
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, our Company was held as to (i) approximately 57.88% by Mecca HK, which was in turn wholly owned by Mr. Wu, our executive Director and chairperson of the Board; and (ii) approximately 0.52% directly by Mr. Wu. Accordingly, our Controlling Shareholders, namely Mr. Wu and Mecca HK, were collectively interested in approximately 58.40% of the issued share capital of our Company as of the Latest Practicable Date.

Immediately following the completion of the [REDACTED] and assuming that the [REDACTED] is not exercised and no other changes are made to the issued share capital of our Company between the Latest Practicable Date and the [REDACTED], our Controlling Shareholders will hold in aggregate approximately [REDACTED]% of the issued share capital of our Company. Accordingly, Mr. Wu and Mecca HK will continue to be our Controlling Shareholders immediately upon the [REDACTED].

INTERESTS OF OUR CONTROLLING SHAREHOLDERS IN OTHER BUSINESSES

Each of our Controlling Shareholders confirmed that as of the Latest Practicable Date, apart from the business of our Company, it/he did not have any interest in other business, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors consider that we are capable of carrying on our business independently from our Controlling Shareholders and their respective close associates after the [REDACTED], taking into consideration the factors below.

Management Independence

Upon [REDACTED], our Board will consist of nine Directors, comprising six executive Directors and three independent non-executive Directors, and we also have six senior management members (three of which are our executive Directors). Each of our Directors and senior management possesses relevant management, financial or industry-related experience to contribute to the management of our business. For further information on the qualifications and experience of our Directors and senior management, please refer to “Directors and Senior Management” in this document.

Our Directors consider that we are capable of functioning independently of our Controlling Shareholders for the following reasons:

- (i) our daily management and operations are carried out independently by our senior management team, all of whom have substantial experience in the industry in which our Company is engaged, and will therefore be able to make business decisions that are in the best interests of our Company. For details of the industry experience of our senior management team, please refer to “Directors and Senior Management” in this document;
- (ii) each Director is aware of his/her fiduciary duties as a director which require, among other things, that he/she acts for the benefit and in the interest of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interests;
- (iii) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Company and a Director and/or his/her associate, he/she shall abstain from voting and shall not be counted towards the quorum for the voting. Hence, no Director will be able to influence our Board in making decisions on matters in which he or she is, or may be interested;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (iv) our Company is an A-share listed company and has established internal control mechanisms to identify connected transactions to ensure that our Shareholders or Directors with conflicting interests in a proposed transaction will abstain from voting on the relevant resolutions. 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 is obliged to declare and fully disclose such potential conflict of interest and shall abstain from voting at the relevant Board meetings of our Company in respect of such transactions and shall not be counted;
- (v) we have three independent non-executive Directors, comprising one-third of the total members of the Board, who have sufficient knowledge, experience and competence, so that there is a balanced composition of executive Directors and independent non-executive Directors to ensure the independence of the Board in making decisions affecting our Company and to promote the interests of our Company and the Shareholders as a whole. In particular, the independent non-executive Directors possess the relevant qualifications and industry experiences to safeguard the interests of the minority Shareholders of our Company by, among other things, reviewing and opining on connected transactions of our Company, including those between our Company and our Controlling Shareholders and/or their close associates. Please refer to “Directors and Senior Management” in this document for details of the biographies of the independent non-executive Directors; and
- (vi) we have adopted other corporate governance measures to manage potential conflicts of interest, if any, between our Group and our Controlling Shareholders, which would enhance our independent management, as detailed in the sub-section headed “—Corporate governance measures” below.

Based on the above, our Directors believe that our Board as a whole and together with our senior management are able to perform the managerial role in our Company independently from our Controlling Shareholders and their respective close associates after the [REDACTED].

Operational Independence

We will continue to operate independently from our Controlling Shareholders after the [REDACTED]. We make and implement operational decisions independently of our Controlling Shareholders and have our own organizational structure with independent departments, each with specific areas of responsibility. Furthermore, we have independent production capabilities and technology relating to our Group’s business and do not rely on the operations of our Controlling Shareholders. We also maintain a set of comprehensive internal control measures to facilitate the effective operation of our business. We have independent channels to access our customers and are not dependent on our Controlling Shareholders with respect to suppliers for our business operations. We have our own headcount of employees to operate the business for our operations and management for human resources.

