

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

BACKGROUND OF OUR CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares that may be allotted and issued upon the exercise of the Over-allotment Option and any option that may be granted under the Share Option Scheme), our Company will be owned as to 53.41% by Modern Expression. Dr. Chan and Ms. Cheng, being the joint legal and beneficial owners of the entire issued share capital of Modern Expression, are indirectly holding 53.41% of the issued share capital of our Company. Accordingly, Modern Expression, Dr. Chan and Ms. Cheng are regarded as our Controlling Shareholders under the Listing Rules.

Modern Expression is an investment holding company incorporated in BVI. Dr. Chan and Ms. Cheng are two of the founders of our Group and had been leading the development of and strategic planning of our Group throughout the years. Ms. Cheng is the spouse of Dr. Chan. Dr. Chan and Ms. Cheng are both non-executive Directors and Dr. Chan is the chairman of our Board. For details of their background and experience, please refer to the section headed “Directors and senior management — Directors” in this prospectus.

Apart from engaging in the business of development, design, manufacture and sale of electrothermic household appliances through our Group, Dr. Chan and Ms. Cheng also engage in property holding and investment activities through a number of companies controlled by them and these companies will not form part of our Group after the Listing. The properties held by those companies involve residential, commercial, industrial properties as well as car parking spaces and the properties are located in the PRC, Hong Kong, Canada and the United Kingdom. As our Group is positioned to focus on the business of manufacturing and sale of household appliances, the property holding and investment business of Dr. Chan and Ms. Cheng was not injected into our Group and it will not have any direct or indirect competition with the business of our Group.

RULE 8.10 OF THE LISTING RULES

Each of our Controlling Shareholders, Directors and their respective close associates does not have any interest apart from the business of our Group which competes or is likely to compete, directly or indirectly with the business of our Group and which requires disclosure pursuant to Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Our Directors do not expect that there will be any significant transaction between our Group and our Controlling Shareholders upon or shortly after the Listing.

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Our Directors believe that our Group is capable of carrying on its business independently of, and does not place undue reliance on, our Controlling Shareholders or their respective close associates, taking into consideration the following factors:

Management independence

Our Group has an independent management team comprising its executive Directors and its senior management who have substantial experience in the business of our Group. Our management team is able to implement the policies and strategies of our Group and performs its roles in our Company independently.

Our Group aims at establishing and maintaining a strong and independent Board to oversee our Group's business. Our Board consists of nine Directors, comprising four executive Directors, two non-executive Directors and three independent non-executive Directors. The three independent non-executive Directors have extensive experience in different areas or professions. The main functions of our Board include the approval of our Group's overall business plans and strategies, monitoring the implementation of these plans and strategies and the management of our Group.

Further, each of our Directors is aware of his or her fiduciary duties as a Director which requires, among other things, that he or she acts for the benefit and in the best interests of our Company and our Shareholders as a whole, and does not allow any conflict between his or her duties as a Director and his or her personal interest to exist. 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 Board meetings in respect of such transactions and shall not be counted in the quorum. In case Mr. Chan, Ms. Tang, Mr. Yu, Mr. Chiu, Dr. Chan and Ms. Cheng are required to abstain from voting at Board meetings due to potential conflict(s) of interest, our independent non-executive Directors will be able to form a quorum and ensure that the decisions of our Board are made after due consideration of independent and impartial opinion.

In view of the aforesaid, our Directors are of the view that our Group is capable of managing its business independently of our Controlling Shareholders and their respective close associates after the Listing.

Operational independence

Our Group has established its own organisational structure comprising individual departments, each with specific areas of responsibilities. Our Group has not shared its operational resources, such as suppliers, customers, and marketing, sales and general administration resources with our Controlling Shareholders and/or their respective close associates.

Further, our Group holds all relevant licences necessary to carry on businesses and has sufficient capital, equipment and employees to operate its businesses independently. Our Group has also established various internal controls procedures to facilitate the effective operation of its business.

