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## RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

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### CONTROLLING SHAREHOLDERS

Immediately following completion of the Share Offer and the Capitalisation Issue, our Company is owned as to 62.63% by Sage City, which is controlled and owned as to 70% by Mr. Kwong. Sage City is an investment holding company. Mr. Kwong and Sage City confirm that they and their close associates do not have any interest, individually or together, in any business which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 11.04 of the GEM Listing Rules. Save as our Controlling Shareholders, interests in our Company, none of our Directors and the Controlling Shareholders and their respective close associates is engaged in any business which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 11.04 of the GEM Listing Rules.

### INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

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 Share Offer:

#### **Management and administrative independence**

Our Board consists of five Directors, of whom two are executive Directors and the remaining three are independent non-executive Directors. Mr. Kwong is an executive Director, our chairman and chief executive officer, is also a director of Sage City. 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/her 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 our Board in respect of such transactions and shall not be counted in the quorum. In addition, our Group 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 our Board.

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 are set out in the section headed "Directors, Senior Management and Staff" in this prospectus.

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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. Our Directors confirm that any guarantee, loan or pledge provided by our Controlling Shareholders in favour of our Group will be released or settled, as the case may be, before or upon the Listing. During the Track Record Period, we had certain amounts due to or from Mr. Kwong. For details, please refer to note 25 to the Accountant's Report set out in Appendix I to this prospectus. As at the Latest Practicable Date, such amounts due to or from Mr. Kwong had been fully settled. On 10 June 2016, Sage City advanced an amount of HK\$10,285,000 to KMK. We have obtained an overdraft facility of HK\$10 million from a commercial bank in Hong Kong, which was drawn down in late September 2016 to repay the above loan advanced by Sage City prior to Listing. The balance of HK\$0.3 million will be settled by our Group's internal resources prior to Listing. Our Directors believe that our Group is capable of obtaining financing from Independent Third Parties, if necessary, without reliance on our Controlling Shareholders after the Listing. Therefore, our Group will be financially independent from our Controlling Shareholders after the Listing.

### **Operational independence**

Our Group has established its own organisational structure made of individual departments, each with specific areas of responsibilities. Save for our premises for operational use which is leased from Ms. Li Chuen Chun and Ms. Kwong Wing Yee under a lease agreement (details of which are set out in the section "Continuing Connected Transactions" in this prospectus), our Group's customers and suppliers are all independent from our Controlling Shareholders. Our Group does not rely on our Controlling Shareholders or their close associates and have its independent access to customers and suppliers.

Our Directors consider that our operations do not depend on our Controlling Shareholders because (i) there is no competing business between our Group and any of our Controlling Shareholders; and (ii) our Group will not be relying on any guarantee provided by any of our Controlling Shareholders in respect of bank borrowings nor has our Group been given any guarantee for the benefit of any of our Controlling Shareholders upon Listing.

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

### **Voluntary lock-up undertaking by our Controlling Shareholders**

Each of our Controlling Shareholders has undertaken to our Company and the Stock Exchange that except pursuant to the Share Offer, it or he shall not, and shall procure that the relevant registered holder(s) shall not, (i) at any time during the six-month period commencing on the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it or he is shown by this prospectus to be the beneficial owner; and (ii) at any time during the period of 18 months from the date on which the period referred to in paragraph (i) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it or he would cease to own more than 50.1% of our issued Shares; (iii) in the event he or it pledges or charges any direct or indirect interest in our Shares or pursuant to any right or waiver granted by the Exchange, at any time during the relevant periods specified in paragraph (i) or paragraph (ii) above, he or it must inform the Company immediately thereafter, disclosing the details specified in GEM Rule 17.43(1) to (4); and (iv) having pledged or charged any interest in securities under (iii) above, he or it must inform the Company immediately in the event the he or it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of securities affected.

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### DEED OF NON-COMPETITION

Mr. Kwong and Sage City (each the “**Covenantor**” and collectively the “**Covenantors**”) entered into the Deed of Non-competition in favour of our Company and our subsidiaries. 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 prospectus, 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 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 listed 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/her/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.

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

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- (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 Listing Division granting approval for the listing of and permission to deal in the Shares on the Stock Exchange and all conditions precedent under the Underwriting Agreements having been fulfilled (or where applicable, waived) and the Underwriting Agreements not having been terminated in accordance with their respective terms. If any such condition is not fulfilled on or before the date specified in the Underwriting Agreements (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 prospectus, 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 listed and traded 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 Listing.

Other than members of our Group, none of our Controlling Shareholders and our Directors or their respective close associates has interests in any business which competes or is likely to compete with the business of our Group.

### CORPORATE GOVERNANCE MEASURES

Our 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 not vote (nor shall he/it be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or proposal in which he/it or any of his/its close associate(s) has/have a material interest, and if he/it shall do so his/its vote shall not be counted (nor shall he/it be counted in the quorum for that resolution), but this prohibition shall not apply to the exceptions as stated in the Articles where such exceptions are consistent with those provided in Appendix 3 to the GEM Listing Rules;

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- (2) our independent non-executive Directors will review, on an annual basis, the compliance with the Deed of Non-competition by our Controlling Shareholders;
- (3) 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;
- (4) 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;
- (5) our Controlling Shareholders will make an annual declaration on compliance with the Deed of Non-competition in the annual report of our Company;
- (6) 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
- (7) 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 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.