

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the [REDACTED] and the [REDACTED] (assuming the [REDACTED] is not exercised and without taking into account the exercise of any option which may be granted under the Share Option Scheme), Ka Lok BVI will be entitled to exercise voting rights of [REDACTED] of the issued share capital of our Company. Ka Lok BVI is owned as to (i) 57.77% by Quartet Yutong BVI, which is solely owned by Mr. Zhao, (ii) 35.55% by Remit Sheng BVI, which is solely owned by Mr. Yu, (iii) 6.67% by Jing Sing BVI, which is solely owned by Ms. Shu, the spouse of Mr. Yu, and (iv) 0.01% by Jiang Oofy BVI, which is solely owned by Mr. Nie. As such, Ka Lok BVI, Quartet Yutong BVI, Mr. Zhao, Remit Sheng BVI, Mr. Yu, Jing Sing BVI, Ms. Shu, Jiang Oofy BVI and Mr. Nie will be our Controlling Shareholders as defined in the Listing Rules upon [REDACTED].

INDEPENDENCE OF MANAGEMENT, FINANCIAL AND OPERATION

Having considered the following factors, our Directors are satisfied that our Company will be able to be operationally and financially independent from our Controlling Shareholders and their respective close associates:

Management independence

Our business is managed and conducted by our Board, which comprises 4 executive Directors, 1 non-executive Director and 3 independent non-executive Directors. For details, see “Directors and senior management” in this document. Whilst Mr. Zhao, Mr. Yu, Ms. Shu and Mr. Nie, being our Controlling Shareholders, are also our executive Directors, we believe that our Directors are able to perform their roles in our Company independently and that our Group is capable of managing our business independently from our the Controlling Shareholders for the following reasons:

- (a) each Director is aware of his/her fiduciary duties as a director which requires, among other things, that he/she acts for the benefit and in the best interests of our Company and that he/she does not allow any conflict between his/her duties as a Director and his/her personal interest;
- (b) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Company and our Directors or their respective close associates, the interested Director(s) shall, save in certain circumstances provided by the Articles of Association, abstain from voting at the relevant meetings of our Board in respect of such transactions;
- (c) our Board comprises 8 Directors and 3 of them are independent non-executive Directors who represent not less than one-third of the members of the Board. This provides a balance between the number of interested and independent non-executive Directors with a view to promoting the interests of our Company and our Shareholders as a whole. This is also in line with the requirement as set out in the Listing Rules; and
- (d) our independent non-executive Directors will bring independent judgment to the decision-making process of our Board.

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Based on the above, our Directors believe that our Company is capable of maintaining management independence from our Controlling Shareholders and their respective close associates.

Operational independence

Our Group possesses sufficient facilities, technology, skills and knowledge required for conducting our business. We have an established and complete organisation structure, comprising various separate departments each charged with specific responsibilities. Our Group also has independent access to our customers and an independent management team to operate our business. We have also established a set of internal control procedures and adopted corporate governance practices to facilitate the effective operation of our business. For details, see “Corporate governance measures” in this section. Except for the connected transactions as set out in “Connected transactions” in this document, we have not entered into any connected transaction within the meaning ascribed to it under Chapter 14A of the Listing Rules with any of our Controlling Shareholders or their respective close associates that will continue after the [REDACTED]. The premises we leased from our Controlling Shareholders are for use as registered offices by two of our subsidiaries. All the properties and facilities necessary to our business and daily operations are separate from those held by our Controlling Shareholders and their respective associates. We do not rely on our Controlling Shareholders in respect of our operation.

Based on the above, our Directors consider that our Group can operate independently from our Controlling Shareholders and their respective close associates from the operational perspective.

Financial independence

Our financial auditing system and internal control system are independent from our Controlling Shareholders and any of their respective close associates and we employ our own team of financial accounting personnel. We have our own accounting and finance department, accounting systems, treasury function for cash receipts and payment and independent access to third party financing. We make independent financial decisions according to our own business needs.

