
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Overview

Immediately following completion of the Capitalisation Issue and the Share Offer (assuming that the options which have been granted under the Pre-IPO Share Option Scheme and any options which may be granted under the Share Option Scheme are not exercised), Mr. Ko and Mrs. Ko will indirectly beneficially own in aggregate approximately 71% of our issued Shares. All their shareholding in our Company is held through C&H Holdings, a company incorporated in Hong Kong and 60% owned by Mr. Ko and 40% owned by Mrs. Ko. As such, Mr. Ko, Mrs. Ko and C&H Holdings will be our Controlling Shareholders under the Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors are satisfied that we are capable of carrying on our business independently from and do not place undue reliance on our Controlling Shareholders taking into consideration the following factors:

(i) Competition

As at the Latest Practicable Date, none of our Controlling Shareholders nor any of their associates and none of our Directors was interested in any business (other than our Group) which is, directly or indirectly, in competition with our business. To ensure that competition will not exist in future, the Controlling Shareholders entered into the Deed of Non-Competition with us on 6 September 2011. Please refer to the paragraph headed “Deed of Non-Competition and Possible Conflict of Interest” below for details of the principal terms of the Deed of Non-Competition.

(ii) Management independence

Our Board comprises three executive Directors and three INEDs. Mr. Ko and Mrs. Ko, both of whom are our Controlling Shareholders, are our executive Directors and Mr. Ko is the Chairman of our Board. Each of our Directors is aware of his or her fiduciary duties as a Director of our Company which require, among other things, that he or she acts for the benefit and in the best interest of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interests. 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 of our Company in respect of such transactions and shall not be counted in the quorum. Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from the Controlling Shareholders after the Share Offer.

(iii) Independence of business operations

We have established our own organisation structure comprised of individual departments, each with specific areas of responsibilities. We have also established internal control procedures to facilitate the effective and efficient operation of our business.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

As at the Latest Practicable Date, our Group operated more than 50 retail shops, all of which were rented premises. Some of these premises were leased from Connected Persons of our Company and under the terms of which, our Group will continue to lease the premises as stated in the tenancy agreements. Such tenancy agreements were entered into after arm's length negotiations, the details of which are set out in the section headed "Connected Transactions" of this prospectus.

Our Directors are of the opinion that, considering alternative premises are available if necessary, our Group is not operationally dependent on the lease of the relevant premises from Connected Persons of our Company who are associates of the Controlling Shareholders.

(iv) Financial independence

Our Directors are of the view that we are able to maintain financial independence from our Controlling Shareholders. We historically have had, and will following completion of the Share Offer, continue to have our own internal control and accounting systems. Our own finance and accounting department is capable of discharging the treasury functions for cash receipts and payments, accounting, reporting and internal control independently of our Controlling Shareholders.

In October 2010, our Controlling Shareholders, Mr. Ko and Mrs. Ko, entered into certain guarantee arrangements in respect of certain banking facilities given by the banks. Details of these banking facilities guaranteed by Mr. Ko and Mrs. Ko are set out in the "Financial Information" section under the heading "Indebtedness" in this prospectus.

The aforesaid personal guarantees are expected to be released and replaced by a corporate guarantee given by the Company upon Listing. Therefore, our Directors are of the view that there is no financial dependence on the Controlling Shareholders.

DEED OF NON-COMPETITION AND POSSIBLE CONFLICT OF INTEREST

In preparation for the Listing, each of our Controlling Shareholders has entered into the Deed of Non-Competition in favour of our Company, pursuant to which they have undertaken, subject to the exceptions mentioned below, that they:

- (i) shall not, except through any member of our Group, directly or indirectly (whether as principal or agent, through any body corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise) carry on, engage, invest or be interested or otherwise involved in any business that is similar to or in competition with or is likely to be in competition with any business carried on by any member of our Group from time to time or in which any member of our Group is engaged or has invested or is otherwise involved in ("Restricted Business"); and
- (ii) when he/she/it and/or any of his/her/its associates are offered or become aware of any new project or business opportunity directly or indirectly to engage or become interested in a Restricted Business, he/she/it (i) shall promptly notify our Company in writing, refer such project or business opportunity to our Company for consideration first and provide such information as may be reasonably required by our Company to make an informed

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

assessment of such project or business opportunity; and (ii) shall not, and procure that his/her/its associates shall not, invest or participate in any such project or business opportunity unless such project or business opportunity shall have been rejected by our Company and the principal terms of which he/she/it and/or his/her/its associates invest or participate are no more favourable than those made available to our Company.

