
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

BACKGROUND OF OUR CONTROLLING SHAREHOLDERS

Immediately after the completion of the Global Offering and the Capitalisation Issue, on the assumption that the Over-allotment Option and any option which may be granted under the Share Option Scheme are not exercised, KTS International, Chung Nam Fashion and Pomeroy Group will own approximately 51.17%, 20.47% and 1.40%, respectively, of the issued share capital of our Company. Mr. H. S. Chong and Mr. Chu own approximately 37.53% and 23.25%, respectively, of the issued share capital of KTS International, and together hold a majority shareholding in KTS International. The issued share capital of each of Chung Nam Fashion and Pomeroy Group, respectively, is owned by Mr. H. S. Chong, Mr. H. H. Chong and Mr. Charles Chong in equal shares.

In view of the above, Mr. H. S. Chong, Mr. H. H. Chong and Mr. Charles Chong, who are brothers, and together with Mr. Chu and KTS International, will control the exercise of voting rights attaching to 146,550,000 Shares representing approximately 73.27% of the issued share capital of our Company (assuming the Over-allotment Option and any option which may be granted under the Share Option Scheme are not exercised). They are, together, the controlling shareholders of our Company within the meaning of the Listing Rules. Save as disclosed in this prospectus and except for his/its respective interest in our Company, neither of Mr. H. S. Chong, Mr. H. H. Chong, Mr. Charles Chong, Mr. Chu and KTS International nor any of their respective associates had interests in any other company which, as at the Latest Practicable Date, directly or indirectly held any interest in a business that may, directly or indirectly, compete with our business.

Our Controlling Shareholders' interests in businesses other than business of our Group

Each of Mr. H. S. Chong, Mr. H. H. Chong, Mr. Charles Chong, respectively, holds interests in a diverse range of family businesses through various companies controlled by them or any of them, which are independent of, and unrelated to, our business. Such family businesses include the trading and manufacturing of watches, applied material science technologies, production of radio frequency identification devices and related solutions, distribution and retailing of a European brand ladies' fashion and ancillary accessories, design and manufacturing of lifestyle woodwork products, and a community enterprise. None of the foregoing has a close trading relationship with, nor is in competition with, our Group.

The Controlling Shareholders together with their associates have an approximately 38.03% indirect attributable interest in a start-up business in Shanghai, the PRC engaging in an Internet-based online sales of mass market women footwear via the website www.tstage.cn (the "**PRC Online Business**"). Such business was commenced in early 2012.

Besides, Mr. Chu is a minority shareholder holding a 25% equity interest in a company incorporated in Malaysia which purchases footwear products from our Group for retail in Malaysia ("**Mr. Chu's Minority Investment**", together with the PRC Online Business referred to as the "**Excluded Businesses**").

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Delineation of our business from the Excluded Businesses

(1) PRC Online Business

The PRC Online Business is operated by a company established in the PRC with a registered capital of RMB500,000 fully paid up, and it engages in an internet-based retail-oriented online sales of women fashion footwear products under its own brand “TSTAGE” or non-branded footwear products targeting the lower end of the mass consumer market. In order to target the average female footwear buyers, the price range of its products ranges approximately from RMB100 to RMB500 with an ASP of RMB117. As at the Latest Practicable Date, the PRC Online Business was not carried on in, nor had, any physical sales location in the PRC or elsewhere. For the year ended 31 December 2012, the revenue contributed by the sales of these products was approximately RMB0.8 million and the business recorded a net loss of approximately RMB3.1 million. Given the short business history of the PRC Online Business which only commenced in early 2012 and a relatively small investment scale, our Directors are not in a position to gauge the business performance, market share or profitability of that business.

On the other hand, we are an established distributor and retailer of lifestyle comfort footwear products of international brands, including Clarks, Josef Seibel, The Flexx and Yokono in Hong Kong, Taiwan and Macau. We target at mid-end consumer market with customers who demand for footwear that combines style, comfort and affordability. Apart from distribution to wholesale customers, we have extensive retail channels through self-operated Retail Outlets network in Hong Kong, Taiwan and Macau. As at the Latest Practicable Date, we had a total of 98 Retail Outlets across Hong Kong, Taiwan and Macau. Our revenue for the three years ended 31 December 2012 was approximately HK\$365.8 million, HK\$472.4 million and HK\$505.3 million, respectively.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Reasons for not including the PRC Online Business in our Group

Our Directors consider that it is not in the best interest of our Group to include the PRC Online Business in our Group on the following basis:

- (i) our Directors believe that currently there is no direct competition between the business of our Group and the PRC Online Business. Even there might be competition in some respect as both businesses are related to sale of footwear, such competition is not, and is unlikely to be significant as there is a clear delineation between our Group's business and the PRC Online Business in terms of scale of operation, pricing strategy, customer segments and sales channels.

