

HISTORY

Our history traces back to July 1974 when our first operating subsidiary, Kong Tai Sundry Goods, was incorporated in Hong Kong with Mr. Chu as one of the founding members and directors. In 1974, we began our wholesale and retail of a range of goods (including footwear) in the local market in Hong Kong. In the 1990s, we began to focus on wholesale and retail business of footwear as part of our new business strategy. We have acquired from C&J Clark and since then maintained the exclusive distribution right of Clarks products in Hong Kong and Taiwan for more than 20 years, and in Macau for more than 15 years. Our said exclusive distribution right has been subsisting at all material times and has never been suspended. We gradually developed our distribution network and expanded our sales operation to Taiwan during the 2000s.

Our major business focused on the wholesale and retail of lifestyle comfort footwear products of international brands in Hong Kong, Taiwan and Macau. With the continuous growth of our business, we opened our first chain store in Hong Kong under our own trade name “S.Culture” (鞋文化) in 1996. In the same year, we opened the first Clarks store in Hong Kong. To bring in more stylish and comfortable footwear into the foregoing markets, we acquired the right to distribute and sell footwear products of a German brand, Josef Seibel, in Hong Kong, Macau, Taiwan, the PRC, Thailand and Malaysia from Josef Seibel GmbH in 2004. In 2005, we established our second chain store under the brand “shoe mart” in Hong Kong with a competitive pricing strategy to attract budget customers.

In 2012, we opened our third chain store under the trade name “SCOOPS” in Hong Kong which targets younger generation of customers.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Set out below are our key milestones since the 1970s:

- 1996 We opened our first chain store in Hong Kong under our own trade name “S.Culture” (鞋文化) at G/F, Peninsula Centre, No. 67 Mody Road, Tsim Sha Tsui
- We opened the first Clarks store in Hong Kong at Shop 1002, Miramar Shopping Centre, No.1 Kimberley Road, Tsim Sha Tsui
- 2004 We acquired the distributorship of Josef Seibel footwear products in Hong Kong, Macau, Taiwan, the PRC, Thailand and Malaysia
- 2005 We opened our second chain store in Hong Kong under our own brand “shoe mart” at G/F, No. 273 Shau Kei Wan Road, Shau Kei Wan
- 2009 We celebrated the grand launch of the world’s first Clarks Originals shop in Hong Kong
- 2010 We opened the first Clarks flagship store in Hong Kong and set up Kong Tai Sundry Goods (Taiwan)
- 2011 We opened the first Clarks Originals shop in Taiwan and operated the first specialty store of Josef Seibel in Hong Kong
- 2012 We opened our third chain store “SCOOPS” in Hong Kong at Shop F13, 1/F, PopCorn, 9 Tong Yin Street, Tseung Kwan O.

As at the Latest Practicable Date, our Group operated 51 Retail Outlets in Hong Kong, 45 Retail Outlets in Taiwan and two Retail Outlets in Macau.

CORPORATE DEVELOPMENT

Our Company was incorporated on 17 December 2012 in the Cayman Islands initially as a direct wholly-owned subsidiary of CN Fashion and, upon completion of the Reorganisation, has become the holding company of our Group with our business conducted through our subsidiaries.

Hong Kong

Our Group began our business operation with the incorporation of Kong Tai Sundry Goods in 1974. Shortly after the establishment of Kong Tai Sundry Goods, a number of investors, including among them Mr. H. S. Chong and Mr. Wong Kai Cho, were introduced to our business and they became shareholders of Kong Tai Sundry Goods in December 1974. The shareholding of Kong Tai Sundry Goods had undergone various changes thereafter until September 2005, during which shares were allotted and issued to various individuals including the original investors, their family members and the employees of our

HISTORY, REORGANISATION AND GROUP STRUCTURE

Group from time to time. Transfers of shares in Kong Tai Sundry Goods were also effected among these parties. In the 1990s and 2000s, Grand Asian and other subsidiaries were incorporated respectively to further develop our operations.

