

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Immediately after the completion of the [REDACTED], on the assumption that the [REDACTED] or any option which may be granted under the Share Option Scheme are not exercised, approximately [REDACTED]% of the issued share capital of our Company will be owned by JT Glory, which is in turn held as to 100.0% by Mr. Ng. In view of the above, Mr. Ng and JT Glory are the Controlling Shareholders of our Company within the meaning of the GEM Listing Rules.

EXCLUDED BUSINESS

Mr. Ng, our Controlling Shareholder, also held (i) 10% interest in Kingle Limited, (ii) entire interest in Strong Knight, (iii) entire interest in Able Vantage and (iv) 96% interest in Ching Lee (Macau). There is a clear delineation between our Group’s business and the business of Kingle Limited, Strong Knight, Able Vantage and Ching Lee (Macau) (collectively, the “Excluded Companies”), and our Directors do not regard the Excluded Companies and our Group as directly competing with each other due to the nature of business and geographical differences. Further details of the Excluded Companies have been disclosed in the paragraph headed “Excluded business” in the section headed “History, Reorganisation and Group structure” of this document.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS AND THEIR RESPECTIVE ASSOCIATES

Having considered the reasons as set forth below in this section, our Directors are of the view that our Group is capable of carrying out our business independently from the Controlling Shareholders and their respective close associates after the [REDACTED].

Management independence

Our Board comprises three executive Directors and three independent non-executive Directors. Each of our Directors is aware of his fiduciary duties as a director which require, among others, that he must act for the benefit of and in the best interests of our Company and not allow any conflict between his duties as a Director and his personal interests. Directors shall not vote in any Board resolution approving any contract or arrangement or any other proposal in which he or any of his close associates has a material interest.

Although Mr. Ng, being our Controlling Shareholder and executive Director, is also the sole director of JT Glory, being our Controlling Shareholder, our Board functions independently of the board of directors of JT Glory and other companies involving in the private investments which Mr. Ng may have apart from the investment in our Company. Since JT Glory is an investment holding company with no operative business, and that Mr. Ng is not involved in any other businesses that are in competition with our business, our Directors believe that the independence of the management of our Group will not be affected or compromised by the common directorship of Mr. Ng on our Board and his respective interests in JT Glory and other private investments.

In the circumstances where our executive Directors are required to abstain from voting due to potential conflicts of interest, our independent non-executive Directors will make their business judgment for further making decision in our Board. Given the experience of our independent non-executive Directors, details of which are set out in the section headed “Directors, senior management and staff” of this document, our Directors believe that the remaining Board can still function properly in the event that our executive Directors are required to abstain from voting.

Based on the above, our Directors are satisfied that our Board as a whole together with our senior management team are able to perform the managerial role in our Group independently.

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Operational independence

The registered general building contractor license and two registered specialist contractor licenses under the categories of foundation works and site formation works respectively, all of which are registered with the Buildings Department under the name of Ching Lee Engineering, are material to our business operations in Hong Kong. For each of these licenses, there must be at least one technical director at Ching Lee Engineering who is also a director of Ching Lee Engineering and at least one authorised signatory to act for Ching Lee Engineering under the Buildings Ordinance. As at the Latest Practicable Date, Mr. Ng and Mr. Lui were the two technical directors and the two authorised signatories in respect of the registered general building contractor license and registered specialist contractor license under the category of site formation works of Ching Lee Engineering. Nevertheless, Mr. Ng had been the only technical director and authorised signatory in respect of the registered specialist contractor license under the category of foundation works of Ching Lee Engineering during the Track Record Period and up to the Latest Practicable Date. In the event that Mr. Ng ceases to act as a technical director and authorised signatory for Ching Lee Engineering and no acceptable replacement could be appointed by our Group within a reasonable period of time, our Group's operations would be materially and adversely affected.

In order to operate independently from Mr. Ng, our Group submitted an application to the Buildings Department for the addition of Mr. Ng Chin Hong, our project manager and a member of our senior management, on 8 December 2015 as a new authorised signatory, and Mr. Tse Henry Lai Han, our project director and a member of our senior management, on 13 December 2015 as a new technical director and authorised signatory in respect of the registered specialist contractor license under the category of foundation works of Ching Lee Engineering in addition to Mr. Ng. It is expected that the approval process will take approximately three to four months. Our Directors believe that Mr. Ng Chin Hong and Mr. Tse Henry Lai Han can fulfill the requirements as stipulated in the Buildings Ordinance and our Group is not aware of any impediment against such two applications. Therefore, our Directors are of the view that our Group is able to operate independently from the Controlling Shareholders after the [REDACTED].

In addition, 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. 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].

Financial independence

Our Group has an independent financial system and makes financial decisions according to our own business needs. Our Group has sufficient capital to operate its business independently, and has adequate internal resources and a strong credit profile to support its daily operations.

