
RELATIONSHIP WITH THE SUBSTANTIAL SHAREHOLDER UPON RESUMPTION

OVERVIEW

Following completion of the YM Subscription, the Public Offer and the New Placing, based on Scenario I and Scenario II set out in the shareholding structure of the Company disclosed in the section headed “Letter from the Liquidators” of this prospectus, the Company will not have any controlling Shareholder and the following person will be the only Substantial Shareholder:

Name	Approximately percentage of shareholding(s)
Mr. Lee Wa Lun, Warren	19.9%

For more information relating to Mr. Warren Lee, please refer to the sub-section headed “**Proposed Directors and Senior Management of the Enlarged Group – Directors**” in this prospectus.

RULE 8.10 OF THE LISTING RULES

Each of the Proposed Directors (including Mr. Warren Lee) confirms that (i) save for the YM Subscription, each of them and their respective close associates did not have any transaction with the Enlarged Group during the Track Record Period and up to the Latest Practicable Date; and (ii) each of them and their respective close associates does not have any interest in a business apart from the Enlarged Group’s business which competes or may compete, directly or indirectly, with the Enlarged Group’s business, and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM SUBSTANTIAL SHAREHOLDER

The Proposed Directors do not expect that there will be any significant transactions between the Company and Mr. Warren Lee upon or shortly after Resumption.

The Proposed Directors are satisfied that the Company can carry on its business independent of and without undue reliance on Mr. Warren Lee and his close associates after the Resumption based on the following reasons:

Management independence

Upon Resumption, the Board will consist of seven Proposed Directors, comprising three executive Directors, one non-executive Director and three independent non-executive Directors, and management and operational decisions are made by the executive Directors and senior management. Although Mr. Warren Lee is an executive Director and a Substantial Shareholder, the Company considers that members of the Board and senior management of the Company will function independently from Mr. Warren Lee because:

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- (i) each of the Proposed Directors is aware of his/her fiduciary duties as a Director which require, among other things, that he/she acts for the benefit of and in the best interests of the Company and Shareholders as a whole, and does not allow any conflict between his/her duties as a Director and his/her personal interests to exist. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between the Enlarged Group and Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant Board meeting in respect of such transaction and shall not be counted in the quorum;
- (ii) the Company has an independent management team, which is led by the executive Directors and senior management with substantial experience and expertise in Yu Ming's business, to implement the Enlarged Group's policies and strategies; and
- (iii) three proposed independent non-executive Directors have extensive experience in different areas or professions and will give independent advice to the Board from time to time.

Operational independence

The Enlarged Group has established its own organisational structure comprising individual departments, each with specific areas of business and responsibilities. Yu Ming has not shared its operational resources, such as customers and general administration resources with Mr. Warren Lee and his close associates.

The Proposed Directors confirmed that save for Mr. Warren Lee being the chairman and an executive director of SHK, none of Mr. Warren Lee and his close associates had any relationship with Yu Ming's five largest suppliers and customers (other than the ordinary and usual course of business of Yu Ming) during the Track Record Period and up to the Latest Practicable Date.

The Proposed Directors confirmed that Yu Ming will not enter into any transaction with Mr. Warren Lee and his close associates after Resumption that will affect its operational independence.

As disclosed in the paragraph headed "C. Further information about Directors, management, staff and experts – 3. Particulars of service agreements" in Appendix V to this prospectus, Mr. Warren Lee, being one of the Proposed Directors, will enter into a service agreement with the Company from the date of Acquisition Completion.

Financial independence

The Enlarged Group has its own accounting systems, accounting and finance department, independent treasury function for cash receipts and payment. The Enlarged Group makes financial decision according to its own business needs. The Enlarged Group's accounting and finance department is responsible for financial reporting, liaising with its auditors and reviewing its cash position.

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The Proposed Directors confirmed that, as at the Latest Practicable Date, none of Mr. Warren Lee or his close associates had provided any loans, guarantees or pledges to the Enlarged Group. The Proposed Directors also confirmed that, as at the Latest Practicable Date, the Enlarged Group did not provide any loans, guarantees or pledges to Mr. Warren Lee or his close associates.

In view of Yu Ming's internal resources, net cash generated from operating activities and the estimated net proceeds from the Public Offer, the Proposed Directors believe that the Enlarged Group will have sufficient capital for its financial needs and for at least twelve months from the date in this prospectus without dependence on Mr. Warren Lee and his close associates. The Proposed Directors further believe that, upon Resumption, the sustainability of Yu Ming's business as demonstrated by its results of operation and financial position during the Track Record Period will enhance its ability to obtain loans and borrowings from banks independently without the support of Mr. Warren Lee and his close associates.

