

SUBSTANTIAL AND CONTROLLING SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

- (a) So far as our Directors are aware, immediately following completion of the [●], without taking into account [●], the following persons will have interests or short positions in Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name	Capacity/Nature of interest	Number of Shares directly or indirectly held immediately following completion of the [●]	Approximate percentage of issued Share immediately following completion of the [●]
Ever Sound ⁽¹⁾	Registered and beneficial owner	[●]	[●]%
Alpha Top ⁽²⁾	Registered and beneficial owner	[●]	[●]%
Brilliant Lead ⁽³⁾ . .	Registered and beneficial owner	[●]	[●]%

Notes:

(1) Each of Mr. Xu Jingnan and Ms. Wu Tigao holds 50% of the entire issued share capital of Ever Sound.

(2) Mr. Xu Zhihua holds 100% of the entire issued share capital of Alpha Top.

(3) Mr. Xu Zhida holds 100% of the entire issued share capital of Brilliant Lead.

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the [●] have interests or short positions in Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Group (other than our Company).

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RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Immediately following completion of the [●], Ever Sound, Alpha Top and Brilliant Lead will hold [●]%, [●]% and [●]% of our Company’s issued share capital respectively. Since each of Mr. Xu Jingnan and Ms. Wu Tigao holds 50% of the issued share capital of Ever Sound, they are Controlling Shareholders of our Company. In addition, Mr. Xu Zhihua and Mr. Xu Zhida hold the entire issued share capital of Alpha Top and Brilliant Lead respectively. Given that Mr. Xu Zhihua and Mr. Xu Zhida are the sons of Mr. Xu Jingnan and Ms. Wu Tigao, they are also considered as Controlling Shareholders of our Company.

Independence from Controlling Shareholders

(i) *Management independence and operational independence*

Although our Controlling Shareholders will retain a controlling interest in our Company after the [●], our Company has full rights to make all decisions on, and to carry out, its own business operations independently. Our Company (through its subsidiaries) holds all relevant licenses necessary to carry on its businesses, and has sufficient capital, equipment and employees to operate its business independently from our Controlling Shareholders.

Our Company’s management and operational decisions are made by its executive Directors and senior management, who have served our Company and/or its subsidiaries for a long time and have substantial experience in the industry in which our Company is engaged. Further, our three independent non-executive Directors will bring independent judgment to the decision-making process of the board of our Company.

Our Directors currently do not expect that following the [●], there will be any business transactions between our Company and our Controlling Shareholders. Based on the above, our Directors are of the view that our Company is independent from the Controlling Shareholders in terms of management and business operations.

(ii) *Administrative independence*

Our Group has its own capabilities and personnel to perform all essential administrative functions including financial and accounting management, inventory management and research and development. Our qualified accountant, company secretary and senior management staff are independent of our Controlling Shareholders.

(iii) *Financial independence*

Our Group has its own financial management system and the ability to operate independently from our Controlling Shareholders from a financial perspective. Our Directors believe that our Group is capable of obtaining financing from external sources without reliance on our Controlling Shareholders.

Having considered the above reasons, our Directors are of the view that our Group is capable of carrying its business independently of our Controlling Shareholders (including any associate thereof) after the [●].

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Fujian Peak and NBA

On 11 October 2007, Peak Shoes, Peak Sports and Fujian Peak entered into a marketing, sponsorship and advertising agreement with NBA Properties, Inc. pursuant to which Fujian Peak and our Group became the official marketing partner of the NBA. On 23 April 2008, our Company became a party to an advertising agreement dated 23 April 2008 and made between Fujian Peak, Tido Sports Co., Ltd and Clutch City Sports & Entertainment, L.P. and Rocketball, Ltd. in relation to the home stadium sponsorship for the NBA’s Houston Rockets.

Although Fujian Peak is authorised to conduct business related to the sale of shoe materials, shoes, apparel, leather and leather products current under its business license, and it is party to the two agreements mentioned, Fujian Peak has not carried out any active business activities other than holding the real estate property which is leased to the Group. To avoid any potential competition with our Group, the following arrangements have been made:

Non-competition undertaking

Despite our Controlling Shareholders are not engaged in and do not own any business that directly or indirectly competes with the Group, our Controlling Shareholders and Fujian Peak (each a “**Covenantor**” and collectively, “**Covenantors**”), and the Company entered into a deed of non-competition (the “**Non-competition Deed**”) in favour of the Company (for itself on behalf of its subsidiaries) on 8 September 2009, pursuant to which the Covenantors have jointly, severally and irrevocably agreed, undertaken to and covenanted with our Company (for itself and on behalf of its subsidiaries) that, with effect from the [●]:

