independently and are not shared with the Excluded Group.

### (4) Independent operation

The Group commenced its operation since 7 May 2003 (the incorporation date of Jointex Garment) and has been operated for approximately 9 years. The Excluded Group commenced its operation since 15 March 1994 (the incorporation date of Shing Fun) and has been operated for approximately 18 years.

The Group has an independent work force to carry out the design, development and production management of woven wear and cut-and-sewn knitwear products under the provision of apparel supply chain services and the operation of apparel retail business in the PRC and has not shared its operation team with the Controlling Shareholders' businesses outside the Group. The Excluded Group also has an independent work force to carry out the manufacture and sale of sweater knitwear products.

The Group and the Excluded Group have different and independent sales network. The sales teams of the Group are located in Hong Kong and the PRC which are independent from the Excluded Group. The Excluded Group has sales teams in Hong Kong and the PRC and sales agents in Europe.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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Although during the Track Record Period, there have been certain transactions between us and our related parties, details of which are set out in note 30 in the Accountant's Report, the Directors have confirmed that these related party transactions which are trade related were conducted in the ordinary course of business and based on fair and reasonable and normal commercial terms. Details of the connected transactions that will continue after the Listing are set out in the section headed "Connected Transactions" in this prospectus.

### (5) Administrative independence

The Group has its own capabilities and personnel to perform all of its essential administrative functions, including invoicing and billing, financial and accounting management, human resources and information technology, without requiring the support of the Excluded Group. The Group also has its independent team of administrative staff working in separate office premises from the Excluded Group. The Directors have confirmed that there are no sharing of resources and administrative staff between the Group and the Excluded Group.

### (6) Independent clientele

Certain customers of the Group, including sizeable garment retailers, placed purchase orders to the Group and the Excluded Group during the Track Record Period.

For the years ended 31 December 2009, 2010 and 2011 and the six months ended 30 June 2012, the Group had a customer base of over 80, 70, 60 and 40 customers, out of which 10, 15, 11 and 3 were common customers of both the Group and the Excluded Group respectively. Such common customers are mainly retailers of apparel products which carry a diversified range of products.

The amount of revenue generated by the common customers of the Group and the Excluded Group and percentage of such revenue represented respectively, during the Track Record Period, were as follows:

*(i) Revenue of the Group from common customers*

	Year ended 31 December			Six months ended
	2009	2010	2011	30 June 2012
Revenue from common customers (HK\$'000)	628,813	903,355	948,277	381,626
Percentage to the revenue of the Group	75.7%	81.8%	81.2%	85.4%
Revenue of the Group (HK\$'000)	830,207	1,103,721	1,167,934	446,809

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

### (ii) Revenue of the Excluded Group from common customers

	Year ended 31 December			Six months ended 30 June
	2009	2010	2011	2012
Revenue from common customers <sup>(1)</sup> (HK\$'000)	115,671	136,202	171,452	27,775
Percentage to the revenue of the Excluded Group <sup>(1)</sup>	9.6%	12.82%	15.23%	9.24%
Revenue of the Excluded Group (Adjusted) <sup>(2)</sup> (HK\$'000)	1,210,631	1,062,434	1,125,793	300,485

Notes:

- (1) The financial information of the Excluded Group is unaudited and was derived from a pure mathematical summation of financial data stated in the accounts of respective companies audited by local auditors individually and/or unaudited management accounts prepared by the management of the Excluded Group without taking into account any possible audit adjustments and might be prepared in accordance with accounting standards different from those of the Company.
- (2) The adjusted revenue of the Excluded Group represents revenue of the Excluded Group prepared by the management of the Excluded Group based on note (1) above and adjusted by elimination of intra-group sales within the Excluded Group.

Notwithstanding the above, the Controlling Shareholders could not exercise any influence on such customers over the choice of sweater knitwear, woven wear or cut-and-sewn knitwear products as it is already pre-determined by the customers. Furthermore, the Group and the Excluded Group negotiated and concluded its sales contracts independently with their respective customers during the Track Record Period. The Directors confirmed that the sales and marketing team of the Group has been operating independently from that of the Excluded Group and therefore does not rely on the Excluded Group to solicit or obtain purchase orders from these customers. There are no bundled sales among the Group and the Excluded Group.