In October 2005, the shareholders agreed to hold their respective interests in the business through an investment holding company. As such, most of the then shareholders of Kong Tai Sundry Goods transferred their respective shareholdings to KTS International in consideration of the allotment and issue of shares in KTS International to them. In January 2008, KTS International became the sole shareholder of Kong Tai Sundry Goods and Grand Asian, respectively.

In March 2009, pursuant to another reorganisation exercise, KTS International transferred all its shares in Kong Tai Sundry Goods and Grand Asian (being 5,000,000 shares and 1,000,000 shares, respectively, of HK\$1.00 each) to CN Fashion in consideration of the allotment and issue of 6,822 shares of US\$1.00 each (a 68.22% shareholding) in CN Fashion to KTS International. The said transfer was properly and legally completed and settled. CN Fashion then became the holding company of the operating subsidiaries of our Group prior to the Reorganisation. Chung Nam Fashion, Pomeroy Group, Mr. Chu, Ms. Wong May Heung and Mr. Wong Kai Cho also acquired their respective shareholdings in CN Fashion by transferring their investments in other companies which are unrelated to our Group to CN Fashion through the reorganisation exercise in 2009. Ms. Wong May Heung is the wife of Mr. Chu, whilst Mr. Wong Kai Cho is a director of Kong Tai Sundry Goods.

Taiwan

Prior to June 2010, our business presence in Taiwan was developed and maintained through United Overseas Sundry Goods, a then associated company of Kong Tai Sundry Goods. During the Track Record Period, CN Fashion was a majority shareholder of United Overseas Sundry Goods and had become its sole shareholder since March 2010. Thus, Kong Tai Sundry Goods, Grand Asian and United Overseas Sundry Goods were fellow subsidiaries under the umbrella of CN Fashion. Kong Tai Sundry Goods used to sell footwear products to United Overseas Sundry Goods as one of our wholesale customers, and United Overseas Sundry Goods further distributed the footwear products in Taiwan.

In June 2010, with a view to consolidating the business for better management, we established Kong Tai Sundry Goods (Taiwan) as a branch office in Taiwan and started the sales of footwear products by ourselves directly in the local market. We repurchased in 2010 the remaining footwear inventories of United Overseas Sundry Goods supplied by us, amounting to approximately HK\$10.0 million. In addition to such inventories, we also purchased equipment, leasehold improvement works and motor vehicles from United Overseas Sundry Goods at net book value to enable Kong Tai Sundry Goods (Taiwan) to carry out its operations which amounted to approximately HK\$1.7 million.

The consideration for the above purchases was settled by cash. Besides, Kong Tai Sundry Goods (Taiwan) also entered into new contracts with the employees of United Overseas Sundry Goods, under which Kong Tai Sundry Goods (Taiwan) agreed to offer them comparable wages and welfare entitlements with their years of service recognised

HISTORY, REORGANISATION AND GROUP STRUCTURE

as well. Kong Tai Sundry Goods (Taiwan) has also signed agreements to assume the rights and liabilities of United Overseas Sundry Goods under two tenancy agreements in Taiwan, which will expire in the second half of 2013.

We have been advised by our Taiwan legal advisers that we would not be responsible for the past liabilities or breaches of United Overseas Sundry Goods on the grounds that either we were not a party to the relevant transaction between United Overseas Sundry Goods and other third party, or alternatively, in case we had assumed any obligations of United Overseas Sundry Goods under a contract, there were no liabilities for breaches on the part of United Overseas Sundry Goods under that contract. Besides, United Overseas Sundry Goods was not involved in any breaches or claims before its dissolution on 30 July 2012, nor were there any orders, verdicts or judgments against it.

To streamline our Group's structure in preparation for the Listing, our Company was incorporated on 17 December 2012 and various corporate structuring procedures were carried out so that our Company became the holding company of our business in respect of the wholesale and retail of lifestyle comfort footwear in Hong Kong, Taiwan and Macau. For details, please refer to the paragraph headed "Reorganisation" in this section.

