
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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Immediately after the completion of the Global Offering (without taking into account the Shares which may be issued upon the exercise of the Over-allotment Option), (i) Eastern Mix will hold approximately 51.0% of our Company's issued share capital and control the exercise of the voting rights attached to such shareholding. As Eastern Mix is held as to 45.0%, 28.0% and 27.0% by Mr. Li, Mr. Yung and Mr. Lee, respectively, Mr. Li is deemed to be interested in the Shares held by Eastern Mix for the purpose of Part XV of the SFO; and (ii) Lead Smart will hold approximately 10.8% of our Company's issued share capital and it is wholly-owned by Mr. Li. Mr. Li will be in aggregate beneficially interested in 61.8% of our Company and as such, each of Eastern Mix, Lead Smart and Mr. Li will be regarded as a Controlling Shareholder after the Listing. Each of Eastern Mix and Lead Smart is an investment holding company.

COMPETING INTERESTS

Our Controlling Shareholders, our Directors and their respective associates do not have any interests in any business, apart from the business operated by members of our Group, that competes or is likely to compete, directly or indirectly, with the business of our Group.

DEED OF NON-COMPETITION

To better safeguard our Group from any potential competition, each of the Controlling Shareholders has entered into the Deed of Non-competition with our Company whereby each of the Controlling Shareholders jointly and severally, irrevocably and unconditionally, undertakes with our Company that with effect from the Listing Date and for as long as the Shares remain listed on the Stock Exchange and the Controlling Shareholders, individually or collectively with their associates, are, directly or indirectly, interested in not less than 30% of the Shares in issue, or are otherwise regarded as controlling shareholders, each of the Controlling Shareholders shall not, and shall procure that their respective associates shall not directly or indirectly, either on his own or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, director, partner, agent, employee or otherwise, and whether for profit, reward or otherwise) any business which is or may be in competition with the business carried on or contemplated to be carried on by any member of our Group from time to time (the "**Restricted Business**").

In addition, each of the Controlling Shareholders jointly and severally, irrevocably and unconditionally, undertakes that (a) if any of them plans to participate or engage in any new activities or new business which may, directly or indirectly, compete with the Restricted Business, each of them shall give the Company a first right of refusal to participate or engage in the business opportunity and will not participate or engage in these activities unless the prior written consent of our Company has been obtained (based on an affirmative vote of a majority of the independent non-executive Directors who do not have, and are not deemed to have a material interest in the relevant matter); and (b) if any new activities or business opportunity

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which may directly or indirectly compete with the Restricted Business is made available to any of the Controlling Shareholders or their respective associates or if any of the Controlling Shareholders is aware of any new business opportunity relating to any products and/or services of our Group (the “**Business Opportunity**”) is made available to any of the Controlling Shareholders or their respective associates (other than members of our Group), he will direct or procure the relevant associate to direct such Business Opportunity to our Group with such required information to enable our Group to evaluate the merits of the Business Opportunity.

The relevant Controlling Shareholders shall provide or procure the relevant associate to provide all such reasonable assistance to enable our Group to secure the Business Opportunity at no less favourable terms than those offered to it, any of its associates or any third party. None of the Controlling Shareholders and their respective associates (other than members of our Group) will pursue the Business Opportunity until our Group decides not to pursue the Business Opportunity because of commercial reasons. Any decision of our Company will have to be approved by the independent non-executive Directors taking into consideration the prevailing business and financial resources of our Group, the financial resources required for the Business Opportunity and any expert opinion on the commercial viability of the Business Opportunity. We will disclose the matters reviewed by the independent non-executive Directors and their decision (with basis) on whether to pursue the Business Opportunity in our annual report or by way of announcement to the public.

Each of the Controlling Shareholders further jointly and severally, irrevocably and unconditionally, undertakes:

- (a) to provide all information requested by our Group which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-Competition; and
- (b) to make an annual declaration on compliance with his/its undertaking under the Deed of Non-Competition in the annual reports of our Company as the independent non-executive Directors think fit and/or as required by the relevant requirements under the Listing Rules.

