

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately after completion of the [●], each of Mr. Tien, Mr. Gozashti, All Divine and Fortune Zone is entitled to exercise or control the exercise of 30% or more of voting rights at general meetings of the Company. As such, each of Mr. Tien, Mr. Gozashti, All Divine and Fortune Zone is regarded as a Controlling Shareholder.

Apart from the Group, the Controlling Shareholders did not have any interests in any other businesses that compete or are likely to compete, either directly or indirectly, with the business of the Group during the Track Record Period and as at the Latest Practicable Date.

Details of the shareholdings of the Controlling Shareholders are set forth in the section headed “Substantial Shareholders” and the section headed “Disclosure of Interests” in Appendix V to this document.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Having considered the following factors, the Directors believe that the Group is capable of carrying on the Group’s business independently from the Controlling Shareholders and their associates after the [●]:

Management and administrative independence

The Board consists of five Directors, of whom two are executive Directors and the remaining three are independent non-executive Directors. Each of the Directors is aware of his/her fiduciary duties as a Director of the Company which requires, among other things, that he/she acts for the benefit and in the best interests of the Company and does not allow any conflict between his/her duties as a director and his/her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between the Group and the Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant meetings of the Board in respect of such transactions and shall not be counted in the quorum. In addition, the Company has a senior management team to make the business decisions independently. The three independent non-executive Directors will also bring independent judgment to the decision-making process of the Board.

Most members of the senior management of the Group have, for all or substantially all of the Track Record Period, undertaken senior management supervisory responsibilities in the business of the Group. The responsibilities of the senior management team of the Group include dealing with operational financial research and inventory management matters, making general capital expenditure decisions and the daily implementation of the business strategy of the Group. This ensures the independence of the daily management and operations of the Group. Further details are set out in the section headed “Directors and senior management” in this document.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Clear delineation of businesses

All Divine and Fortune Zone, all being Controlling Shareholders, were incorporated under the laws of BVI and are investment holding companies. As such, the Directors are of the view that the nature of the business activities carried on by the Group on the one hand, and those carried on by All Divine and Fortune Zone respectively on the other hand, are clearly distinct and that there is a clear delineation between the business of the Group and the business of All Divine and Fortune Zone respectively.

Financial independence

The Company has an independent financial system and makes financial decisions according to the Group’s own business needs. The Directors confirm that any guarantee, loan or pledge provided by the Controlling Shareholders in favour of the Group will be released or settled, as the case may be, upon the [●]. As at 31 May 2013, there were approximately HK\$4.6 million due from the directors and approximately HK\$0.8 million due to the directors. The amount due from/to the directors will be settled before the [●]. Save as aforesaid, as at the Latest Practicable Date, there was no guarantee, loan or pledge provided to the Controlling Shareholders. The Directors believe that the Company is capable of obtaining financing from independent third parties, if necessary, without reliance on the Controlling Shareholders after the [●]. Therefore, the Group will be financially independent from the Controlling Shareholders after the [●].

Operational independence

The Group has established its own organisational structure made up of individual departments, each with specific areas of responsibilities. The Group has not shared any operational resources, such as office premises, sales and marketing and general administration resources with the Controlling Shareholders and its associates during the Track Record Period. The Group has also established a set of internal controls to facilitate the effective operation of its business. The Group’s suppliers are all independent from the Controlling Shareholders. The Group does not rely on the Controlling Shareholders or their associates and have its independent access to the customers for the sale of products and suppliers for the provision of goods and materials.

The Directors consider that the Group’s operations do not depend on the Controlling Shareholders because (i) there is no competing business between the Group and any of the Controlling Shareholders and (ii) the Group will not be relying on any guarantee provided by any of the Controlling Shareholders in respect of bank borrowings nor have the Group been given any guarantee for the benefit of any of the Controlling Shareholders upon [●].

On the basis of the matters disclosed in this section, the Directors believe that the Group is capable of carrying on its business independently of the Controlling Shareholders and their respective associates.