Operating subsidiaries

Kong Tai Sundry Goods

Kong Tai Sundry Goods was incorporated in Hong Kong on 26 July 1974 and has been substantially controlled by Mr. H. S. Chong and Mr. Chu since 1974. During the Track Record Period and immediately prior to the Reorganisation, the entire issued share capital of Kong Tai Sundry Goods was owned by CN Fashion, the majority shareholding of the latter was directly and/or indirectly owned by our Controlling Shareholders. Kong Tai Sundry Goods is one of our major operating subsidiaries and is principally engaged in wholesale business.

Kong Tai Sundry Goods established a branch in Taiwan in June 2010 to carry out the footwear distribution and retail business of our Group in Taiwan.

Grand Asian

Grand Asian was incorporated in Hong Kong on 23 November 1995. Grand Asian was owned by CN Fashion during the Track Record Period and immediately prior to the Reorganisation. Grand Asian is principally engaged in the retail business of our Group.

Advertiser's Media

Advertiser's Media was incorporated in Hong Kong on 26 November 1996. During the Track Record Period, the entire shareholding of Advertiser's Media was owned by Grand Asian. Advertiser's Media is principally engaged in the marketing and advertising of Clarks products in Hong Kong.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Shoe Mart Company

Shoe Mart Company was incorporated in Hong Kong on 18 January 2005 and was wholly owned by Grand Asian during the Track Record Period. Shoe Mart Company is principally engaged in the sale of discounted footwear.

Cobblers

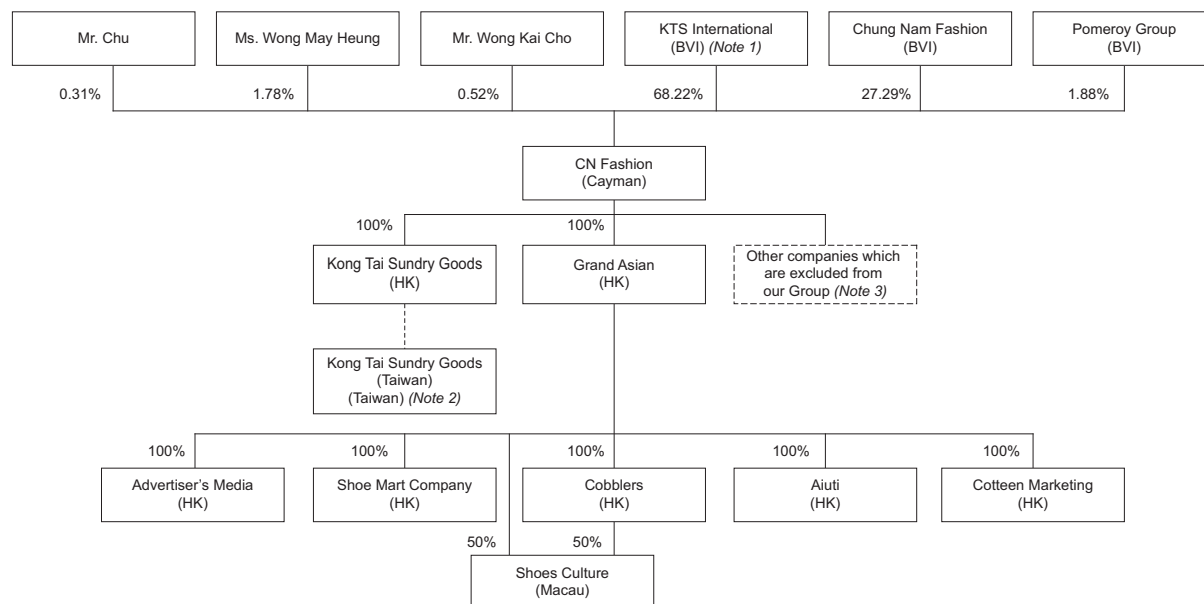
Cobblers was incorporated in Hong Kong on 17 April 2000 and was wholly owned by Grand Asian during the Track Record Period. Cobblers is principally engaged in distribution and wholesale of footwear.

Shoes Culture

Shoes Culture was incorporated in Macau on 19 May 2004 and was 50% owned by each of Grand Asian and Cobblers during the Track Record Period. Our Group's footwear distribution and retail business in Macau is conducted through Shoes Culture.