NON-COMPETITION UNDERTAKINGS

Upon completion of the YM Subscription, Mr. Warren Lee will enter into the Deed of Non-Competition in favour of the Company, pursuant to which, Mr. Warren Lee represents and warrants to the Company that none of Mr. Warren Lee nor his close associates is currently involved or engaged in any business or activity which, directly or indirectly, competes or may compete with the business of the Enlarged Group (the "**Restricted Business**"), or has any interest (whether directly or indirectly) in the Restricted Business (other than the interest in the Enlarged Group). In addition, Mr. Warren Lee, irrevocably and unconditionally, undertakes and covenants with the Company that, with effect from the date of the Resumption and for as long as the Company's shares remain listed on the Stock Exchange and Mr. Warren Lee, directly or indirectly, interested in 10% or more of New Shares in issue, or are otherwise regarded as Substantial Shareholder:

- (i) he shall not, and shall procure his close associates not to,
 - (a) compete with the Enlarged Group, directly or indirectly (other than through the Enlarged Group), by carrying on, participating in, holding, engaging in, being interested in, acquiring or operating, directly or indirectly, or provide any form of assistance to any person, firm or company to conduct any Restricted Business, save for the holding of not more than 5% shareholding interest in any company conducting the Restricted Business and listed on any recognised stock exchange;
 - (b) solicit any then current employee of the Enlarged Group for employment by him or his close associates (excluding any member of the Enlarged Group); and
 - (c) without the consent of the Company, make use of any information pertaining to the business of the Enlarged Group which may have come to his knowledge in his capacity as substantial shareholder or otherwise for purpose of engaging or participating in the Restricted Business.

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- (ii) if he and/or any of his close associates (other than members of the Enlarged Group) become(s) aware of any business opportunity which is related to the Restricted Business, or which directly or indirectly competes, or may lead to competition with the business of the Enlarged Group (the “**New Business Opportunity**”) or such New Business Opportunity is made available to him or his close associates, he shall direct and/or shall procure his close associates to direct such New Business Opportunity to the Enlarged Group and inform the Enlarged Group of such New Business Opportunity on a timely basis but in any event no later than ten days from the date of becoming aware or receipt of such enquiry or knowledge of such New Business Opportunity together with such requisite information to enable the Enlarged Group to evaluate the merits of the New Business Opportunity; and
- (iii) he shall not pursue and shall procure his close associates not to pursue a New Business Opportunity unless the Enlarged Group decides not to pursue such New Business Opportunity and the principal terms of which Mr. Warren Lee or his close associates invests or participates in such project or New Business Opportunity are no more favourable than those made available to the Enlarged Group.

The Proposed Directors (including the proposed independent non-executive Directors) shall be responsible for reviewing, considering and deciding whether or not to take up any engagement or business opportunity referred by Mr. Warren Lee and/or his close associates and whether or not the New Business Opportunity constitutes the Restricted Business. Any Proposed Director who has an actual or potential material interest in the New Business Opportunity shall abstain from voting at, and shall not be counted towards the quorum for, any meeting or part of a meeting convened to consider such New Business Opportunity (unless in certain circumstances as set out in the Articles).

Mr. Warren Lee may only engage, and shall procure his close associates only engage, in the New Business Opportunity if (i) a notice is received by Mr. Warren Lee from the Company confirming that the New Business Opportunity is not accepted and does not constitute the Restricted Business (the “**Non-acceptance Notice**”); or (ii) the Non-acceptance Notice is not received by Mr. Warren Lee within 30 days after the proposal of the New Business Opportunity is received by the Enlarged Group.

The Deed of Non-Competition and the rights and obligations thereunder are conditional upon (i) the Stock Exchange granting the listing of, and the permission to deal in, the New Shares; and (ii) Listing and dealings in the New Shares on Stock Exchange taking place.

The Deed of Non-Competition shall cease to have any effect whatsoever upon the occurrence of the earliest of (i) the day on which the New Shares cease to be listed on the Main Board of the Stock Exchange; or (ii) the day on which Mr. Warren Lee and his close associates, individually or taken as a whole, cease to own, in aggregate, 10% or more of the then issued share capital of the Company directly or indirectly, or cease to be deemed as a Substantial Shareholder or cease to have power to control the Board; or (iii) the day on which Mr. Warren Lee beneficially owns or becomes interested jointly or severally in the entire issued share capital of the Company.

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CORPORATE GOVERNANCE MEASURES

The Company will adopt the following corporate governance measures to manage any potential or actual conflict of interest between Mr. Warren Lee and the Company and to safeguard the interest of the Shareholders.

In order to ensure the performance of the above non-competition undertakings, Mr. Warren Lee undertakes that he will:

- (i) in case of any actual or potential conflict of interest, abstain from voting at any meeting or part of any meeting convened to consider any New Business Opportunity (unless in certain circumstances as set out in the Articles), and shall not be counted towards the quorum for such meeting;
- (ii) as required by the Company, provide all information necessary for the independent non-executive Directors to conduct annual examination with regard to the compliance of the terms of the Deed of Non-Competition and the enforcement of it;
- (iii) procure the Company to disclose to the public either in the annual report of the Company or issue a public announcement in relation to any decisions made by its independent non-executive Directors with regard to the compliance of the terms of the Deed of Non-Competition and the enforcement of it and, where applicable, the reason(s) why any New Business Opportunity referred to the Company by Mr. Warren Lee and/or his close associates was not taken up;
- (iv) ensure that the independent non-executive Directors shall make a declaration in relation to the compliance of the terms of the Deed of Non-Competition in the annual report of the 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 Listing Rules; and
- (v) that during the period when the Deed of Non-Competition is in force, fully and effectually indemnify the Company against any losses, liabilities, damages, costs, fees and expenses as a result of any breach on the part of Mr. Warren Lee of any statement, warrant or undertaking made under the Deed of Non-Competition.

Based on the above, the Proposed Directors are satisfied that there are sufficient and effective preventive measures to manage conflicts of interest between Mr. Warren Lee and the Company.