As at the Latest Practicable Date, we had obtained ten surety bonds issued by various insurance companies as required by the customers under the relevant contracts in an aggregate sum of approximately HK\$50.6 million. Ching Lee Engineering and/or Mr. Ng, Mr. Lui and/or Mr. Lam, as the directors of Ching Lee Engineering, provided back-to-back indemnities as requested by each of the insurance company in order to indemnify the relevant insurance company giving the surety bond against all losses and damages which the insurance company may incur by reason of having become a surety

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and given the performance guarantee in favour of the relevant customer as security for the due performance and observance of our obligations under the relevant contract entered into between Ching Lee Engineering and the customer.

Our Directors confirm that it is not uncommon for an insurance company to require the main contractor and/or the directors of a main contractor to provide a back-to-back indemnity to ensure the main contractor’s due performance and observance of a construction contract. Our Directors believe that our Group is capable of complying with the terms and conditions of the contracts Ching Lee Engineering entered into with the customers without triggering enforcement of the back-to-back indemnities given by Ching Lee Engineering and/or Mr. Ng, Mr. Lui and/or Mr. Lam, as the directors of Ching Lee Engineering, and Ching Lee Engineering has duly complied with the terms and conditions of the relevant contracts in all material respects. Each of these back-to-back indemnities will be released and replaced by a corporate guarantee provided by our Company upon [REDACTED].

During the Track Record Period, our Group has certain amounts due from/to related companies and Mr. Ng. The net amount due from related companies and Mr. Ng in the sum of approximately HK\$48 million as at the Latest Practicable Date will be fully settled by:

- (i) Setting off against a special dividend of approximately HK\$36 million declared in March 2016 and distributed by Ching Lee Engineering to Mr. Ng before [REDACTED]; and
- (ii) Part of the net proceeds to be received by [REDACTED] from the [REDACTED] of the Sale Shares of approximately HK\$[REDACTED].

During the Track Record Period, our Group’s finance lease liabilities were secured by personal guarantees of Mr. Ng. Please refer to the section headed “Financial information — Obligation for finance lease” of this document and Note 23 (Obligations under finance leases) of the Accountants’ Report set out in Appendix I to this document for further details. All the outstanding finance lease liabilities would be settled before [REDACTED] and so upon such settlement, all the corresponding personal guarantees provided by Mr. Ng will be released upon [REDACTED].

During the Track Record Period, our Group’s banking facilities were secured by personal guarantees of Mr. Ng, which will be released and replaced by corporate guarantees to be issued by our Company upon [REDACTED]. For details, please refer to the paragraph headed “Financial information — Indebtedness — Bank borrowings” in this document.

Based on the above, our Directors believe that we are able to maintain financial independence from our Controlling Shareholders upon [REDACTED].

NON-COMPETITION UNDERTAKINGS

Each of our Controlling Shareholders has given certain non-competition undertakings in favour of our Company (for itself and as trustee for each of our subsidiaries) under the Deed of Non-Competition, pursuant to which each of Mr. Ng and JT Glory, jointly and severally, warrants and undertakes with our Company that, from the [REDACTED] and ending on the occurrence of the earlier of,

- (a) any of our Controlling Shareholders and his/her/its close associates and/or successor, individually and/or collectively, cease to own 30% (or such percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer) or more of the then issued share capital of our Company directly or indirectly or ceases to be deemed as our Controlling Shareholder; or
- (b) the Shares cease to be listed on the Stock Exchange (except for temporary suspension of the Shares due to any reason),

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he/she/it will not, and will procure any Controlling Shareholder and his/her/its close associates (collectively, "Controlled Persons") and any company directly or indirectly controlled by him/her/it (which for the purpose of the Deed of Non-Competition, shall not include any member of our Group) (the "Controlled Company") not to (i) either on his/her/its own or in conjunction with any body corporate, partnership, joint venture or other contractual agreement, whether directly or indirectly, whether for profit or not, carry on, participate in, hold, engage in, acquire or operate, or provide any form of assistance to any person, firm or company (except members of our Group) to conduct any business which, directly or indirectly, competes or may compete with the business presently carried on by our Company or any of our subsidiaries or any other business that may be carried on by any of them from time to time during the term of the Deed of Non-Competition, in Hong Kong or such other places as our Company or any of our subsidiaries may conduct or carry on business from time to time, including but not limited to the provision of substructure building works services, superstructure building works services and repair, maintenance, alteration and addition works services (the "Restricted Business"). Such non-competition undertakings do not apply to:

- (i) the holding of Shares or other securities issued by our Company or any of our subsidiaries from time to time;
- (ii) the holding of shares or other securities in any company which has an involvement in the Restricted Business, provided that such shares or securities are listed on a recognised stock exchange and the aggregate interest of our Controlling Shareholder and his/her/its associates (as "interest" is construed in accordance with the provisions contained in Part XV of the SFO) does not amount to more than 10% of the relevant share capital of the company in question;
- (iii) the contracts and other agreements entered into between our Group and our Controlling Shareholder and/or his/her/its close associates; and
- (iv) the involvement, participation or engagement of our Controlling Shareholder and/or his/her/its close associates in the Restricted Business in relation to which our Company has agreed in writing to such involvement, participation or engagement, following a decision by our independent non-executive Directors to allow such involvement, participation or engagement subject to any conditions our independent non-executive Directors may require to be imposed.