GROUP STRUCTURE IMMEDIATELY BEFORE THE REORGANISATION

Our Group structure immediately before the Reorganisation is set out in the following diagram:



HISTORY, REORGANISATION AND GROUP STRUCTURE

Notes:

- As at the Latest Practicable Date, the issued shares of KTS International are owned by the following persons:

Name	Approximate shareholding
Mr. H. S. Chong	37.53%
Mr. H. H. Chong	1.68%
Mr. Charles Chong	1.65%
Mr. Chu	23.25%
Mr. Dominic Chu	1.67%
Mr. Haeta Chu	0.62%
Ms. Chu Yuen Fan, Peggie (<i>a daughter of Mr. Chu and a director of Kong Tai Sundry Goods</i>)	1.62%
Ms. Chan Mei Yin (<i>a director of Kong Tai Sundry Goods</i>)	1.87%
Mr. Wong Kai Cho (<i>a director of Kong Tai Sundry Goods</i>)	3.20%
Mr. Tay Choon Meng (<i>a director of Kong Tai Sundry Goods</i>)	4.80%
Ms. Chan Keng Seng (<i>the mother of Mr. Tay Choon Meng</i>)	2.95%
Mr. Chui Chun Fai (<i>a nephew of Mr. Chu</i>)	4.26%
Mr. Chui Siu Kwong (<i>a brother of Mr. Chu</i>)	4.02%
Ms. Wu Se (<i>the spouse of Mr. H. S. Chong</i>)	0.18%
Chung Nam Fashion	0.12%
<i>14 other persons:</i>	
Mr. Chan Kwan Hon	0.06%
Ms. Chan Pheck Hong	1.32%
Ms. Chan Yau Tuen	0.66%
Mr. Chen Ying	2.41%
Mr. Cheung Chak Wai	1.01%
Ms. Ho Hoi Yin	0.17%
Mr. Lee Seng Khiam	0.28%
Mr. Liu Chia Chu	0.25%
Ms. Ng Bik Kam	0.17%
Mr. Nicholas James Aynsley	0.49%
Mr. Tan Meng Kow	0.01%
Mr. Teo Yew Hwa	2.52%
Mr. Wong Chi Fai	0.56%
Mr. Wong Ka Man	0.67%
Total:	100%

Mr. H. S. Chong, Mr. H. H. Chong, Mr. Charles Chong and Mr. Chu are the Controlling Shareholders and are acting in concert with one another. Save for Chung Nam Fashion and the foregoing, to the best knowledge and belief of our Directors after having made all reasonable enquiries, each of the other shareholders of KTS International acts independently of each other and exercises his or her voting rights therein independently. None of the “14 other persons” is a connected person of the Company under Rule 1.01 of the Listing Rules.

- Kong Tai Sundry Goods (Taiwan) is a branch office of Kong Tai Sundry Goods in Taiwan.
- Other companies which are excluded from our Group are engaged in businesses unrelated to those of our Group. Their principal business is the distribution and retailing of a European brand ladies’ fashion and ancillary accessories.

REORGANISATION

The companies comprising our Group underwent the Reorganisation in preparation for the Listing. The principal steps involved in the Reorganisation are summarised below:

(i) Incorporation of the Company, S. Culture BVI, KTSG, Grandasian Retail and KTS Properties

On 17 December 2012, our Company was incorporated under the laws of the Cayman Islands with an authorised share capital of HK\$50,000 divided into 5,000,000 shares of HK\$0.01 each.

S. Culture BVI, KTSG and Grandasian Retail were set up as intermediate holding companies. S. Culture BVI was incorporated under the laws of the BVI on 18 December 2012 and is authorised to issue 50,000 shares of US\$1 each and is a direct wholly-owned subsidiary of our Company. KTSG was incorporated under the laws of the BVI on 13 December 2012 and is authorised to issue 50,000 shares of US\$1 each and is a direct wholly-owned subsidiary of S. Culture BVI. Grandasian Retail was incorporated under the laws of the BVI on 13 December 2012 and is authorised to issue 50,000 shares of US\$1 each and is a direct wholly-owned subsidiary of S. Culture BVI.