The Deed of Non-competition will cease to have any effect on the earliest of the date on which:

- (a) the aggregate beneficial shareholding (whether direct or indirect) of the Non-competition Controlling Shareholders and/or their associates in the Shares falls below 30% of the number of Shares in issue or the relevant Controlling Shareholders shall cease to be a controlling shareholder (as defined in the Listing Rules) of our Company; or
- (b) the Shares cease to be listed on the Stock Exchange.

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INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Having taken account of the following factors, our Directors are satisfied that our Group can carry on its business independently of the Controlling Shareholders following the Listing:

Management independence

Our Group's management and operational decisions are made by the Board and a team of senior management. The Board consists of seven members, comprising four executive Directors and three independent non-executive Directors. After the Listing, our Company aims at establishing and maintaining a strong and independent Board to oversee our Group's business. The Board's main function includes the approval of the overall business plans and strategies of our Group, monitoring the implementation of these policies and strategies and the management of our Company. Our Group has an independent management team, which is led by a team of senior management with substantial experience and expertise in our business, to implement our Group's policies and strategies.

As for the decision-making mechanism of our Board, each of our Directors is aware of his fiduciary duties as a director which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his 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 associates, the interested Director(s) shall abstain from voting at the relevant meeting of the Board in respect of such transactions and shall not be counted in the quorum so far as required by the Listing Rules or other applicable laws, rules and regulations.

Further, following the Listing, our Board will be required to comply with provisions under the Listing Rules and certain matters, such as connected transactions, are required to disclose his interest and, subject to specified exceptions, shall not be counted in the quorum or be entitled to vote on any resolution of the Board in respect of any contract or arrangement or any other proposal in which he or any of his associates has a material interest.

Three of the members of the Board are independent non-executive Directors who are all well-educated, having extensive experience in different areas or professionals 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 Directors believe that the presence of Directors from different backgrounds provides a balance of views and opinions. Furthermore, our Board acts collectively by majority decisions in accordance with the Articles and applicable laws, and no single Director is supposed to have any decision-making power unless otherwise authorised by the Board.

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Operational Independence

The organisational structure of our Group is made up of a number of divisions, comprising the design division, production division, quality assurance division, sales and marketing division, finance and accounting division, research and development division and administrative division. Each division takes a specific role in our Group's operations. There are internal control procedures to ensure effective operation of our Group's business.

Our Group has independent access to suppliers and customers. During the Track Record Period, except for the Operation Unit of Jin Baoli Mold and Ironware of Gongming, Guangming New District, Shenzhen (as disclosed in the section headed "Connected Transactions—Continuing Connected Transactions—Continuing connected transactions exempt from the independent Shareholders' approval requirement—Processing Agreement" in this prospectus, and the transaction amount was insignificant), none of our Controlling Shareholders or their respective associates was our Group's supplier or customer. Our Directors believe that our Group has not unduly relied on the Controlling Shareholders or their associates to carry on our business during the Track Record Period.

We entered into various production premises lease agreements with TK Plastics (Shenzhen) and TK Technology (Shenzhen) in respect of the Shenzhen Yulu Plant B and the Shenzhen Tangjia Plants, details of which are set out in the section headed "Connected Transactions" of this prospectus. Our Group is entitled to exercise its rights of first refusal to renew with TK Plastics (Shenzhen) and/or TK Technology (Shenzhen) upon expiration of the production premises lease agreements and to terminate the production premises lease agreements by giving a one-month notice without cause. Our Directors consider that each of the production premises lease agreements was entered into on normal commercial terms and in the ordinary and usual course of business of our Group. The independent property valuer of our Company has also reviewed each of the production premises lease agreements and confirmed that, having taken into account of, among other things, the title defects of the Shenzhen Tangjia Plants, the terms thereof are fair and reasonable and the rental payment under each of the production premises lease agreements reflects the prevailing market rate. Also, the absolute amount of rental payment payable by our Group under the production premises lease agreements for a 12-month period amounted to 1.8% of the cost of sales for 2012 and on this basis, the Directors is of the view that the rental payment is insignificant. In addition, as disclosed in the section headed "History, Reorganisation and Corporate Structure—Corporate History—Reasons for not including the Old Group Companies in our Group" in this prospectus, the transfer of TK Technology (Shenzhen) which owns the Shenzhen Tangjia Land and the Shenzhen Tangjia Plants built thereon would lead to an increase in the capital expenditure of our Group by approximately RMB615.2 million (equivalent to approximately HK\$776.5 million), an amount that exceeds the expected gross proceeds from the Global Offering based on the high end of the price range of the Offer Price. In addition, the inclusion of the Shenzhen Tangjia Land and the Shenzhen Tangjia Plants built thereon would lower the return-on-equity of our Group, which is not beneficial to our Group and our Shareholders as a whole.

