
RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS OF OUR COMPANY

Immediately following the completion of the [REDACTED] and the [REDACTED] (assuming that the [REDACTED] is not exercised and without taking into account Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), Mr. Lam and Cheers Mate will control more than 30% of the issued share capital of our Company. For the purpose of the GEM Listing Rules, Mr. Lam and Cheers Mate are our Controlling Shareholders. Cheers Mate is an investment holding company owned as to 100% by Mr. Lam, and as at the Latest Practicable Date, it had not commenced any substantial business activities. For details of the shareholding of the Controlling Shareholders in each of the Group companies, please refer to the section “History and development”.

INDEPENDENCE OF OUR GROUP

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

Management and administrative independence

The Board comprises two executive Directors, namely Mr. Lam and Mr. Shut Yu Hang, and three independent non-executive Directors namely Mr. Tang Chi Wang, Mr. Wong Kwong On and Mr. Tse Ting Kwan. Mr. Lam is the sole director of Cheers Mate which is the Controlling Shareholder and the investment vehicle of Mr. Lam in holding the Shares. Save as disclosed above, none of our Directors or senior management serves any executive or management role in our Controlling Shareholder or any of its respective associates.

Each of our Directors is aware of his fiduciary duties as a Director which requires, among other things, that he acts for the benefit and in the best interests of our Company 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 close 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 senior management team of our Group is independent from our Controlling Shareholders. The three independent non-executive Director will also bring independent judgment to the decision-making process of the Board.

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

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Financial independence

Our Company has an independent financial system and makes financial decisions according to our Group’s own business needs. We have sufficient capital to operate our business independently, and have adequate internal resources and credit profile to support our daily operations. During the Track Record Period and as at the Latest Practicable Date, we had unutilised bank facilities secured by personal guarantee of HK\$1.5 million provided by Mr. Lam. Such guarantee provided by our Mr. Lam will be released on or before the [REDACTED] and replaced by a corporate guarantee provided by our Company. Please refer to the section “Financial information — Indebtedness” in this document for further details. Our Directors are of the view that our Group is capable of obtaining financing from independent third parties, if necessary, without reliance on our Controlling Shareholders, and accordingly is able to operate financially independently from our Controlling Shareholders after the [REDACTED].

Operational independence

Our Group has established our own organisational structure made of individual departments, each with specific areas of responsibilities. Our Group did not share our operational resources, such as contractors, customers, marketing, sales and general administration resources with our Controlling Shareholders and/or their close associates during the Track Record Period. Our Group has also established a set of internal controls to facilitate the effective operation of our business. Our Group’s customers and suppliers are all independent from our Controlling Shareholders, save for providing management services to Popstate on cost basis, details of which has been disclosed in the section headed “Connected Transactions” of this document. Our Group does not rely on our Controlling Shareholders or their respective close associates and has our independent access to customers and suppliers. Our Directors are of the view that our Group is able to operate independently from the Controlling Shareholders after the [REDACTED].

Independence of major sub-contractors and/or suppliers

Our Directors confirm that none of our Controlling Shareholders, our Directors and their respective associates have any relationship with the major sub-contractors and/or suppliers of our Group (other than the business contacts in the ordinary and usual course of business of our Group) during the Track Record Period.

Independence of major customers

Our Directors confirm that none of our Controlling Shareholders, our Directors and their respective associates have any relationship with the top five customers of our Group (other than the business contacts in the ordinary and usual course of business of our Group) during the Track Record Period.

Having considered the aforesaid 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 our Group is capable of managing our business independently from our Controlling Shareholders and their respective close associates.

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RULE 11.04 OF THE GEM LISTING RULES

Each of our Controlling Shareholders, our Directors, our Substantial Shareholders and their respective close associates do not have any interest in a business apart from our Group’s business which competes and is likely to compete, directly or indirectly, with our Group’s business and would require disclosure under Rule 11.04 of the GEM Listing Rules.

NON-COMPETITION UNDERTAKINGS

Mr. Lam and Cheers Mate (each the “**Covenantor**” and collectively the “**Covenantors**”) entered into a deed of non-competition dated [●] in favour of our Company and our subsidiaries (the “**Deed of Non-competition**”). Pursuant to the Deed of Non-competition, each of the Covenantors has irrevocably and unconditionally undertaken to our Company (for itself and for the benefit of our subsidiaries) that, save and except as disclosed in this document, during the period that the Deed of Non-competition remains effective, he/it shall not, and shall procure that his/its close associates (other than any member of our Group) not to carry on or be engaged, concerned or interested, or otherwise be involved, directly or indirectly, in any business in competition with or likely to be in competition with the existing business activity of any member of our Group and any business of our Group may engage in from time to time within Hong Kong and such other parts of the world where any member of our Group may operate from time to time, save for the holding of not more than 5% shareholding interests (individually or with his/its close associates) in any company listed on a recognised stock exchange and at any time the relevant listed company shall have at least one shareholder (individually or with his/its close associates, if applicable) whose shareholding interests in the relevant [REDACTED] company is higher than that of the relevant Covenantor (individually or with his/its close associates).