The aforesaid undertakings do not apply to the holding of or interests in shares or other securities by any of the Controlling Shareholders and/or his/her/its associates in any company which conducts or is engaged in any Restricted Business, provided that, in the case of such shares, they are listed on a stock exchange and either:-

- (i) the relevant Restricted Business (and assets relating thereto) accounts for less than 10% of the relevant Controlling Shareholder's consolidated turnover or consolidated assets, as shown in that Controlling Shareholder's latest audited accounts; or;
- (ii) the total number of the shares held by any of our Controlling Shareholders and his/her/its associates or in which they are together interested does not amount to more than 5% of the issued shares of that class of that company, provided that any of the Controlling Shareholders and his/her/its associates, whether acting singly or jointly, are not entitled to appoint a majority of directors of that company and that at all times there is a holder of such shares holding (together, where appropriate, with its associates) a larger percentage of the shares in question than such Controlling Shareholder and his/her/its associates together hold.

The Deed of Non-Competition and the rights and obligations thereunder are subject to and conditional upon the Share Offer becoming unconditional.

The obligations of each of the Controlling Shareholders under the Deed of Non-Competition will remain in effect until:

- (i) the date on which the Shares cease to be listed on the Stock Exchange; or
- (ii) the date on which the relevant Controlling Shareholder and his/her/its associates and/or successors cease to hold any Shares;

whichever occurs first.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CORPORATE GOVERNANCE MEASURES

Pursuant to the Deed of Non-Competition, each of the Controlling Shareholders has undertaken:

- (i) to provide our Company (including the INEDs) with all information necessary for their annual review and the enforcement of all undertakings, representations and warranties contained in the Deed of Non-Competition;
- (ii) to make an annual declaration of compliance with such undertakings, representations and warranties for disclosure in our Company's annual reports; and
- (iii) to abstain from voting at any general meeting of our Company if there is any actual or potential conflict of interests.

In this connection, we also intend to adopt the following corporate governance measures to manage any potential conflicts of interest arising from any future potential competing business and to safeguard the interests of our Shareholders:

- (i) our INEDs shall review, at least on an annual basis, the compliance with and enforcement of the terms of the Deed of Non-Competition by the Controlling Shareholders;
- (ii) we will disclose in the corporate governance report of our annual report how the terms of the Deed of Non-Competition have been complied with and enforced;
- (iii) Mr. Ko and Mrs. Ko will excuse themselves from the Board meetings of our Company and abstain from voting on any Board resolutions in relation to any proposal in which Mr. Ko or Mrs. Ko would have conflicting interests to those of the other Shareholders. In such case, the other executive Directors and the INEDs, with the assistance of the senior management, will be responsible for making decisions for the Board. If necessary, our Company will engage external professionals such as auditors, valuers and other advisers to give advice;
- (iv) each Director is aware of his/her fiduciary duties as a Director, which require, among other things, that he/she acts for the benefit of our Company and the Shareholders as a whole and does not allow any conflict of interests between his/her duties as a Director and his/her personal interests. If potential conflict of interest arises, the interested Director(s) will bring the matter to the INEDs and shall not be present during the discussion of the relevant resolution in which the conflict of interest may arise and shall abstain from voting on such proposed resolution;
- (v) our Company will engage OSK Capital as our compliance adviser who shall ensure that our Company is properly guided and advised as to compliance with the Listing Rules and any other applicable laws and regulations;
- (vi) the INEDs may engage an independent financial adviser to advise them in considering connected transactions when it is necessary;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

(vii) our Directors are obliged under the Articles of Association to declare to the Board any potential conflict of interest with our Group at Board meetings. It is provided in the Articles of Association that a Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal in which he/she or any of his/her associates is materially interested. The Board (including the INEDs) will monitor the potential conflict of interest of Directors and our Directors have to submit confirmations to the Board disclosing details of any interests in competing businesses in any interim or annual reports to be issued by our Company; and

(viii) our Hong Kong Legal Adviser has provided training to all our Directors on the requirements of the Listing Rules. Formal legal advice on specific issues will be sought from time to time as and when necessary.

The declaration and disclosure regarding compliance with and enforcement of the Deed of Non-Competition shall be consistent with the principles of making voluntary disclosures in the Corporate Governance Report of our Company to be issued in accordance with appendix 23 to the Listing Rules.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Controlling Shareholders and their respective associates and our Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.