DEED OF NON-COMPETITION

Subject to the terms therein, the Controlling Shareholders have entered into a deed of non-competition on [●] 2013 in favour of the Group (the “Deed of Non-Competition”) pursuant to which, each of the Controlling Shareholders has irrevocably and unconditionally undertaken to and covenanted with the Company (for itself and for the benefit of each member of the Group) that during the continuation of the Deed of Non-Competition, each of the Controlling Shareholders shall not, and shall

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

procure each of his/its associates and/or companies controlled by he/it will not, whether on his/its own account of in conjunction with or on behalf of any person, firm or company and whether directly or indirectly and whether for profit or otherwise, carry on a business which is, or to be interested or involved or engaged in or acquire or hold any rights or interest or otherwise involved in (in each case whether as a shareholder, partner, principal, agent or otherwise and whether for profit, reward or otherwise) any business which competes or is likely to compete directly or indirectly with the business currently and from time to time engaged by the Group (including but not limited to design, manufacture and trading of apparels and businesses ancillary to any of the foregoing, in each case, as more particularly described in this document in Hong Kong, the United States, the PRC and any other country or jurisdiction to which the Group markets, sells, distributes, supplies or otherwise provides such products and/or in which any member of the Group carries on business mentioned above from time to time (the “Restricted Business”).

Pursuant to the Deed of Non-Competition, each of the Controlling Shareholders has also undertaken that if each of the Controlling Shareholders and/or any of his/its associates is offered or becomes aware of any project or new business opportunity (the “New Business Opportunity”) that relates to the Restricted Business, whether directly or indirectly, he/it shall (i) promptly in any event not later than seven days notify the Company in writing of such opportunity and provide such information as is reasonably required by the Company in order to enable the Company to come to an informed assessment of such opportunity; and (ii) use his/its best endeavours to procure that such opportunity is offered to the Company on terms no less favourable than the terms on which such opportunity is offered to him/it and/or his/its associates.

The Directors (including the independent non-executive Directors) will review the New Business Opportunity and decide whether to invest in the New Business Opportunity. If the Group has not given written notice of its desire to invest in such New Business Opportunity or has given written notice denying the New Business Opportunity within thirty (30) business days (the “30-day Offering Period”) of receipt of notice from the relevant Controlling Shareholder, the relevant Controlling Shareholder and/or his/its associates shall be permitted to invest in or participate in the New Business Opportunity on his/its own accord. With respect to the 30-day Offering Period, the Directors consider that such period is adequate for the Company to assess any New Business Opportunity. In order to ensure that the Group has adequate time to assess some complicated business opportunities, the Controlling Shareholders have agreed to extend the offering period from 30 business days to a maximum of 60 business days should the Group require so by giving written notice within the 30-day Offering Period to the Controlling Shareholders.

In addition, upon [●], each of the Controlling Shareholders has also undertaken:

- (i) in favour of the Company to provide the Company and the Directors (including the independent non-executive Directors) from time to time with all information necessary, including but not limited to monthly turnover records (such as purchase orders placed by customers, corresponding invoices and any other relevant documents considered necessary by the independent non-executive Directors), for the annual review by the independent non-executive Directors with regard to compliance of the terms of the Deed of Non-Competition and the enforcement of the non-competition undertakings in the Deed of Non-Competition;

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

- (ii) to provide to the Company, after the end of each financial year of the Company, a declaration made by each of the Controlling Shareholders which shall state whether or not the Controlling Shareholders have during that financial year complied with the terms of the Deed of Non-Competition, and if not, particulars of any non-compliance, which declaration (or any part thereof) may be reproduced, incorporated, extracted and/or referred to in the annual report of the Company for the relevant financial year, such annual declaration shall be consistent with the principles of making voluntary disclosures in the corporate governance report; and
- (iii) to the Company to allow the Directors (including the independent non-executive Directors), their respective representatives and the auditors to have sufficient access (with reasonable prior notice) to the records of the Controlling Shareholders and his/its associates to ensure their compliance with the terms and conditions under the Deed of Non-Competition.