Each of the Covenantors further undertakes that if he/it or his/its close associates other than any member of our Group is offered or becomes aware of any business opportunity which may compete with the business of our Group, he/it shall procure that his/its close associates to promptly notify our Group in writing and our Group shall have a right of first refusal to take up such opportunity. Our Group shall, within 30 days after receipt of the written notice (or such longer period if our Group is required to complete any approval procedures as set out under the GEM Listing Rules from time to time), notify the Covenantor(s) whether our Group will exercise the right of first refusal.

Our Group shall only exercise the right of first refusal upon the approval of all independent non-executive Directors who do not have any interest in such opportunity. The relevant Covenantor(s) and the other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of the Board where there is a conflict of interest or potential conflict of interest including but not limited to the relevant meeting of our independent non-executive Directors for considering whether or not to exercise the right of first refusal.

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Our Company will adopt the following procedures to monitor that the Deed of Non-competition is being observed:

- (a) our independent non-executive Directors shall review on an annual basis the above undertakings from the Covenantors and to evaluate the effective implementation of the Deed of Non-competition;
- (b) each of the Covenantors undertakes to provide any information as is reasonably required by our Group or our independent non-executive Directors, as a basis to decide whether to exercise the right of first refusal by our Company from time to time; and
- (c) each of the Covenantors undertakes to provide all information necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-competition, and to provide an annual confirmation on the compliance of the non-competition undertaking for inclusion in the annual report of our Company.

The undertakings contained in the Deed of Non-competition are conditional upon the [REDACTED] granting approval for the [REDACTED] of and permission to deal in the Shares on the Stock Exchange and all conditions precedent under the [REDACTED] Agreement having been fulfilled (or where applicable, waived) and the [REDACTED] Agreement not having been terminated in accordance with its terms. If any such condition is not fulfilled on or before the date specified in the [REDACTED] Agreement (unless such conditions are waived on or before such date) or in any event on or before the date falling 30 days after the date of this document, the Deed of Non-competition shall lapse and cease to have any effect whatsoever and no party shall have any claim against the other under the Deed of Non-competition.

The Deed of Non-competition shall terminate on the date on which (i) in relation to any Covenantors, when he/it together with his/its close associates, whether individually or taken together, ceases to be interested in 30% (or such other amount as may from time to time be specified in the GEM Listing Rules as being the threshold for determining a controlling shareholder of a company) or more of the entire issued share capital of our Company provided that the Deed of Non-competition shall continue to be in full force and effect as against the other Covenantors; or (ii) our Shares cease to be [REDACTED] and [REDACTED] on the Stock Exchange (except for temporary trading halt or suspension of trading of the Shares on the Stock Exchange due to any reason).

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

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CORPORATE GOVERNANCE MEASURES

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

- (a) the Articles provide that a Director shall disclose the nature of his interest in any contract or transaction in which he is interested at or prior to its consideration and any vote thereon;
- (b) our independent non-executive Directors will review, on an annual basis, the compliance with the Deed of Non-competition by our Controlling Shareholders;
- (c) our Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-competition;
- (d) our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the Deed of Non-competition of our Controlling Shareholders in the annual reports of our Company;
- (e) our Controlling Shareholders will make an annual declaration on compliance with the Deed of Non-competition in the annual report of our Company;
- (f) our independent non-executive Directors will be responsible for deciding whether or not to allow any Controlling Shareholder and/or his/its close associates to involve or participate in any business in competition with or likely to be in competition with the existing business activity of any member of our Group within Hong Kong and such other parts of the world where any member of our Group may operate from time to time and if so, any condition to be imposed; and
- (g) our 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 Deed of Non-competition or connected transaction(s) at the cost of our Company.

Further, any transaction that is proposed between our Group and/or our Controlling Shareholders and their respective close associates will be required to comply with the requirements of the GEM Listing Rules, including, where appropriate, the reporting, annual review, announcement and independent shareholders' approval requirements.

With the corporate governance measures including the measures set out above in this paragraph, our Directors believe that the interest of our Shareholders will be protected.