KTS Properties was incorporated under the laws of the BVI on 13 December 2012 to serve as an investment holding company. It is authorised to issue 50,000 shares of US\$1 each and is a direct wholly-owned subsidiary of KTSG.

(ii) Share swap and disposal of our interest in Aiuti and Cotteen Marketing

On 28 December 2012, KTSG acquired the entire issued share capital of Kong Tai Sundry Goods at its net asset value from CN Fashion in consideration of the allotment and issue of 1,000 shares, credited as fully paid, by KTSG to S. Culture BVI at the direction of CN Fashion. On the same date, Grandasian Retail acquired the entire issued share capital of Grand Asian at its net asset value from CN Fashion in consideration of the allotment and issue of 1,000 shares, credited as fully paid, by Grandasian Retail to S. Culture BVI at the direction of CN Fashion. S. Culture BVI, in consideration of the foregoing, allotted and issued a total of 2,000 shares, credited as fully paid, on 28 December 2012 to CN Fashion.

Two Hong Kong subsidiaries of Grand Asian, namely Aiuti and Cotteen Marketing, were inactive and each carried a small net asset value. On 21 January 2013, Grand Asian disposed of and transferred its entire interest in Aiuti and Cotteen Marketing to CN Fashion at their respective net asset values.

On 25 January 2013, our Company acquired all the issued ordinary shares in the capital of S. Culture BVI from CN Fashion by reference to the combined net asset value of Kong Tai Sundry Goods and Grand Asian as at 31 December 2012, and paid and settled the consideration by way of the allotment and issue of 9,999 Shares, credited as fully paid, to CN Fashion.

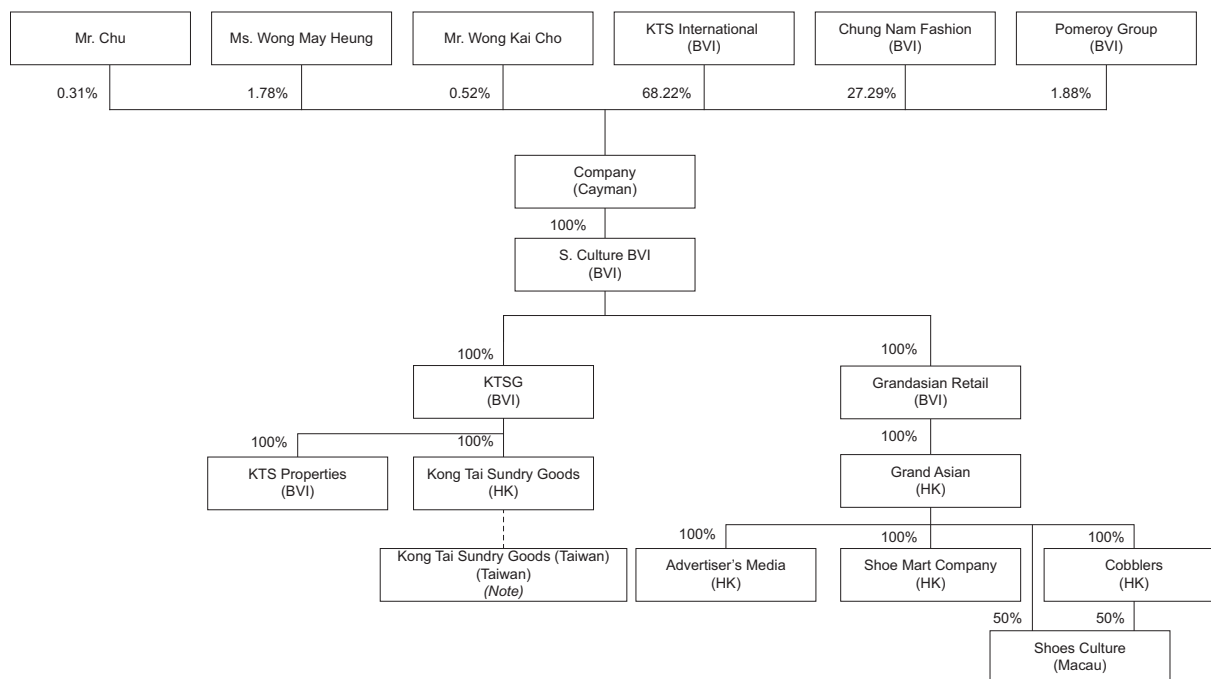
HISTORY, REORGANISATION AND GROUP STRUCTURE