Further, each of the Controlling Shareholders has undertaken that during the period in which he/it and/or his/its associates, individually or taken as a whole, remains as a Controlling Shareholder:

- (i) he/it will not invest or participate in any project or business opportunity that competes or may compete, directly or indirectly, with the business activities engaged by the Group from time to time unless pursuant to the provisions stipulated in the Deed of Non-Competition;
- (ii) he/it will not solicit any existing or then existing employee of the Group for employment by him/it or his/its associates (excluding the Group);
- (iii) he/it will not without the consent from the Company, make use of any information pertaining to the business of the Group which may have come to his/its knowledge in his/its capacity as the Controlling Shareholder for any purposes; and
- (iv) he/it will procure his/its associates (excluding the Group) not to invest or participate in any project or business opportunity mentioned above unless pursuant to the provisions stipulated in the Deed of Non-Competition.

The Deed of Non-Competition will take effect upon [●] and shall expire on the earlier of:

- (i) [●]; or
- (ii) the day on which the Controlling Shareholders and his/its associates, individually or taken as a whole, cease to own, in aggregate, 30% or more of the then issued share capital of the Company directly or indirectly or cease to be deemed as Controlling Shareholder and do not have power to control the Board or there is at least one other independent Shareholder other than the Controlling Shareholders and his/its respective associates holding more Shares than the Controlling Shareholders and his/its respective associates taken together.

Each of the Controlling Shareholders also represented and warranted to the Company in the Deed of Non-Competition that neither of it/he nor any of its/his associates is currently interested, involved or engaging, directly or indirectly (whether as a shareholder, partner, principal, agent or otherwise, through any body corporate, partnership, joint venture or other contractual arrangement and whether for profit, reward or otherwise), in the Restricted Business otherwise than through the Group.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

As the Controlling Shareholders have given non-competition undertakings in favour of the Company, and none of them have interests in other businesses that compete or are likely to compete with the business of the Group, the Directors are of the view that they are capable of carrying on the Group’s business independently of the Controlling Shareholders following the [●].

None of the Controlling Shareholders and the Directors has interests in any business which competes or is likely to compete with the business of the Group.

CORPORATE GOVERNANCE MEASURES

The Company will adopt the following measures to strengthen its corporate governance practice and to safeguard the interests of the Shareholders:

- (1) the Articles provide that a Director shall absent himself/herself from participating in Board meetings (nor shall he/she be counted in the quorum) and voting 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 unless a majority of the independent non-executive Directors expressly requested him/her to attend;
- (2) the independent non-executive Directors will review, on an annual basis, the compliance with the non-competition undertaking by the Controlling Shareholders;
- (3) 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 non-competition undertaking;
- (4) the Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the non-competition undertaking of the Controlling Shareholders in the annual reports of the Company;
- (5) the Controlling Shareholders will make an annual declaration on compliance with their non-competition undertaking in the annual report of the Company;
- (6) the independent non-executive Directors will be responsible for deciding whether or not to allow any Controlling Shareholder and/or his/its associates to involve or participate in a Restricted Business and if so, any condition to be imposed; and
- (7) the independent non-executive Directors may appoint independent financial adviser and other professional advisers as they consider appropriate to advise them on any matter relating to the non-competition undertaking or connected transaction(s) at the cost of the Company.

Further, any transaction that is proposed between the Group and the Controlling Shareholders and their respective associates will be required to comply with the requirements of the [●], including, where appropriate, the reporting, annual review, announcement and independent shareholders’ approval requirements.

None of the members of the Group has experienced any dispute with its shareholders or among its shareholders themselves and the Directors believe that each member of the Group has maintained positive relationship with its shareholders. With the corporate governance measures including the measures set out in this paragraph headed “Corporate governance measures”, the Directors believe that the interest of the Shareholders will be protected.