
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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Immediately following completion of the [REDACTED] and the [REDACTED], and without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] and any options which may be granted under the Share Option Scheme, Mr. Chao and Tai Wah will become a group of Controlling Shareholders for the purpose of the Listing Rules and are expected to control the exercise of [REDACTED]% of the voting rights in the general meeting of our Company.

Tai Wah is an investment holding company, which issued share capital is owned as to 100% by Mr. Chao. Mr. Chao is an executive Director and chairman of the Board. For the background of Mr. Chao, see “Directors and Senior Management — Directors” in this document.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying out our business independently of our Controlling Shareholders and their respective close associates after [REDACTED].

Management Independence

Our management and operational decisions are made by our Board and our senior management personnel. Our Board comprises four executive Directors, one non-executive Director and three independent non-executive Directors. Notwithstanding that Mr. Chao, being our Controlling Shareholder, is also one of our executive Directors, all material and important corporate acts of our Group are considered and determined by our Board as a whole. Our Board acts collectively by majority decisions in accordance with the Articles of Association and applicable laws, and any single Director would not be able to represent our Company unless otherwise approved by our Board.

Each of our Directors is aware of his/her fiduciary duties as a Director which require, among other things, that he/she acts for the best interest of our Group and not to allow any conflict between his/her duties as a Director and his/her 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 Board meetings in respect of such transaction, and shall not be counted in forming quorum.

Our independent non-executive Directors have extensive experience in different professions and they have been appointed pursuant to the requirements under the Listing Rules to ensure that the decisions of our Board are made only after due consideration of independent and impartial opinions. Our Group has established (i) an audit committee; (ii) a remuneration committee and (iii) a nomination committee. Each committee includes independent non-executive Directors so as to monitor our operation. Further, we believe that our independent non-executive Directors will be able to exercise their independent judgment and will be able to provide impartial opinion and professional advice in the decision-making process of our Board to protect the interests of our Shareholders.

We have the capabilities and personnel to perform all essential administrative functions, including financial and accounting, human resources and business management on a standalone basis through the various departments of our Group.

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In view of the aforesaid, our Directors are of the view that our Board and senior management will function independently from our Controlling Shareholders and their respective close associates.

Operational independence

Our Group has established its own business independent of that of our Controlling Shareholders and/or their respective close associates. Our Directors consider that our operations do not depend on our Controlling Shareholders or their close associates for the following reasons:

- (i) we have full rights and hold all relevant licences necessary to carry on our business and we have sufficient resources, equipment, employees and intellectual properties to operate independently;
- (ii) we do not rely on our Controlling Shareholders for any significant amount of our revenue or access to customers, suppliers and subcontractors;
- (iii) we have established our own organisation structure comprising individual departments, each with specific areas of responsibilities. We do not share our operational resources with our Controlling Shareholders and/or their respective close associates;
- (iv) we have established and implemented various internal control procedures to ensure that our business operations are being run effectively and efficiently; and
- (v) as at the Latest Practicable Date, there was no ongoing business transaction between us and any of our Controlling Shareholders and/or their respective close associates. It is expected that there will not be any continuing connected transaction of our Company upon [REDACTED].

Financial independence

Our Group has an independent financial system, independent treasury function for cash receipts and payment and makes financial decisions according to our business needs. Our Group has sufficient capital to operate our business independently, and has adequate internal resources to support our daily operations. To meet our working capital requirements, we had bank loans of HK\$15.3 million, HK\$15.4 million and HK\$31.5 million as at 31 December 2019, 2020 and 2021, respectively. Certain of our loans were secured by (i) bank deposits of our Group; or (ii) guarantees provided by Mr. Chao and his associates and/or pledge of properties owned by them. See “Financial Information — Indebtedness” in this document for details. The relevant banks have given its consent in principle to release such guarantees and pledges provided by these related parties upon [REDACTED].

Amounts due to shareholders and related party of our Group, which were non-trade nature, amounted to HK\$17.5 million, HK\$16.7 million and nil as at 31 December 2019, 2020 and 2021, respectively, and, save as disclosed below, were unsecured, interest free and repayable upon demand. Such balance of any outstanding amounts due to the shareholders and related party had been settled in full as at the Latest Practicable Date.

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As at 31 December 2019, we had a borrowing amounted to HK\$3.0 million from a related party at an interest rate of 1% per annum. The interest expenses for FY2019 and FY2020 were HK\$1,000 and HK\$30,000 respectively. We had repaid such borrowing during FY2020. For further details, see Note 32 to our consolidated financial statements included in the Accountant's Report in Appendix I to this document.

Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, we had not provided any loans to, nor given any guarantee, security or pledge for, our Controlling Shareholders, our Directors or their respective associates, and none of our Directors or any of their respective associates had provided any personal guarantee, security or pledge for any of our banking facilities and other borrowings.

Having considered that our future operations are not expected to be financed by our Controlling Shareholders or their respective close associates and we are capable of obtaining financing from external source without reliance on our Controlling Shareholders or their respective close associates, we believe we are financially independent of our Controlling Shareholders and their respective close associates.

RULE 8.10 OF THE LISTING RULES

Our Controlling Shareholders, Directors and their respective close associates do not have any interest in a business apart from our business which competes or is likely to compete, directly or indirectly, with our business which would require disclosure pursuant to Rule 8.10 of the Listing Rules.

CORPORATE GOVERNANCE MEASURES

Our Directors recognise the importance of good corporate governance in protecting our Shareholders' interests. We have adopted the following measures to safeguard good corporate governance standards and to avoid potential conflict of interests between our Group and our Controlling Shareholders:

- (i) we have established internal control mechanisms to identify connected transactions. Upon the [REDACTED], if we enter into connected transactions with our Controlling Shareholders or any of their respective close associates, our Company will comply with the applicable Listing Rules;
- (ii) our Company has appointed three independent non-executive Directors to ensure the effective exercise of independent judgments on the decision-making process of our Board and provide independent advice to our Shareholders;
- (iii) our independent non-executive Directors will review, on an annual basis, whether there are any conflicts of interests between our Group and our Controlling Shareholders ("**Annual Review**") and provide impartial and professional advice to protect the interests of our minority Shareholders;
- (iv) 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;

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- (v) we will disclose decisions on matters reviewed by the independent non-executive Directors either in our annual reports or by way of announcements as required by the Listing Rules;
- (vi) 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 expenses; and
- (vii) we have appointed China Tonghai Capital Limited as our compliance adviser to provide advice and guidance to us in respect of compliance with the 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 us and our Controlling Shareholders, and to protect our minority Shareholders' interests after [REDACTED].