1. Scale of operation

Our Group has engaged in the wholesale and retail footwear business for over 20 years with revenue in 2012 amounting to over HK\$500 million. The PRC Online Business was set up in 2012 and the revenue contributed by sales of footwear in 2012 was approximately RMB0.8 million. The scale of the two businesses is in fact incomparable.

2. Pricing strategy and customer segments

Our Group targets at mid-end consumer market with customers who demand for footwear that combines style, comfort and affordability, while the PRC Online Business targets the lower-end of the mass consumer market.

3. Sales channels

For footwear business, physical retail stores and online store are two very different sales channels targeting at different customer segments. Physical retailers can offer customers with more personal service and distinctive shopping experience, while online retailers can offer great variety of footwear and attractive pricing. There may be certain overlap between the markets of physical retailers and online retailers but they each have their own competitive advantages which cannot be easily substituted.

- (ii) our Directors intend to expand our business into the PRC by way of opening new brick-and-mortar Retail Outlets in the PRC and to further strengthen our market position in Hong Kong and Taiwan by opening additional Retail Outlets and renovating existing ones. Operating internet-based online sales channels in the PRC is currently not a business strategy pursued by our Company. When compared to the PRC Online Business, the PRC expansion plan of our Group offers goods from brands with international recognition and goodwill, targets mid-end customers, and involves a different pricing strategy and a different sales channel. As such, our Directors believe that there is no future direct competition between our Group and the PRC Online Business;

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- (iii) the PRC Online Business is still at embryonic stage and it recorded a net loss for the year ended 31 December 2012. With relatively low entry barriers and fierce competition among peers in the industry, the financial performance of the PRC Online Business may not improve significantly in the near future. Acquisition of the PRC Online Business may bring uncertainty and adverse impact to the expansion plan of our Group; and
- (iv) our Directors believe it is necessary to contrast the nature of our Group's business and that of the PRC Online Business. Our Group's existing business, which is based on wholesale and retail of footwear products, has a long operational history since the 1970s and is well-established in Hong Kong, Macau and Taiwan. Thus, we plan to expand into the PRC market by replicating in the PRC our traditional business model. However, e-commerce business of the nature carried on by the PRC Online Business is new to our Group and to our Directors. Our Group has not successfully operated e-commerce business in any market and lacks comparable experience. Therefore, our Directors consider that the PRC Online Business involves a higher level of risk and a different business nature such that it should not be run together with our Group's business. When compared to our expansion plan in the PRC, the PRC Online Business involves different operational considerations, such as the uncertainties in payback period which involve technological change, initial capital investment in technologies and equipment, recruitment of experienced personnel, additional branding and business development costs and lack of certainty in the control and potential liability exposures in PRC's e-commerce environment.

(2) Mr. Chu's Minority Investment

The company related to Mr. Chu's Minority Investment is principally engaged in the wholesale and retail of shoes in Malaysia. The company has been purchasing footwear products from our Group for sales in Malaysia. Apart from being a minority shareholder holding a 25% equity interest in the company, Mr. Chu is also one of its directors. The other shareholders and directors of the company are Independent Third Parties. For the three years ended 31 December 2012, the revenue generated to our Group from the sales to the company was approximately HK\$115,000, nil and HK\$90,000 (representing less than 0.1% of our turnover in the corresponding year) and the business recorded a net profit of approximately MYR399,000, MYR379,000 and a net loss of approximately MYR182,000 respectively during the corresponding years. Mr. Chu does not have management control over the company, nor does he involve in its daily management and operation.

On the other hand, the business of our Group is principally focused in Hong Kong, Taiwan and Macau with an intention to expand our business into the PRC. Save for the sales by our Group to the company referred to above, our Group has carried on no business in Malaysia.

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Reasons for not including Mr. Chu's Minority Investment in our Group

Our Directors consider that it is not in the best interest of our Group to include Mr. Chu's Minority Investment in our Group for the following reasons:

- (1) Mr. Chu only has a minority stake in the company and it has separate management team which is not controlled nor managed by Mr. Chu or our Group. Such minority interest would not give our Group meaningful control over the company to influence its business for the benefit of our Group;
- (2) the company and our Group operate in different geographical locations. While our Group focuses our business in Hong Kong, Taiwan and Macau with plans to enter into the PRC market, the company focuses its business in Malaysia. Furthermore, to the best of our Directors' knowledge, the company has no present plan to expand its sales network beyond Malaysia. On the foregoing basis, our Directors take the view that even though the business of the company may compete with our Group's business in some respect, such competition is not, and is unlikely to be significant;
- (3) sales of this company were insignificant to our Group's revenue as illustrated above; and
- (4) our Group's current plan is to focus on the expansion of sales network in Hong Kong, Macau, Taiwan and the PRC and resources should be pooled to implement such strategy.