We entered into certain continuing connected transactions with our connected persons. Please refer to “Connected Transactions” in this document for more details. Considering that these transactions did not and are not expected to involve significant transaction amounts and are not material to the operation of our Group’s principal business, our Directors believe that such transactions will not have any impact on the operational independence of our Group.

Based on the above, our Directors believe that our business is operationally independent from our Controlling Shareholders and their respective close associates.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Financial Independence

We have an independent financial system and make financial decisions according to our own business needs. We have adopted our own independent internal control and financial management systems and we also have an independent accounting and finance department responsible for discharging relevant financial and treasury function with relevant finance personnel. We have adequate internal resources and a strong credit profile to support our daily operation. Moreover, our Board has established the Audit Committee to provide independent oversight to, among others, our accounting and financial reporting processes.

In addition, we are capable of obtaining financing from Independent Third Parties without relying on any guarantee or security provided by our Controlling Shareholders or their respective associates. We do not expect to rely on our Controlling Shareholders or any of their close associates for financing after the [REDACTED] as we expect that our working capital will be primarily funded by cash generated from our business operation, and to a lesser extent, external indebtedness. As of the Latest Practicable Date, we did not have any outstanding loans or guarantees provided by or granted to, nor any non-trade balances due to or due from, our Controlling Shareholders or their respective associates.

In light of the above, our Directors are of the view that we are able to maintain financial independence from our Controlling Shareholders and their respective close associates.

CORPORATE GOVERNANCE MEASURES

Our Company will comply with the provisions of the Corporate Governance Code and Corporate Governance Report set out in Appendix C1 to the Listing Rules (the “Corporate Governance Code”), which sets out principles of good corporate governance in relation to, among other matters, directors, the chairperson and chief executive officer, board composition, the appointment, re-election and removal of directors, their responsibilities and remuneration and communications with Shareholders.

Our Directors recognize the importance of good corporate governance in protection of our Shareholders’ interests. We have adopted/will adopt the following corporate governance measures to resolve actual or potential conflict of interests between our Group and the Controlling Shareholders:

- (i) where a Board meeting is held for the matters in which any Director or his/her associates have a material interest, such Director(s) shall abstain from voting on the relevant resolutions and shall not be counted in the quorum for the voting;
- (ii) where a Shareholders’ meeting is to be held for considering proposed transactions in which our Controlling Shareholders or any of their respective associates has a material interest, our Controlling Shareholders or their respective associates will not vote on the resolutions and shall not be counted in the quorum in the voting;
- (iii) as part of our preparation for the [REDACTED], we have amended our Articles of Association to comply with the Listing Rules which will become effective upon [REDACTED]. In particular, our Articles of Association provides that, a Director shall be abstained from voting on any resolution approving any contract, transaction or arrangement in which such Director or any of his/her associates has a material interest nor shall such Director be counted in the quorum present at the Board meeting;
- (iv) our Company has established internal control mechanisms to identify connected transactions. Upon the [REDACTED], if our Company enters into connected transactions with our Controlling Shareholders or any of their respective associates, our Company will comply with the applicable Listing Rules;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (v) our Board consists of a balanced composition of executive and independent non-executive Directors, with one-third of independent non-executive Directors to ensure that our Board is able to effectively exercise independent judgment in its decision-making process and provide independent advice to our Shareholders. Our independent non-executive Directors, details of whom are set out in the section headed “Directors and Senior Management”, individually and collectively possess the requisite knowledge and experience to perform their roles. They will review whether there is any conflict of interests between our Group and our Controlling Shareholders and provide impartial and professional advice to protect the interest of our minority Shareholders;
- (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 Company’s expenses; and
- (vii) we have appointed Innovax Capital Limited as our compliance adviser to provide advice and guidance to us in respect of compliance with the applicable laws and regulations, as well as 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 between our Company and the Controlling Shareholders, and to protect minority Shareholders’ interests after the [REDACTED].