As confirmed by the Directors, the Group has never experienced any material customer or order loss during the Track Record Period as a result of any potential competition between the Group and the Excluded Group.

### (7) Independence of access to suppliers

As the major raw material of woven garment is woven fabric and the major raw material of cut-and-sewn knitted garment is knitted fabric, the Group has its own sources of supplies and raw materials and sales and distribution channels. Such sources of supplies and raw materials and sales and distribution channels are independent from the Excluded Group as the major raw material of sweater knitwear products is yarn. Besides, there are no bundled purchases among the Group and the Excluded Group.

During the Track Record Period, there has been no overlap between suppliers of the Group and that of the Excluded Group.



## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

### (8) Delineation in geographical sales

The Group has primarily focused on the PRC and Hong Kong markets. For the three years ended 2011 and six months ended 30 June 2012, approximately 93.8%, 94.5%, 97.1% and 95.6% of the Group's revenue was derived from sales in the PRC and Hong Kong while an insignificant amount of sales of the Group was derived from the European market and other parts of the world.

In contrast, the Excluded Group has a major proportion of the sales to the European market. For the three years ended 2011 and six months ended 30 June 2012, approximately 55.3%, 78.6%, 80.9% and 80.5% of the Excluded Group's revenue was derived from sales to the European market.

#### (i) Revenue of the Group categorised by locations

The revenue of the Group categorised by the locations of contracting parties during the Track Record Period is as follows:

	Year ended 31 December						Six months ended 30 June	
	2009		2010		2011		2012	
	Group		Group		Group		Group	
	(HK\$'000)	%	(HK\$'000)	%	(HK\$'000)	%	(HK\$'000)	%
PRC and Hong Kong	778,332	93.8%	1,042,915	94.5%	1,133,717	97.1%	427,266	95.6%
Europe	5,417	0.7%	15,054	1.4%	8,879	0.7%	5,406	1.2%
Other parts of the world	46,458	5.5%	45,752	4.1%	25,338	2.2%	14,137	3.2%
Total	<u>830,207</u>	<u>100.0%</u>	<u>1,103,721</u>	<u>100.0%</u>	<u>1,167,934</u>	<u>100.0%</u>	<u>446,809</u>	<u>100.0%</u>

#### (ii) Revenue of the Excluded Group categorised by locations

Based on the information provided by the management of the Excluded Group, the revenue of the Excluded Group categorised by the locations of contracting parties during the Track Record Period is as follows:

	Year ended 31 December						Six months ended 30 June	
	2009		2010		2011		2012	
	Excluded Group		Excluded Group		Excluded Group		Excluded Group	
	(HK\$'000)	%	(HK\$'000)	%	(HK\$'000)	%	(HK\$'000)	%
PRC and Hong Kong	472,360	39.0%	192,274	18.1%	177,891	15.8%	47,654	15.9%
Europe	669,168	55.3%	834,949	78.6%	911,013	80.9%	241,839	80.5%
Other parts of the world	69,103	5.7%	35,211	3.3%	36,889	3.3%	10,992	3.7%
Total	<u>1,210,631</u>	<u>100.0%</u>	<u>1,062,434</u>	<u>100.0%</u>	<u>1,125,793</u>	<u>100.0%</u>	<u>300,485</u>	<u>100.0%</u>



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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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*Note:* The financial information of the Excluded Group is unaudited and was derived from a pure mathematical summation of financial data stated in the accounts of respective companies audited by local auditors individually and/or unaudited management accounts prepared by the management of the Excluded Group without taking into account any possible audit adjustments and might be prepared in accordance with accounting standards different from those of the Company except for the elimination of intra-group sales within the Excluded Group.