DIRECTORS' COMPETING BUSINESS

Each of our Directors has confirmed to us that to the best of his knowledge, information and belief, as at the Latest Practicable Date, save for the Excluded Businesses, he is not engaged in any business which competes or is likely to compete, either directly or indirectly, with the business of our Group. The terms of the service contracts or letters of appointment for our Directors will have relevant provisions to restrict them from participating in business which competes or is likely to compete, either directly or indirectly, with the business of our Group.

NON-COMPETITION UNDERTAKING

The Controlling Shareholders have further entered into the Deed of Non-competition in favour of our Company (for itself and as trustee for the other members of our Group), pursuant to which each of the Controlling Shareholders, respectively, has undertaken to and covenanted with our Company (for itself and as trustee for the other members of our Group) that, save for the identified business (as defined below), he or it would not, and would procure none of his or its associates would, during the restricted period and within the restricted territory (both as defined below), directly or indirectly, either on his or its own account or in conjunction with or on behalf of any person, firm or company (in each case whether as an investor, shareholder, principal, partner, director, employee, consultant, agent or otherwise or whether for profit, reward or otherwise):

- (a) carry on, engage, participate, concerned or interested in or in any way assist in or provide support (whether financial or technical) to any business similar to or which competes (either directly or indirectly) or is likely to compete with the restricted business (as defined below);
- (b) canvass, solicit, interfere with or endeavour to entice away from members of our Group any person, firm, company or organisation which to his or its knowledge has from time to time or has at any time with the immediate past two years before the date of such solicitation, interference or enticement been a customer, a supplier or a business partner or employee of the members of our Group for the purpose of conducting any restricted business;
- (c) procure orders from or solicit business from any person, firm, company or organisation which to his or its knowledge has dealt with any member of our Group or is in the process of negotiating with any member of our Group, in relation to any restricted business;
- (d) willfully do or say anything which is derogatory to the reputation of any member of our Group;
- (e) solicit or entice or endeavour to solicit or entice for employment by him or it or entities or companies controlled by him or it (other than our Group) or at any time employ or procure the employment of any person who has, at any time within the immediate past two years before the date of such solicitation or employment, been or is a director, manager, employee of or consultant to our Group who is or may be likely to be in possession of any confidential information or trade secrets relating to the restricted business carried on by our Group; and
- (f) make use of any information pertaining to the business of our Group which may have come to his or its knowledge in his or its capacity as a shareholder of our Company or director of any member of our Group for the purpose of competing with the business of our Group.

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Such non-competition undertaking does not apply to:

- (a) any opportunity to invest, participate, be engaged in and/or operate with a third party any restricted business in the restricted territory which:
 - (i) has first been offered or made available to our Company and, at the request of our Company, with all information reasonably necessary for our Company to consider whether it is in the interest of our Group and our Shareholders as a whole to pursue such opportunity; and
 - (ii) our Board (with those Directors who are interested in such restricted business and their respective associates abstaining from voting), after consulting our independent non-executive Directors, has considered and confirmed that our Company shall decline such opportunity to invest, participate, be engaged in and/or operate with such third party and/or together with any of the Controlling Shareholders and their respective associates,

provided that the principal terms by which any of the Controlling Shareholders and their respective associates subsequently invests, participates, engages in or operates the restricted business in the restricted territory are not more favourable than those disclosed to our Company; or

- (b) having interests in the shares or other securities in a company whose shares are listed on a recognised stock exchange, provided that:
 - (i) any restricted business conducted or engaged in by the company (and assets relating thereto) in the restricted territory accounts for less than 10% of that company's consolidated turnover or consolidated assets, as shown in that company's latest audited financial statements; or
 - (ii) the total number of shares or other securities in the company held by a Controlling Shareholder together with his or its associates does not exceed 5% of the total issued shares or, as the case may be, the total of the other securities in issue in the company and he or it and his or its associates together are not entitled to appoint a majority of the directors of that company; or
- (c) having interests in any corporation, entity and/or economic activity which is a charity or is carried on predominately for a charitable or non-profit-making purpose, or is a social or community enterprise (including, without limitation, L plus H Fashion Limited — a company incorporated in Hong Kong with limited liability and a community enterprise, of which Mr. Charles Chong is a majority shareholder); or

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- (d) serving as a consultant or adviser, whether for profit, reward or otherwise, to any person which is, or may become (in the reasonable opinion of our Board (with those Directors who are interested and their respective associates abstaining from voting) as confirmed to our Company in writing), a supplier of our Group from time to time.