During the Track Record Period, our Group had loans and advances from our Controlling Shareholders or their respective associates for working capital. These loans and advances have been repaid in full and, as at the Latest Practicable Date, we did not have any outstanding balance owed to or from our Controlling Shareholders. Moreover, our Group’s bank loans was guaranteed by the personal guarantee of Mr. Zhao, Mr. Yu and Ms. Shu and the pledge of their assets during the Track Record Period. We plan to repay or settle some of the loans to release the guarantee prior to the [REDACTED] with our internal resources. We have obtained consents from a financial institution for release of the remaining guarantees upon our successful [REDACTED]. For further information, see “Financial information — Indebtedness — Bank and other loans” and Note 16 of the Accountants’ Report set out in Appendix I to this document. As at 30 September 2023, the total outstanding amount due to our Controlling Shareholder was approximately RMB9,000, which will be fully settled prior to the [REDACTED]. Our Directors confirm that we will not rely on our Controlling Shareholders for financing after the [REDACTED] as we expect that our working capital will be funded by the [REDACTED] from the [REDACTED], our operating income and bank borrowings.

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Based on the above, our Directors believe that our Company is capable of maintaining financial independence from our Controlling Shareholders and their respective close associates.

Non-competition

None of our Controlling Shareholders or their respective close associates has any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of our Company. In addition, each of our Controlling Shareholders has executed the Deed of Non-competition in favour of our Company. For details, see “Deed of Non-competition” in this section.

DEED OF NON-COMPETITION

For the purpose of the [REDACTED], our Controlling Shareholders have entered into with and in favour of our Company (for itself and as trustee for each of its subsidiaries) the Deed of Non-competition. Pursuant to the Deed of Non-competition, each of our Controlling Shareholders has confirmed that none of them is engaged in, or interested in any business (other than our Group) which, directly or indirectly, competes or may compete with our business. To protect our Group from any potential competition, each of our Controlling Shareholders has unconditionally and irrevocably undertaken in favour of our Company (for itself and for the benefits of each of its subsidiaries), on a joint and several basis, that at any time during the Relevant Period (as defined below), each of them shall, and shall procure that their respective close associates and/or companies controlled by them (other than our Group) shall:

- (a) not, directly or indirectly, be interested or involved or engaged in or carry on or be concerned with or acquire or hold any right or interest (in each case whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) in any business which is or is about to be engaged in any business which competes or is likely to compete directly or indirectly with the business currently and from time to time engaged by our Group in Hong Kong, the PRC and any other country or jurisdiction to which our Group provides such services and/or in which any member of our Group carries on business mentioned above currently and from time to time (the “**Restricted Activity**”);
- (b) not solicit any existing employee or then existing employee of our Group for employment by it/him/her or its/his/her close associates (excluding our Group);
- (c) not, without the consent from our Company, make use of any information pertaining to the business of our Group which may have come to its/his/her knowledge in its/his/her capacity as a Controlling Shareholder or otherwise for any purpose of engaging, investing or participating in any Restricted Activity;
- (d) not, either on its/his/her 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 Restricted Activity;

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- (e) not, either on its/his/her own or in conjunction with any body corporate, partnership, joint venture or other contractual agreement, whether directly or indirectly, whether for profit or not, solicit or endeavour to entice away from or discourage from dealing with our Group any person who was at any time during the period of 1 year preceding the date of the Deed of Non-competition a supplier or subcontractor, customer or client of our Group;
- (f) if there is any project or new business opportunity that relates to the Restricted Activity is offered or becomes aware to our Controlling Shareholders, our Controlling Shareholders shall
 - (i) promptly refer such project or new business opportunity to our Group in writing for the independent non-executive Directors' consideration and determination on whether or not to take up the new business opportunity referred to our Group, and provide such information as is reasonably required in order to enable our Group to come to an informed assessment of such opportunity, (ii) use its/his/her best endeavours to procure that such opportunity is offered to our Group on terms no less favourable than the terms on which such opportunity is offered to such Controlling Shareholder and/or its/his/her close associates, and (iii) with regard to any project or new business opportunity shall have been rejected by our Group and the principal terms of which our Controlling Shareholders and/or any of its/his/her close associates and/or entities or companies controlled by it/he/she invest or participate are no more favourable than those made available to our Company;
- (g) not invest or participate in or carry on any project or business opportunity of the Restricted Activity; and
- (h) procure its/his/her close associates (excluding our Group) not to invest or participate in or carry on any project or business opportunity of the Restricted Activity.