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Save for the transactions which would otherwise constitute connected transactions should our Company be listed on the Stock Exchange at the time of the relevant transactions as disclosed in the paragraph headed “Transactions entered into before the Listing which would otherwise constitute connected transactions” in this section, our Group has not entered into any connected transaction with any of our Controlling Shareholders that will continue after the Listing.

Financial independence

Our Group has its own accounting systems, accounting and finance department and independent treasury function for cash receipts and payments. Our Group makes financial decisions according to its own business needs.

The accounting and finance department of our Group will be responsible for the financial reporting, liaising with its auditors, reviewing its cash position and negotiating and monitoring its bank loan facilities and drawdowns.

During the Track Record Period, each of Dr. Chan and Ms. Cheng and their respective close associates had provided personal and corporate guarantees and collateral security for the banking facilities granted to our Group. As at the Latest Practicable Date, based on the communications between our Group and the relevant bank, our Directors confirm that all such personal and corporate guarantees and collateral security provided to our Group by Dr. Chan, Ms. Cheng and their respective close associates will be released and replaced by a corporate guarantee provided by our Company upon the Listing.

Our Directors are of the view that our Group is not financially dependent on our Controlling Shareholders or their respective close associates in the business operations of our Group and our Group is able to obtain external financing on market terms and conditions for its business operations as and when required.

Independence from major suppliers

Our Directors have confirmed that none of our Controlling Shareholders, our Directors and their respective close associates, had any relationship with the major 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 and up to the Latest Practicable Date.

Independence from major customers

Our Directors have confirmed that none of our Controlling Shareholders, our Directors and their respective close associates, had any relationship with the major 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 and up to the Latest Practicable Date.

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TRANSACTIONS ENTERED INTO BEFORE THE LISTING WHICH WOULD OTHERWISE CONSTITUTE CONNECTED TRANSACTIONS

We have entered into the following transactions with Tunbow Properties Limited (“**Tunbow Properties**”) and Tunbow (Huizhou) who will, upon the Listing, become our connected persons. These transactions were entered into before the Listing and are accounted as one-off in nature under HKFRS 16. If these transactions were entered into after the Listing, such transactions would have constituted connected transactions of our Group. Details of such transactions are set out below in order to facilitate potential investors to anticipate that we have, before the Listing, entered into transactions which would otherwise be considered as connected transactions should our Company be listed on the Stock Exchange at the time of the relevant transactions.

Connected Persons

Upon the Listing, Tunbow Properties and Tunbow (Huizhou), which have entered into the following tenancy agreements with our Group, will be our connected persons. Tunbow Properties is owned as to 100% by Tunbow Limited. Tunbow (Huizhou) is owned as to 100% by Tunbow Electrical (BVI) Limited. Tunbow Limited and Tunbow Electrical (BVI) Limited are owned as to 100% by Tunbow Investments (BVI). Tunbow Investments (BVI) is owned as to 78.23% by Modern Expression (which is wholly-owned by Dr. Chan and Ms. Cheng jointly), 10.61% by Capital Fortress Limited, 8.16% by Bestresult Assets Limited, 1.67% by Innoinvest Limited, 0.67% by Mr. Lee Pak Man, 0.33% by Mr. Chiu and 0.33% by Mr. Poon Ching Ching, Kelvin. Therefore, Tunbow Properties and Tunbow (Huizhou) are subsidiaries of a 30%-controlled company (as defined under the Listing Rules) of Dr. Chan and Ms. Cheng, and our connected persons under Rule 14A.07(4) of the Listing Rules.