In the Deed of Non-competition,

- (a) the “identified business” refers to (i) the Internet-based online sale of mass market women footwear via the website www.tstage.cn; and (ii) the retail sales of footwear in Malaysia;
- (b) the “restricted business” refers to any of the business carried on by any members of our Group from time to time relating to the wholesale or retail of lifestyle comfort footwear products in physical shops, or counters or concessions within department stores or shopping malls or outlets;
- (c) the “restricted period” refers to the period during which (i) the Shares are and remain listed on the Stock Exchange; and (ii) the Controlling Shareholders together with their respective associates are collectively entitled to exercise or control the exercise of not less than 30% of the voting power at general meetings of our Company; and
- (d) the “restricted territory” refers to the PRC, Hong Kong, Macau and Taiwan.

Each of the Controlling Shareholders has further undertaken in the Deed of Non-competition that he or it would, and would procure his or its associates would, promptly provide our Company such information as our Company may reasonably request from time to time to ascertain due and punctual performance and observance of his or its duties and obligations under the Deed of Non-competition.

The parties to the Deed of Non-competition have acknowledged that our independent non-executive Directors will review, at least on an annual basis, the compliance of the Deed of Non-competition by the Controlling Shareholders and their respective associates. Each of the Controlling Shareholders has undertaken that he or it will provide all information reasonably necessary for the annual review by our independent non-executive Directors. Our Company will disclose decision on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of the Deed of Non-competition in the annual report of our Company, including such disclosure on how the Deed of Non-competition has been complied with and enforced which will be consistent with the principles of making voluntary disclosures in the corporate governance report under Appendix 14 to the Listing Rules. Our Company will also disclose, with basis, all rejections of new opportunities offered or made available to our Company. Each of the Controlling Shareholders has further undertaken that he or it will make an annual declaration on the compliance of the Deed of Non-competition in form and substance reasonably satisfactory to our Company, the contents of which may be reproduced in the annual report of our Company.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

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

Management Independence

Our Board comprises three executive Directors, three non-executive Directors and three independent non-executive Directors. Mr. Chu is an executive Director and Mr. H. H. Chong and Mr. Charles Chong are non-executive Directors.

Each of our Directors is aware of his fiduciary duties as a Director which require, among other things, that he acts for the benefit and in the best interests of our Group and does not allow any conflict between his duties as a Director and his personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant Board meetings in respect of such transaction and shall not be counted in the quorum. In addition, we have an independent senior management team to carry out the business decisions of our Group.

Our Directors are satisfied that they are able to perform their roles in our Group independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders after the Global Offering.

Operational Independence

We have established our own set of organisational structure made up of individual departments, each with specific areas of responsibilities. Our Group has independent access to sources of supplies as well as customers. We have also established a set of internal controls to facilitate the effective operation of our business.

Financial Independence

Our Group has independent financial systems and makes financial decisions according to our own business needs. As at the Latest Practicable Date, (i) our Group owed a loan in amount of approximately HK\$3 million due to Mr. Chu and Ms. Wong May Heung, the wife of Mr. Chu, which is interest-bearing at the Prime lending rate and repayable on demand; (ii) Mr. Chu had provided personal guarantees to a bank in respect of our Group's banking facilities; and (iii) Mr. H. S. Chong had provided personal guarantees to a bank in respect of our Group's banking facilities. Please refer to notes 25 and 33 to the Accountants' Report as set out in Appendix I to this prospectus.

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On 11 June 2013, a dividend of HK\$20.0 million was declared by the Directors, which will be paid to the existing Shareholders and settled by part of the proceeds from the Global Offering.

The loan due to Mr. Chu and Ms. Wong May Heung, together with the dividend payable to existing Shareholders in an amount of HK\$20.0 million, will be settled by our Group upon the Listing by part of the net proceeds from the Global Offering. The personal guarantees provided by each of Mr. Chu and Mr. H. S. Chong will be released upon the Listing. Thus, our Group will be financially independent on our Controlling Shareholders upon the Listing.

Our Group's financial and liquidity conditions have been and remain strong. Please refer to the sections headed "Financial Information — Liquidity and Capital Resources" and "Financial Information — Indebtedness" in this prospectus.