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In the event that the Ultimate Shareholders cease to lease any or all of these properties to us, we will relocate our production operations at the Shenzhen Yulu Plant B and the Shenzhen Tangjia Plants to other plants in Shenzhen, which our Directors have already identified. The entering into of the pre-lease agreements also demonstrates that comparable production facilities within the vicinity of our Group's current production operations are available. We possess the experience on relocating operations and premises through our past expansion exercise and relocation of certain business units from the Shenzhen Yulu Plant A to the Shenzhen Tangjia Plants, which will facilitate the relocation of our operations in the event that we are required to do so.

Given that (i) we are entitled to exercise our rights of first refusal to renew with TK Plastics (Shenzhen) and/or TK Technology (Shenzhen) upon expiration of the production premises lease agreements and to terminate the production premises lease agreements by giving a one-month notice without cause, and we are entitled to a right of first refusal to purchase the subject properties (the “**Right of First Refusal**”) in the event that the landlord intends to sell the subject properties during the term of the Shenzhen Yulu Plant B Lease Agreements and the Shenzhen Tangjia Plants Lease Agreements, including any renewal thereof; (ii) our Ultimate Shareholders have undertaken that they shall use their best endeavours to procure TK Plastics (Shenzhen) and TK Technology (Shenzhen) to honour their respective obligations under Shenzhen Tangjia Plants Lease Agreements and Shenzhen Yulu Plant B Lease Agreements, respectively; (iii) the terms of any renewal of lease agreements or if applicable, any decision to acquire the leased land and properties from our Ultimate Shareholders would be considered by our Board and/or through general meeting which only disinterested Directors or independent Shareholders are entitled to vote; and (iv) our Group has a concrete contingency arrangement for backup plants owned by Independent Third Party, our Directors consider that our Group is able to operate our business independently after the Listing.

We shall only exercise the Right of First Refusal if and only if TK Technology (Shenzhen) has successfully converted the green-type ownership certificate of the Shenzhen Tangjia Land into a red-type ownership certificate. Please refer to the section headed “Business—Properties—Plans to Resolve Risks Relating to Certain of our Leased Properties” for further details.

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Financial Independence

During the Track Record Period, Mr. Li, Mr. Yung and Mr. Lee, our Ultimate Shareholders, have provided guarantees relating banking facilities granted to us and all such guarantees will be released upon the Listing. Our Directors believe that our Group is capable of obtaining financing from external sources without reliance on the Controlling Shareholders. Furthermore, our Group has its own finance division and has established its own financial accounting system independent of the Controlling Shareholders. Our Group has its own bank account and banking facilities, makes its tax registrations and has employed a sufficient number of financial accounting personnel. Accordingly, our Directors consider that our Group is capable of operating independently from a financial perspective.

NON-DISPOSAL UNDERTAKINGS GIVEN BY THE CONTROLLING SHAREHOLDERS

Pursuant to Rule 10.07 of the Listing Rules, each of the Controlling Shareholders has, jointly and severally, undertaken with the Company and the Stock Exchange regarding non-disposal of the Company's securities, details of which are set forth in the section headed "Underwriting—Undertakings" of this prospectus.