Tenancy Agreements

As at the Latest Practicable Date, our Group has leased two properties from Tunbow Properties and Tunbow (Huizhou) under the respective tenancy agreements (the “**Tenancy Agreements**”), details of which are set out as follows:

	Date of tenancy agreement	Property address	Parties	Gross floor area under the tenancy agreement	Monthly rental	Total rental	Term	Use of the property
1.	1 April 2019	10th Floor, Block A, Chung Mei Centre, 15 Hing Yip Street, Kwun Tong, Kowloon, Hong Kong (“ Property 1 ”)	Landlord: Tunbow Properties Tenant: Tunbow Group	5,985 sq.ft.	HK\$83,790	HK\$2,765,070	1 April 2019 to 31 December 2021 (with an option to renew for a further term of three years, subject to the compliance with the applicable provisions of the Listing Rules)	Workshop, godown and ancillary office
2.	1 April 2019	Dunzilipian (Jiangbei 84) Community, Qingtang Village, Xiaojinkou Town, Huicheng District, Huizhou City, Guangdong Province, PRC (“ Property 2 ”)	Landlord: Tunbow (Huizhou) Tenant: Town Ray (Huizhou)	73,650.04 sq.m.	RMB810,150.44	RMB26,734,964.52	1 April 2019 to 31 December 2021 (with an option to renew)	Production and related operation

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Historical transaction amounts

The aggregate amounts paid by Tunbow Group and Town Ray (Huizhou) for leasing Property 1 and Property 2 during the Track Record Period are set out below:

	Historical transaction amounts			
	FY2016	FY2017	FY2018	4M2019
Rent paid by Tunbow Group in relation to Property 1	HK\$540,000	HK\$540,000	HK\$1,005,480	HK\$335,160
Rent paid by Town Ray (Huizhou) in relation to Property 2	—	—	RMB2,430,451.32	RMB3,240,601.76

Basis in determining the rental payable

The rents were on normal commercial terms determined after arm's length negotiations based on the prevailing market rents no less favourable to those offered by independent third parties for comparable properties in similar locations.

Reasons for the transactions

Our Group has historically been using the properties under the Tenancy Agreements as our workshop, godown and ancillary office and for production and related operation. Having considered that the rents of the properties under the Tenancy Agreements are comparable to the prevailing market rents of comparable properties in similar locations, and the Tenancy Agreements have been entered into in the ordinary and usual course of business, on terms no less favourable to us than from those available to independent third parties, our Directors consider that the terms of the Tenancy Agreements are fair and reasonable and it is in the interests of our Company and our Shareholders as a whole to continue using the properties under the Tenancy Agreements as our workshop, godown and ancillary office and for production and related operation.

Accounting treatment of the Tenancy Agreements

Our Group has early adopted HKFRS 16 in the preparation of the financial information of our Group during the Track Record Period, pursuant to which, at the commencement date of a lease, our Group as lessee shall recognise a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Accordingly, the lease transactions under the Tenancy Agreements would be regarded as acquisitions of assets by the tenants for the purpose of the Listing Rules.

Listing Rules implications

Although the Tenancy Agreements were subsisting as at the Latest Practicable Date, and we expect to make further payments to Tunbow Properties and Tunbow (Huizhou) after the Listing pursuant to the terms of the Tenancy Agreements, given the Tenancy Agreements were entered into prior to the Listing and the transactions thereunder are accounted as one-off in nature under HKFRS 16, these transactions

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(including further rental payments to be made by us pursuant to the terms of the Tenancy Agreements) will not be classified as notifiable transactions under Chapter 14 of the Listing Rules or connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules, and will not be subject to any of the reporting, announcement, circular and independent Shareholders' approval requirements under Chapters 14 and 14A of the Listing Rules. In the event that there are any material changes to the terms and conditions of any of such Tenancy Agreements, we shall comply with Chapters 14 and 14A of the Listing Rules (as the case may be) in respect of such changes as and when appropriate, including, where required, seeking independent Shareholders' approval prior to effecting such changes. Following the Listing, we may renew the Tenancy Agreements with Tunbow Properties and/or Tunbow (Huizhou). In such event, we shall also comply with Chapters 14 and 14A of the Listing Rules (as the case may be) as and when appropriate.