### **(9) Financial independence**

The Group has an independent financial system and makes financial decisions according to its own business needs. As at 30 June 2012, approximately HK\$11.6 million was owed by the Group to Mr. Huang. All of the outstanding amount owed to Mr. Huang was settled prior to the Listing. According to the note 30 of the accountant's report, the text of which is set of in Appendix I to this prospectus, we had our bank borrowings of HK\$37.1 million and bills payable of HK\$43.3 million guaranteed by the related parties as at 30 June 2012. We fully repaid our bills payable of HK\$43.3 million prior to the Listing and the related parties' guarantees for our bank borrowings will be discharged upon Listing. In the circumstances, we believe we are capable of obtaining financing from third parties without reliance on the Controlling Shareholders and their associates.

### **COMPETITION**

#### **From the perspective of our direct customers in respect of apparel supply chain services:**

The Company considers that the businesses and products of the Group and the Excluded Group are clearly delineated and do not directly compete with each other because the products of the Group and the Excluded Group are not substitutable. In the opinion of the Directors, whether different products are substitutable involves a commercial judgment which should be made by the relevant customers who are market participants. The major customers of the Group in respect of the apparel supply chain services are garment retailers and not the individual end consumers.

According to the confirmations from the major customers of the Group and the Excluded Group, it is confirmed that (a) the woven wear products, cut-and-sewn knitwear products and sweater knitwear products are considered as three different types of products as they are different in terms of raw materials, production equipment, products design, development technique, production technology and applications; (b) the procurement plans are generally made in accordance with the market fashion trend and product design; (c) although the major customers purchased apparel products from the Group and the Excluded Group, since they are different products, the procurement of different types of products was responsible by different departments or responsible managers of the respective customers and there was no bundled procurement of products from the Group and the Excluded Group; and (d) since the products of the Group and the Excluded Group are different in terms of production process, styles and functions, their procurement plan would not be affected by other factors (including the quality and price of the products of the Group and the Excluded Group) and would not interchangeable between products of the Group (woven wear and cut-and-sewn knitwear) and the Excluded Group (sweater knitwear).

Thus, the Company believes that competition exists amongst different garment manufacturers on the same type of products only, but does not exist between different types of products. Even if the Group's product price and quality do not meet the requirements of its major customers, such major customers would only purchase the same type of products (i.e. woven wear and cut-and-sewn knitwear products) from other garment manufacturers with similar production capabilities and would not transpire to purchase different types of products (such as

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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sweater knitwear products) from the Excluded Group as a substitute as production skills, technology and machineries of the Group's products are different from and are not interchangeable with that of sweater knitwear, as further elaborated in the paragraph headed "Excluded Businesses" above.

On this basis, the Controlling Shareholders could not exercise any influence on the customers of the Group and the Excluded Group over the choice of woven wear products or sweater knitwear products or cut-and-sewn knitwear products as it is already pre-determined by the customers according to the market fashion trend.

### **From the perspective of the individual end consumers:**

As to end consumers of apparel products, their behaviour of purchasing apparel products is influenced by global fashion trends and according to their own preferences in terms of function, design, texture and prices.

Due to the raw material used (mainly yarn), the sweater knitwear products of the Excluded Group are mostly outer-wear that are suitable for cooler weather whereas the apparel products of the Group are suitable for different weather and seasons and cover outer-wear, inner-wear, upperwear and bottomwear. As such, although there is overlapping in functions of apparel products of the Group and those of the Excluded Group, the area of overlapping only covers a fraction of the Group's products, for instance non-leather coat and jacket. Other products of the Group, such as t-shirt, polo-shirt, sweat shirt, track suit, leather jacket, bottomwear and innerwear, are obviously different from the products of the Excluded Group in terms of function, usage and style.

Thus, the Company believes that potential competition (if any) from the perspective of the individual end consumers is minimal and is on a fair basis. As neither the Group nor the Excluded Group is a fashion trendsetter, the Company believes that it is impossible for the Controlling Shareholders to exercise any influence on the global fashion trend or the behaviour and preference of such end consumers and there is no way for the Controlling Shareholders to exercise influence on the individual end consumers who are not the Group's direct customers. The Company considers that the Controlling Shareholders being interested in both the Group and the Excluded Group would not give rise to a conflict of interest between the Controlling Shareholders and other shareholders (including public shareholders after the Listing) as a whole and that the interest of minority shareholders and the public will not be undermined. To further protect the interest of minority shareholders and the public, the Group proposes to adopt the measures as disclosed in the paragraph headed "Corporate governance measures" in this section of the prospectus.