The above undertakings under the Deed of Non-competition do not apply to:

- (a) the holding of, or interests in, the shares of any members of our Group; and
- (b) the holding of, or interests in, the shares of a company other than a member of our Group whose shares are listed on a recognised stock exchange provided that the total number of the shares held by the relevant Controlling Shareholder and/or its/his/her close associates does not exceed 5% of the issued shares of that class of the company in question, and such Controlling Shareholder and its/his/her respective close associates, whether acting singly or jointly, would not participate in or be otherwise involved in the management of the company in question.

Each of our Controlling Shareholders has further unconditionally and irrevocably undertaken to our Company (for itself and for the benefit of each of its subsidiaries):

- (a) to allow our Directors, their respective representatives and our auditors to have sufficient access to the records of each of our Controlling Shareholders and their respective close associates to ensure compliance with the terms and conditions of the Deed of Non-competition;

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- (b) to provide to our Group and our Directors (including the independent non-executive Directors) from time to time all information necessary for the annual review by the independent non-executive Directors with regard to compliance with the terms of the Deed of Non-competition by our Controlling Shareholders;
- (c) to make an annual declaration as to full compliance with the terms of the Deed of Non-competition and a consent to disclose such letter in our annual report.

The Deed of Non-competition is conditional on the conditions stated in the section headed “Structure of the [REDACTED] — Conditions of the [REDACTED]” in this document being fulfilled. The obligations of our Controlling Shareholders under the Deed of Non-competition will remain in effect during the period (the “**Relevant Period**”) from the [REDACTED] until the earlier of the date on which:

- (a) our Controlling Shareholders, together with their close associates, whether individually or taken together, cease to be interested directly or indirectly in 30% (or such other amount as may from time to time be specified in the Listing Rules as being the threshold for determining a controlling shareholder) or more of the issued share capital of our Company; or
- (b) the Shares cease to be [REDACTED] and traded on the Stock Exchange.

We believe the 30% threshold is justifiable as it is equivalent to the thresholds applied under the Listing Rules and the Takeovers Code for the concept of “control”.

COMPETING BUSINESS

Our Controlling Shareholders confirmed that as at the Latest Practicable Date, none of them nor their respective close associate(s) have any interest in any business, apart from the business operated by our Group, that competes or is likely to compete, directly or indirectly, with the business of our Group that would require disclosure pursuant to Rule 8.10 of the Listing Rules.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to manage the conflict of interests arising from the possible competing business of our Controlling Shareholders and to safeguard the interests of our Shareholders:

- (a) our independent non-executive Directors will review, on an annual basis, the compliance with the Deed of Non-competition by our Controlling Shareholders, and the decisions on matters reviewed will be disclosed in our annual reports;
- (b) an annual declaration as to full compliance with the terms of the Deed of Non-competition will be made by our Controlling Shareholders, and will be disclosed in our annual reports;
- (c) our Directors will operate in accordance with our Articles which require the interested Director not to vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested except in certain circumstances expressly provided in the Articles; and

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- (d) pursuant to the Corporate Governance Code set out in Appendix C1 of the Listing Rules, our Directors, including the independent non-executive Directors, will be able to seek independent professional advice from external parties in appropriate circumstances at our Company's cost.

We will follow the measures in the Corporate Governance Code which sets out the principles of good corporate governance in relation to Directors, the chairman and chief executive officer, Board composition, the appointment, re-election and removal of Directors, their responsibilities and remuneration and communications with our Shareholders. Our Company will state in its interim and annual reports whether we have complied with the Corporate Governance Code, and will provide details of, and reasons for, any deviations from it in the corporate governance report which will be included in our annual reports.