
RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme), Speed Development and Mr. Chan will be the Controlling Shareholders (within the meaning of the GEM Listing Rules). Each of Speed Development and Mr. Chan confirms that, as at the Latest Practicable Date, apart from the business operated by members of the Group, each of them and each of their respective associates and/or companies controlled by it or him do not hold or conduct any business which competes, or is likely to compete, either directly or indirectly, with the business of the Group, and would require disclosure pursuant to Rule 11.04 of the GEM Listing Rules. As at the Latest Practicable Date, save and except for their respective interests in the Company and its subsidiaries, none of the Controlling Shareholders nor any of their respective associates had any interest in any other companies which held interests in the business of the Company during the Track Record Period and had ceased to hold such interests after the Reorganisation. The Group has been under the ownership and control by Mr. Chan throughout the Track Record Period.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Save as otherwise disclosed in the section headed “Connected transactions” in this prospectus, the Directors do not expect that there will be any other significant transactions between the Group and the Controlling Shareholders and their respective associates upon or shortly after the Listing. The Directors believe that the Group is capable of carrying on its business independently of the Controlling Shareholders and their respective associates after the Share Offer having considered the following factors:

Management independence

The Board comprises two executive Directors and three independent non-executive Directors. The executive Directors are Mr. Chan and Mr. Ng. One of the independent non-executive Directors, Mr. Kwok Chi Shing, is a Certified Public Accountant. The independent non-executive Directors have been appointed in compliance with the requirements under the GEM Listing Rules to ensure that the decisions of the Board will be made only after due consideration of independent and impartial opinion.

Each of the 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 does not 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 the Group, and the Directors or their respective associates, the interested Director(s) will abstain from voting at the relevant board meetings of the Company in respect of such transactions and will not be counted in the quorum of the relevant board meeting. The independent non-executive Directors are also expected to oversee the Board independently to ensure that there is no potential conflict of interest.

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Save for Mr. Chan, the Group has an independent senior management team to carry out and execute the business decisions of the Group independently. The Directors are satisfied that the senior management team will be able to perform their roles in the Company independently, and the Directors are of the view that the Company is capable of managing its business independently from the Controlling Shareholders and their respective associates after the Share Offer.

Operational independence

The Group has established its own organisational structure made up of individual departments, each with specific areas of responsibilities. The Group has independent access to customers for the Group's business. The Group has also established a set of internal control mechanism to facilitate the effective operations of the Group's business.

The Group currently does not have any intention to purchase or sell any products from/to the Controlling Shareholders and, if such happens in future, the connected transactions/ continuing connected transactions will be conducted in compliance with the GEM Listing Rules.

Financial independence

During the Track Record Period, the Group had obtained bank loans secured by guarantees of Speed Apparel, Firenze Apparel, Orient Base (Hong Kong) Limited (which is a wholly-owned company of Mr. Chan) and Mr. Chan and certain properties owned by Mr. Chan and Ms. Cheung were charged as securities to such banks. The banks have confirmed that the abovementioned guarantees and charges over properties will be released or replaced by the corporate guarantees executed by the Company upon Listing with the conditions fulfilled. These conditions shall include: (i) successful listing of the Company; (ii) receipt of a corporate guarantee duly executed by the Company; (iii) Speed Apparel HK is and will remain as the wholly-owned subsidiary of the Company; (iv) providing financial or other information requested to the respective bank; (v) fulfilment of minimum asset requirement; (vi) no significant deviation on final version of audited report as compared to draft audited report submitted; and (vii) no significant deviation on forecasted banking facility. The Directors are of the view that the Group shall have no difficulties in fulfilling these conditions before Listing except for conditions that involve administrative procedure and/or can be satisfied only upon Listing.

Notwithstanding the above, the Directors are of the view that the Group will be financially independent from the Controlling Shareholders upon Listing. The management of the Group is capable of making financial decisions independently according to the needs of the Group's business free from interference from the Controlling Shareholders and their respective close associates after the Listing. The Group has sufficient capital to operate the business independently, and has adequate internal resources and credit profile to support the daily operation.

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RULE 11.04 OF THE GEM LISTING RULES

As at the Latest Practicable Date, the Controlling Shareholders, the Directors and their respective close associates do not have any interest in a business apart from the Group's business which competes and is likely to compete, directly or indirectly, with the Group's business and would require disclosure under Rule 11.04 of the GEM Listing Rules.

NON-COMPETITION UNDERTAKINGS

The Controlling Shareholders as covenantors (each a "**Covenantor**", collectively, the "**Covenantors**") executed the Deed of Non-competition in favour of the Company (for itself and as trustee for its subsidiaries).

Non-competition

In accordance with the Deed of Non-competition, each Covenantor undertakes that, from the Listing Date and ending on the occurrence of the earliest of (i) the date on which the Shares cease to be listed on GEM (other than suspension of trading of the Shares of the Company for any other reason); (ii) the date on which the Covenantors cease to be a Controlling Shareholder; or (iii) the date on which the Covenantors beneficially own or become interested jointly or severally in the entire issued share capital of the Company, he/it will not, and will use his/its best endeavours to procure any Covenantor, his/its close associates (collectively, the "**Controlled Persons**") and any company directly or indirectly controlled by the Covenantor (the "**Controlled Company**") not to, either on his/its own or in conjunction with any person, 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 the Group) to conduct any business which, directly or indirectly, competes or is likely to compete with the business of the Company or any of its subsidiaries in Hong Kong, the PRC, and such other places as the Company or any of its subsidiaries may conduct or carry on business from time to time, including but not limited to the provision of apparel supply chain services headquartered in Hong Kong principally selling knitwear products in predominately the Japan market (the "**Restricted Business**").