More importantly, the end consumers are not direct customers of the Group in respect of its apparel supply chain services. As such, the Directors consider that the consumption behaviour of the end consumers is not a material factor in considering whether competition exists between the Group and the Excluded Group, and the focus should be on whether garment retailers, as the Group's direct customers, would consider products of the Group substitutable with products of the Excluded Group. On the basis of the reasons as set out in the paragraph headed "Competition — From the perspective of our direct customers in respect of apparel supply chain services" in this section of the prospectus, the products of the Group are not substitutable with those of the Excluded Group and accordingly, the Group's products do not directly compete with the Excluded Group's from the perspective of the common customers.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### Reasons for exclusion of the Excluded Businesses

The Directors consider not to include the Excluded Businesses as part of the Group due to, among others, that (i) the business of the Excluded Group relating to the manufacture and sale of sweater knitwear products is not within the principal business scope of the Group; (ii) the Excluded Group is operating in a distinct production setting as the raw materials, the production machineries, the production skills and techniques are not interchangeable with those of the Group; (iii) the Excluded Group has its own operational management team which is independent from the Group; (iv) there is no direct competition between the Group and the Excluded Group and any potential competition between the Group and the Excluded Group would be minimal and could be closely monitored as each of the Controlling Shareholders has entered into the Deed of Non-competition with the Company and adequate corporate governance measures will be in place after the Listing in order to protect the interest of the minority Shareholders. For details of the Excluded Businesses, please refer to the paragraph headed “Excluded businesses” in this section of the prospectus.

Furthermore, the Group is engaged in the retail sales of apparel and accessory products under its own brands (including the sweater knitwear products) in the PRC but the Excluded Group does not carry out any retail sales of apparel and accessory products. Accordingly, having taken into account the delineation of business between the Group and the Excluded Group as well as the independence of the Group from the Controlling Shareholders in the above, the Directors consider that the potential competition between the Group and the Excluded Group does not give rise to a conflict of interest between the Controlling Shareholders and the public as a whole and the interest of the minority Shareholders will not be undermined.

### NON-COMPETE UNDERTAKINGS BY CONTROLLING SHAREHOLDERS

Each of the Controlling Shareholders entered into Deed of Non-competition with the Company pursuant to which each of the Controlling Shareholders has, among other things, irrevocably and unconditionally undertaken with the Company that at any time during the Relevant Period (as defined below), each of the Controlling Shareholders shall and shall procure that its associates (other than members of the Group) and members of the Excluded Group not to, directly or indirectly, engage in, invest in, participate in, or attempt to participate in, whether on its own account or with each other or in conjunction with or on behalf of any person or company,

- (a) marketing, selling or distributing any garment-related products categorised as woven and cut-and-sewn knitwear products (the “**Restricted Products**”);
- (b) marketing, selling or distributing any garment-related products in the PRC, Hong Kong and any parts of the world (except countries or places located in Europe) (the “**Restricted Territory**”);
- (c) marketing, selling or distributing any garment-related products to any common customers of the Group and the Excluded Group; or
- (d) any business in competition with or likely to be in competition with the existing business activities of the Group (collectively, the “**Restricted Businesses**”).

Pursuant to the Deed of Non-competition, the Excluded Group shall:

- (a) only accept purchase orders relating to sweater knitwear products from any customers located in Europe which are not common customers of the Group and the Excluded Group;

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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- (b) use its best endeavor to find out the destination of its products before accepting purchase order and will not accept purchase order from any customers if it has knowledge that the products to which these purchase order related are destined to be sold and delivered to the customers located in the Restricted Territory;
- (c) send a half-yearly report containing the list of orders and customers to the internal control consultant (the “**IC Consultant**”) and the Group. The IC Consultant will review the list of orders and customers of the Excluded Group and conduct sample review of the underlying contracts to check whether (1) any orders fall in the category of the Restricted Products; (2) any products are destined to be sold and delivered to the customers located in the Restricted Territory; or (3) any common customers existed between the Group and the Excluded Group.