- (i) the Covenantors shall not and shall procure that none of their respective associates shall except through his/her/its interests in the Company, whether as principal or agent and whether undertaken directly or indirectly in his/her/its own account or through any body corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise, carry on, participate, acquire or hold (whether as a shareholder, partner, agent or otherwise) any right or interest or otherwise be interested, involved or engaged in or concerned with, directly or indirectly, any business which is in any respect in competition with or similar to or may be in competition, directly or indirectly, with the business of the Group including, but not limited to, the manufacturing and sales of sports products and any other business from time to time conducted by any member of the Group or in which any member of the Group is engaged or has invested or which the Group has otherwise publicly announced its intention to enter into, engage in or invest in (the “**Restricted Business**”) within Hong Kong and the PRC and such other parts of the world where any member of the Group carries on business from time to time (the “**Restricted Territories**”); and
- (ii) in the event that any of them and/or any of their respective associates is offered or becomes aware of any business investment or commercial opportunity directly or indirectly relating to a Restricted Business in any of the Restricted Territories, the Covenantors:
 - (a) shall promptly notify the Company in writing and refer such business opportunity to the Company for consideration and provide such information as may be reasonably required by the Company in order to make an informed assessment of such business investment or commercial opportunity; and

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- (b) shall not and procure their respective associates shall not, invest or participate in any project or business investment or commercial opportunity unless such project or business investment or commercial opportunity shall have been rejected by the Company in writing and the principal terms of which the Covenantors or their respective associates invest or participate are no more favourable than those made available to the Company and such terms shall be fully disclosed to the Company prior to consummation of such rejected opportunities.
- (iii) they shall not and shall procure that none of their respective associates shall:
 - (a) at any time induce or attempt to induce any director, manager or employee or consultant of any member of the Group to terminate his or her employment or consultancy (as appropriate) with the Group, whether or not such act of that person would constitute a breach of that person's contract of employment or consultancy (as appropriate);
 - (b) at any time employ any person who has been a director, manager, employee of or consultant to any member of the Group who is or may be likely to be in possession of any confidential information or trade secrets relating to the Restricted Business; or
 - (c) alone or jointly with any other person through or as manager, adviser, consultant, employee or agent for or shareholder in any person, firm or company, in competition, directly or indirectly, with any member of the Group, canvass, or solicit or accept orders from or do business with any person with whom any member of the Group has done business or solicit or persuade any person who has dealt with the Group or is in the process of negotiating with the Group in relation to the Restricted Business to cease to deal with the Group or reduce the amount of business which the person would normally do with the Group or seek to improve their terms of trade with any member of the Group.

Furthermore, pursuant to a deed of undertaking date 8 September 2009, Fujian Peak specifically undertakes to the Group that it will not exercise its rights under the NBA Marketing, Sponsorship and Advertising Agreement entered into between Peak Shoes, Peak Sports, Fujian Peak and NBA Properties, Inc dated 11 October 2007 and the advertising agreement entered into between Fujian Peak, Tido Sports Co., Ltd., Clutch City Sports & Entertainment, L.P. and Rocketball, Ltd and our Company dated 23 April 2008 and it will, upon requested by the Group, assist the Group in complying with these agreements and will not do or attempt to do anything that may breach these two agreements and will keep the Group fully indemnified for any breach of these two agreements by Fujian Peak.

In addition, the following measures will be adopted to ensure good corporate governance practices:

- (i) independent non-executive Directors will review on an annual basis the compliance with the non-competition undertakings given by the Controlling Shareholders and other Covenantors and the options, pre-emptive rights or first rights of refusals provided by the Controlling Shareholders and other Covenantors on their existing or future competing business;

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- (ii) the Controlling Shareholders and other Covenantors will provide all information necessary for the annual review by the independent non-executive Directors and the enforcement of the non-competition undertakings;
- (iii) the Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the undertakings (including the exercise of options or first rights of refusals) either through the annual report or by way of announcements to the public;
- (iv) the Controlling Shareholders and other Covenantors will make an annual declaration on the compliance with the non-competition undertakings in the annual report of the Company and disclose how the non-competition undertakings were complied with and enforced, which is consistent with the principles of making voluntary disclosures in the Corporate Governance Report; and
- (v) the Controlling Shareholders and conflicting Directors will abstain from the meeting and voting and will not be counted as quorum where there is actual or potential conflicting interest.