New business opportunity

If any Controlling Shareholder, any of his/her/its close associates and/or any Controlled Company is offered or becomes aware of any business opportunity directly or indirectly to engage in or own the Restricted Business (the "New Business Opportunity"):

- (a) he/she/it shall promptly notify our Company of such New Business Opportunity in writing and refer the same to our Company for consideration; and
- (b) he/she/it shall not, and shall procure that his/her/its Controlled Persons or Controlled Companies not to, invest or participate in any New Business Opportunity, unless such New Business Opportunity is rejected by the independent committee of our Board (the "Independent Board Committee") comprising of our independent non-executive Directors from time to time who do not have any material interest in the Restricted Business and/or the New Business Opportunity and the principal terms of which our Controlling Shareholder or his/her/its Controlled Persons or Controlled Companies invest or participate in are no more favourable than those made available to our Company.

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The Controlling Shareholder may only engage in the New Business Opportunity if a notice is received from the Independent Board Committee confirming that the New Business Opportunity is not accepted by our Company and/or does not constitute competition with the Restricted Business.

General undertakings

To ensure the performance of the above non-competition undertakings given under the Deed of Non-Competition, our Controlling Shareholders shall, among others:

- (a) when required by our Company, provide all information necessary for the Independent Board Committee to conduct annual examination, including all relevant financial, operational and market information and other necessary information, with regard to the compliance of the terms of the Deed of Non-Competition and the enforcement thereof;
- (b) procure our Company to disclose to the public either in the annual, interim or quarterly report of our Company or issuing a public announcement in relation to any decisions made by our Independent Board Committee with regard to the compliance of the GEM Listing Rules and the terms of the Deed of Non-Competition and the enforcement thereof;
- (c) where our Independent Board Committee shall deem fit, make a declaration in relation to the compliance of the terms of the Deed of Non-Competition in the annual, interim or quarterly report of our Company, and ensure that the disclosure of information relating to compliance with the terms of the Deed of Non-Competition and the enforcement of it are in accordance with the requirements of the GEM Listing Rules;
- (d) where our Independent Board Committee has rejected the New Business Opportunity referred to by any Controlling Shareholder, any of his/her/its close associates and/or any Controlled Company regardless of whether he/she/it would thereafter invest or participate in such New Business Opportunity, procure our Company to disclose to the public either in the annual, interim or quarterly report of our Company or an announcement of the decision of our Independent Board Committee regarding the decision on the New Business Opportunity and the basis thereof; and
- (e) during the period when the Deed of Non-Competition is in force, fully and effectually indemnify our Company against any losses, liabilities, damages, costs, fees and expenses as a result of any breach on the part of our Controlling Shareholders of any statement, warrant or undertaking made under the Deed of Non-Competition.

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CORPORATE GOVERNANCE MEASURES TO RESOLVE ACTUAL AND/OR POTENTIAL CONFLICTS OF INTERESTS BETWEEN OUR COMPANY AND OUR CONTROLLING SHAREHOLDERS

Our Directors recognise the importance of good corporate governance in protecting our Shareholders’ interests as well as resolving actual and/or potential conflicts of interests between our Company and the Controlling Shareholders. We would adopt the following measures to safeguard good corporate governance standards and to avoid potential conflict of interests between our Group and our Controlling Shareholders:

- (a) where a Shareholders’ meeting is to be held for considering proposed transactions in which any of our Controlling Shareholders or any of their associates has a material interest, the relevant Controlling Shareholder(s) will abstain from voting on the relevant resolutions and shall not be counted in the quorum in the voting;
- (b) our Company has established internal control mechanisms to identify connected transactions. Upon the [REDACTED], if our Company enters into connected transactions with our Controlling Shareholders or any of their associates, our Company will comply with the applicable GEM Listing Rules;
- (c) the independent non-executive Directors will review, on an annual basis, whether there are any conflicts of interests between our Group and our Controlling Shareholders to ensure compliance with the Deed of Non-Competition by our Controlling Shareholders (the “Annual Review”) and provide impartial and professional advice to protect the interests of our minority Shareholders;
- (d) each of our Controlling Shareholders will undertake to provide all information necessary, including all relevant financial, operational and market information and any other necessary information as required by the independent non-executive Directors for the Annual Review;
- (e) our Company will disclose decisions on matters reviewed by the independent non-executive Directors on the compliance with, and the enforcement of, the Deed of Non-Competition in our annual reports, interim reports, quarterly reports or by way of announcements in compliance with the requirements of the GEM Listing Rules;
- (f) where our Directors reasonably request the advice of independent professionals, such as financial advisers, the appointment of such independent professionals will be made at our Company’s expenses; and
- (g) we have appointed Kingsway Capital Limited as our compliance advisor to provide advice and guidance to us in respect of compliance with the applicable laws and regulations, as well as the GEM Listing Rules, including various requirements relating to corporate governance.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest that may arise between our Group and our Controlling Shareholders, and to protect our minority Shareholders’ interests after the [REDACTED].