The Group and the Excluded Group will maintain, and update from time to time, a list of customers and provide their own list of customers to each other regularly. Before accepting any new orders from a potential customer, the Excluded Group is required to check the list of customers of the Group to ensure that the potential customer is not a common customer of the Group and the Excluded Group.

If a breach or suspected breach of the Deed of Non-competition is discovered, the IC Consultant will report to the conflicts committee which will convene a meeting to consider, without the attendance of the executive Directors, the appropriate actions to be taken including the commencement of legal action against the relevant Controlling Shareholders. The decision of the conflicts committee is final and binding. If appropriate, the conflicts committee may engage independent professional advisors and experts to provide independent advice to the conflicts committee as to actions to be taken against the relevant Controlling Shareholder. Any findings by the IC Consultant and any action or decision made by the conflicts committee in relation to the Deed of Non-competition will be disclosed in the annual report of the Company. The conflicts committee shall review annually and the Company shall disclose in its annual reports on how the undertakings contained in the Deed of Non-competition have been complied with and enforced in accordance with the principles of making voluntary disclosures in accordance with appendix 14 to the Listing Rules.

For the above purpose, the “Relevant Period” means the period commencing from the date of the Deed of Non-competition and shall expire on the earlier of (i) the date on which the Controlling Shareholders (together with their respective associates), whether directly or indirectly, jointly or severally, cease to be the Controlling Shareholders of the Company; and (ii) the date on which the Shares cease to be listed on the Stock Exchange.

The aforesaid undertaking does not apply with respect to the Controlling Shareholders’ holding of or being interested in, directly or indirectly, any shares in any company which conducts or is engaged in, directly or indirectly, any business in competition with or likely to be in competition with the existing business carried on by the Group, provided that:

- (a) such shares are listed on a recognised stock exchange;
- (b) the total number of such shares held by any of the Controlling Shareholders and/ or their respective associates does not amount to more than 10% of the issued shares of that class of such company in question; and
- (c) any Restricted Businesses conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of that company’s consolidated revenue or consolidated assets (individually or collectively with their respective associates) as shown in that company’s latest audited accounts.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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### New Business Opportunity

Each of the Controlling Shareholders further undertakes, if any new business opportunity relating to (a) the purchase order from any customers for the Restricted Products; (b) the purchase order from any customers for any garment products in the Restricted Territory; or (c) the purchase order from any potential common customers of the Group and the Excluded Group is presented or made available to any of the Controlling Shareholders or their associates (other than the Group) or any member of the Excluded Group (the “**Business Opportunity**”):

- (i) the Controlling Shareholders shall direct to the Company any such Business Opportunity by serving to the Company a written notice;
- (ii) such written notice shall include all information together with any documents possessed by it or its associates in respect of the Business Opportunity to enable the Company to evaluate the merit of the Business Opportunity and all reasonable assistance as requested by the Company to enable the Group to secure the Business Opportunity.

Upon receipt of the written notice from the Controlling Shareholders, the Group will consider whether it is in the interest of the Company and the Shareholders as a whole to pursue the new orders. For the avoidance of doubt, the Controlling Shareholders and their associates (other than the Group) will not be entitled to pursue the new orders relating to the Restricted Products or the Restricted Territory or the potential common customers of the Group and the Excluded Group even if the new orders are declined by the Group.

In addition, it is further provided in the Deed of Non-competition that if there is any disagreement between the Controlling Shareholders and the Company as to whether any Business Opportunity shall directly or indirectly compete or lead to competition with the Restricted Businesses, the matter shall be determined by the conflicts committee whose decision shall be final and binding.