The Deed of Non-competition does not apply if the Controlled Persons and Controlled Company in aggregate own any interest not exceeding five per cent of the issued shares in any company conducting any Restricted Business (the "**Relevant Company**"), and the Relevant Company is listed on any recognised stock exchange (as defined under the SFO), notwithstanding that the business conducted by the Relevant Company constitutes or might constitute competition with the business of the Company or any of its subsidiaries, provided that (i) the shareholding of any one holder (and his/its close associate, if applicable) in the Relevant Company is more than that of the Controlled Persons and the Controlled Company in aggregate at any time; and (ii) the total number of the relevant representatives of the Controlled Persons and the Controlled Companies on the board of directors of the Relevant Company is not significantly disproportionate with respect to his/its shareholding in the Relevant Company.

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New business opportunity

If any Controlled Person and/or any Controlled Company is offered or becomes aware of any business opportunity which directly or indirectly engages in or owns a Restricted Business (the “**New Business Opportunity**”):

- (a) each of the Covenantors shall procure his/its Controlled Persons or Controlled Companies to and shall within 10 days notify the Company such New Business Opportunity in writing and refer the same to the Company for consideration, and shall provide the relevant information to the Company in order to enable the Company to make an informed assessment of such opportunity; and
- (b) each of the Covenantors shall not, and shall procure that his/its Controlled Persons or Controlled Company not to, invest or participate in the New Business Opportunity, unless such New Business Opportunity shall have been rejected by the Company and such rejection shall be approved by all the independent non-executive Directors or and the principal terms of which the Covenantor or his/its Controlled Persons or Controlled Company invest or participate in are no more favourable than those made available to the Company.

A Covenantor or his/its Controlled Persons or Controlled Companies may only engage in the New Business Opportunity if (i) a notice is received by the Controlled Person or Controlled Company from the Company confirming that the New Business Opportunity is not accepted and/or does not constitute competition with the Restricted Business (the “**Non-acceptance Notice**”); or (ii) the Non-acceptance Notice is not received by the Covenantor within 30 days after the proposal of the New Business Opportunity is received by the Company.

Any Director who has an actual or potential material interest in the New Business Opportunity shall abstain from attending (unless their attendance is specifically requested by the remaining non-interested Directors) and voting at, and shall not be counted towards the quorum for, any Board meeting or part of a Board meeting convened to consider such New Business Opportunity.

The independent non-executive Directors will be responsible for reviewing and considering whether or not to take up a New Business Opportunity referred by a Covenantor, Controlled Person or Controlled Company or whether or not the New Business Opportunity constitutes competition with the Restricted Business and such decisions will be made by the Board (including the independent non-executive Directors). The factors that will be taken into consideration by the Board in making the decision include whether it is in line with the overall interests of the Shareholders.

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General undertakings

Each of the Covenantors jointly and severally unconditionally and irrevocably undertakes to the Company (for itself and as trustee for each of its subsidiaries) that he/she/it will:

- (a) as required by the Company, and will procure his/its Controlled Persons and the Controlled Companies to, provide all information necessary for its 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;
- (b) 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;
- (c) where the Company's independent non-executive Directors shall deem fit, 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 GEM Listing Rules;
- (d) and will procure his/her/its Controlled Persons and the Controlled Companies to, provide with the Company a confirmation annually for inclusion by the Company in its annual report, in respect of the compliance with the terms of the Deed of Non-competition by the Covenantors; and
- (e) 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 such Covenantor of any statement, warrant or undertaking made under the Deed of Non-competition.

Termination

The obligations of the Covenantors under the Deed of Non-competition shall remain in effect until the occurrence of the earliest of:

- (a) the date on which the Shares cease to be listed on GEM (other than suspension of trading of the Shares of the Company for any other reason);
- (b) the date on which the Covenantors cease to be a Controlling Shareholder; or
- (c) the date on which the Covenantors beneficially own or become 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 measures to strengthen its corporate governance practice and to safeguard the interests of the Shareholders:

- (1) the Articles provide that a Director shall absent himself/herself from participating in Board meetings (nor shall he/she be counted in the quorum) and voting on any resolution of the Board approving any contract or arrangement or other proposal in which he/she or any of his/her associates is materially interested unless a majority of the independent non-executive Directors expressly requested him/her to attend but in no circumstances shall he/she be counted towards the quorum or allowed to vote on such resolution;
- (2) the independent non-executive Directors will review, on an annual basis, the compliance with the non-competition undertaking by the Controlling Shareholders;
- (3) the Controlling Shareholders undertake to provide all information requested by the Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the non-competition undertaking;
- (4) the Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the non-competition undertaking of the Controlling Shareholders in the annual reports of the Company including the basis for not taking up any New Business Opportunity;
- (5) the Controlling Shareholders will make an annual declaration on compliance with their non-competition undertaking in the annual report of the Company;
- (6) the independent non-executive Directors will be responsible for deciding whether or not to allow any Controlling Shareholder and/or his/her/its associates to involve or participate in a Restricted Business and if so, any condition to be imposed; and
- (7) the 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 non-competition undertaking or connected transaction(s) at the cost of the Company.

Further, any transaction that is proposed between the Group and the Controlling Shareholders and their respective 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.

None of the members of the Group has experienced any dispute with its shareholders or among its shareholders themselves and the Directors believe that each member of the Group has maintained positive relationship with its shareholders. With the corporate governance measures including the measures set out in this paragraph headed "Corporate Governance Measures", the Directors believe that the interests of the Shareholders will be protected.