(iii) Distribution of Shares in specie

The Shares held by CN Fashion upon completion of the share swap (as set out in paragraph (ii) above) were distributed in specie on 25 January 2013 to the shareholders whose names appeared in the register of members of CN Fashion as at 31 December 2012 in accordance with the applicable Cayman Islands laws.

GROUP STRUCTURE IMMEDIATELY AFTER THE REORGANISATION AND BEFORE THE GLOBAL OFFERING

The following diagram sets out our Group structure immediately after completion of the Reorganisation and before the Global Offering.

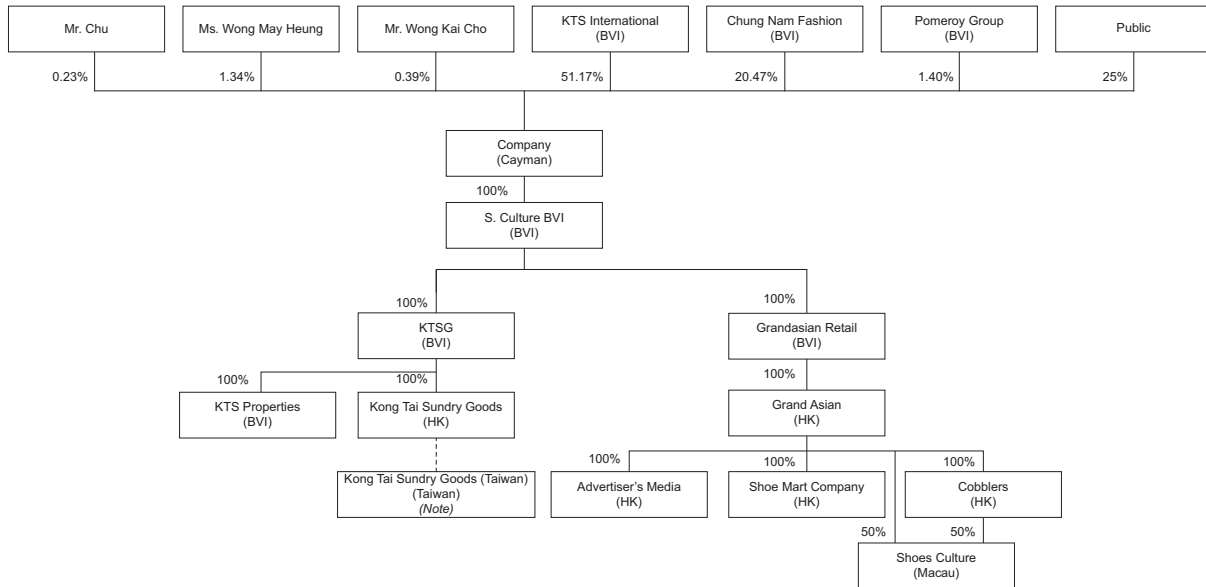


Note: Kong Tai Sundry Goods (Taiwan) is a branch office of Kong Tai Sundry Goods in Taiwan.

HISTORY, REORGANISATION AND GROUP STRUCTURE

GROUP STRUCTURE IMMEDIATELY AFTER THE GLOBAL OFFERING

The following diagram sets out our Group structure immediately after completion of the Global Offering (assuming the Over-allotment Option and any options which may be granted under the Share Option Scheme are not exercised):



Note: Kong Tai Sundry Goods (Taiwan) is a branch office of Kong Tai Sundry Goods in Taiwan.