### Option and right of first refusal

The Controlling Shareholders have granted the Company an option, as part of the Deed of Non-competition, to acquire the whole or part of their interests in the Excluded Group held directly or indirectly by the Controlling Shareholders at any time subject to the Exercise Conditions (as defined below) (the “**Option**”). The price at which the Option will be exercised shall be negotiated and agreed at arm’s length between the Company and the Controlling Shareholders at the time of exercise. If the Controlling Shareholders and the Company fail to agree on the exercise price, an independent internationally recognised firm of valuers will be appointed to determine the exercise price.

The Controlling Shareholders have granted the Company a right of first refusal, as part of the Deed of Non-competition, in the event that any one of the Controlling Shareholders or any of their associates wish to sell the whole or any part of its interest in the Excluded Group owned by it to any third party (the “**Right of First Refusal**”).

Decisions as to whether to exercise, the Option or the Right of First Refusal shall be subject to (i) the sole discretion of the conflicts committee; and (ii) the independent Shareholders approving the acquisition. In addition, the Company should also appoint an independent financial advisor to review the terms of the acquisition of the interests in the Excluded Group and provide a letter of advice to the independent board committee of the Company and the independent Shareholders (collectively, the “**Exercise Conditions**”).

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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In the event that the Company decides to exercise the Option or the Right of First Refusal, an announcement will be issued by the Company setting out details of such exercise in accordance with relevant requirements under the Listing Rules. In the event that the Company decides not to exercise the Right of First Refusal, an announcement will also be issued by the Company setting out the reasons for not exercising such option or right and the Controlling Shareholders may proceed to sell to the third party, provided that the price may not be lower than the price which was offered to the Company.

The exercise of the Option or the Right of First Refusal will constitute connected transaction(s) for the Company under Chapter 14A of the Listing Rules and will be subject to the applicable requirements under the Listing Rules.

### Indemnity

Each of the Controlling Shareholders jointly and severally undertakes to indemnify and keep indemnified the Group against any damage, loss or liability suffered by the Company or any other member of the Group arising out of or in connection with any breach of its undertakings and/or obligations under the Deed of Non-competition, including any costs and expenses incurred as a result of such breach provided that the indemnity contained in this clause shall be without prejudice to any other rights and remedies the Company is entitled to in relation to any such breach, including specific performance, and all such other things and remedies are hereby expressly reserved by the Company.

### Other undertakings

In order to protect the interests of the Company and the Shareholders, the Controlling Shareholders undertake that in the event that actual or potential conflict of interests arises, they will abstain from voting for such resolution in approving such transaction(s).

In addition, the Controlling Shareholders have undertaken to provide and/or procure the Excluded Group to provide all available information of the Excluded Group necessary for the enforcement of the undertakings in the Deed of Non-competition to the Company and would make an annual declaration on compliance with the Deed of Non-competition in the annual report of the Company and corporate governance code and corporate governance report pursuant to Appendix 14 of the Listing Rules.

## CORPORATE GOVERNANCE MEASURES

The Company has adopted the following measures to manage the conflict of interests arising from competing business and to safeguard the interests of the Shareholders:

- (1) the independent non-executive Directors will review, on an annual basis, the Deed of Non-competition to ensure compliance with the non-compete undertakings (including the Option and the Right of First Refusal) by the Controlling Shareholders;
- (2) the Controlling Shareholders undertake to provide all information requested by the Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed of Non-competition;
- (3) the Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the Deed of Non-competition in the annual reports of the Company;



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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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- (4) the Controlling Shareholders will provide confirmation on compliance pursuant to their undertaking under the Deed of Non-competition in the annual report of the Company;
- (5) decision for the exercise or non-exercise of the Option or the Right of First Refusal shall be determined by our independent non-executive Directors only;
- (6) our independent non-executive Directors are empowered to engage professional advisors at our costs for advices on matters relating to any Business Opportunity or if and when they think necessary in the course of considering connected transactions or reviewing the compliance with the Deed of Non-competition;
- (7) the Company will disclose in an announcement, its interim and annual report on decision, with basis, of our independent non-executive Directors to pursue or decline the Business Opportunity;
- (8) the Board will ensure that any material conflict or material potential conflict of interests involving the Controlling Shareholders will be reported to the independent non-executive Directors as soon as practicable when such conflict or potential conflict is discovered and a board meeting will be held to review and evaluate the implications and risk exposure of such event and will monitor any material irregular business activities. The conflicted Directors shall be required to absent from participation in the board meetings on which resolutions with material potential conflicts of interest are discussed;
- (9) the Company has appointed Cinda International Capital Limited as its compliance advisor, which will provide advice and guidance to the Group in respect of compliance with the applicable laws and Listing Rules including various requirements relating to directors' duties and internal control;
- (10) the Company will observe any transaction that is proposed between the Group and its connected persons, and will be required to comply with Chapter 14A of the Listing Rules including, where applicable, the announcement, reporting, annual review and independent Shareholders' approval requirements of those rules;
- (11) the Group and the Excluded Group have jointly appointed the IC Consultant to conduct a review on the effectiveness of such internal control measures on an half-yearly basis to ensure due compliance of the Deed of Non-competition;
- (12) the IC Consultant will review the list of orders and customers of the Excluded Group and conduct sample review of the underlying contracts to check whether (1) any orders fall in the category of the Restricted Products; (2) any products are destined to be sold and delivered to the customers located in the Restricted Territory; or (3) any common customers existed between the Group and the Excluded Group; and
- (13) the basis of any decision made by the conflicts committee relating to the Deed of Non-competition (including the Option and Right of First Refusal) will be disclosed in an announcement and/or annual report after the Listing.

The current IC Consultant is HLB Hodgson Impey Cheng, which is a certified public accountants firm in Hong Kong and was formed in 1983.

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## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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The Sole Sponsor has reviewed the above corporate governance measures adopted by us. Based on the Sole Sponsor's best knowledge, information and belief, the above corporate governance measures, when adopted, will be adequate and effective from an operations point of view to minimise conflicts of interest between the Group, and the Controlling Shareholders and as well as the Excluded Group.

### CONFLICTS COMMITTEE

For the purpose of further enhancing the internal control system of the Company and minimising any potential conflict of interests, the Group has established the conflicts committee which would be authorised by the Board to monitor and identify actual or potential issues of conflict of interests, and work to ensure that the Controlling Shareholders involving such conflicting interests would take appropriate precautions and abstain from making decisions in connection with such issues. The Board may, at its discretion, convene a meeting of the conflicts committee to review, investigate and discuss the issues. The scope of work of the conflicts committee includes the following:

- (i) review, on an annual basis, the Deed of Non-competition and report from an independent IC Consultant to ensure compliance with the Deed of Non-competition by the Controlling Shareholders;
- (ii) report and make recommendations to the Board on appropriate response to be taken by the Group in respect of any actual or potential conflict of interest issues with the Controlling Shareholders;
- (iii) identify and ratify any errors in the Group's internal control system and make recommendations to the Board wherever appropriate; and
- (iv) consider the report from the IC Consultant as to the breach or suspected breach of the Deed of Non-competition by any Controlling Shareholders and advise the Board on all appropriate actions to be taken including the commencement of legal action against the relevant Controlling Shareholders.

The Company will disclose decisions on matters reviewed by the conflicts committee relating to compliance and enforcement of the Deed of Non-competition in the annual reports of the Company.

The conflicts committee comprising four independent non-independent Directors who have experience in their professions (including legal and accounting practitioners) and one independent external expert, Mr. Yip Yam Kuen. The professional qualification and experience of the independent non-executive Directors comply with the relevant requirements under the Listing Rules. Since Mr. Wong Ting Kon, Ms. Pang Yuen Shan, Christina and Mr. Chan Chung Bun, Bunny are also currently independent non-executive directors of certain listed companies of the Stock Exchange, they have experience in exercising independent judgment with respect to the strategy, performance and resources of these listed companies even though these listed companies are in different industries. In order to ensure the compliance with the Deed of Non-competition, the independent non-executive Directors are permitted to consult the advice of any industry consultant or other professional parties if and when they think necessary in the course of considering connected transactions or reviewing the compliance with the Deed of Non-competition.