
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OVERVIEW

Our Controlling Shareholders are Tianfu Renhe, Mr. Zou, Ms. Ou, Ms. Zou Yonghang and Mr. Zou Xinhang. As of the Latest Practicable Date, our Company was held as to approximately 37.56% by Tianfu Renhe and approximately 0.01% by Ms. Ou. As of the Latest Practicable Date, Tianfu Renhe was owned as to 40% by Mr. Zou, 20% by Ms. Ou (the spouse of Mr. Zou), 20% by Ms. Zou Yonghang (the daughter of Mr. Zou and Ms. Ou) and 20% by Mr. Zou Xinhang (the son of Mr. Zou and Ms. Ou). Immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised and no changes are made to the issued share capital of our Company between the Latest Practicable Date and the [REDACTED]), our Controlling Shareholders will in aggregate control the voting rights attached to approximately [REDACTED]% of our total issued share capital and will remain as our Controlling Shareholders.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

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

Management Independence

Upon the [REDACTED], our Board will consist of seven Directors, comprising three executive Directors, one non-executive Director and three independent non-executive Directors. Our Directors are of the view that our Board, together with our senior management team, is able to perform its managerial role in our Group independently for the following reasons:

- (a) 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;
- (b) our day-to-day management and operations are carried out by our senior management team. Our senior management team has substantial experience in the industry in which our Group operates, and will therefore be able to make business decisions that are in the best interests of our Group;
- (c) upon the [REDACTED], we will have three independent non-executive Directors, and certain matters of our Company shall be referred to the independent non-executive Directors for review;
- (d) as an A-share listed company, we have formulated and adopted a comprehensive internal control and management system in compliance with the relevant requirements of the applicable PRC laws and regulations and the rules of the Shenzhen Stock Exchange. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and a Director and/or his/her associate(s), the interested Director shall abstain from voting and shall not be counted towards the quorum for the voting; and
- (e) we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and our Controlling Shareholders which would support our independent management. For details, see “—Corporate Governance Measures” in this section below.

Operational Independence

Our Group has its own operational structure consisting of separate departments, each with clear division of responsibilities to facilitate the effective operation of our business. Our Directors are of the view that our Company will continue to be able to operate independently after the [REDACTED] for the following reasons:

- (a) we are not reliant on trademarks owned by our Controlling Shareholders;

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- (b) we are the holder of all relevant licenses, approvals and permits that are material to the operation of our business, and we have our own production facilities and sufficient capital, equipment and employees to operate our business independently;
- (c) we have our own administrative and corporate governance infrastructure, including our own accounting, legal and human resources departments; and
- (d) we have independent access to our customers and suppliers.

Financial Independence

We have independent internal control and accounting systems. We also have an independent finance department responsible for discharging the treasury function. Moreover, our Board has established the Audit Committee to provide independent oversight to, among others, our accounting and financial reporting processes.

We are capable of obtaining financing from third parties, if necessary, without reliance on our Controlling Shareholders or any of their associates after the [REDACTED] as we expect that our working capital will be primarily funded by cash generated from our business operations, and to a lesser extent, external indebtedness.

As of the Latest Practicable Date, there were no outstanding loans due to or from our Controlling Shareholders or their close associates, and there were no other outstanding pledges or guarantees provided for our benefit by our Controlling Shareholders or their close associates.

Based on the above, our Directors are of the view that our Board, together with our senior management team, is capable of maintaining financial independence from our Controlling Shareholders after the [REDACTED].

DISCLOSURE UNDER RULE 8.10 OF THE LISTING RULES

Tianfu Renhe is a limited liability company established in the PRC on June 8, 2005 and is a special purpose vehicle that did not have any substantial business activities as of the Latest Practicable Date.

Each of our Controlling Shareholders has confirmed that, as of the Latest Practicable Date, they did not have any interest in a business, apart from our Group’s business, which competes or is likely to compete, either directly or indirectly, with our Group’s business that would require disclosure under Rule 8.10 of the Listing Rules.

CORPORATE GOVERNANCE MEASURES

Our Directors recognize the importance of implementing good corporate governance in protecting our Shareholders’ interests. We [have] adopted the following corporate governance measures to avoid actual or potential conflicts of interests between our Group and our Controlling Shareholders and their respective close associates:

- (a) in respect of any contract or arrangement or any other proposal to be entered into by our Group in which a Director or any of his/her close associates (or, if required by the Listing Rules, his/her other associates) has any material interest, such Director shall abstain from voting on the resolutions and shall not be counted towards the quorum for the voting;
- (b) where a Shareholders’ meeting is held to consider a proposed transaction in which our Controlling Shareholders or any of their associates have a material interest, our Controlling Shareholders shall abstain from voting on the resolutions and shall not be counted towards the quorum for the voting;

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- (c) our Company has established internal control mechanisms to identify connected transactions. Upon the [REDACTED], if our Group enters into connected transactions with our Controlling Shareholders or their associates, we will comply with the applicable Listing Rules;
- (d) upon the [REDACTED], our Board will include three 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 will annually review whether there is any conflict of interest between our Group and our Controlling Shareholders and provide impartial and professional advice to protect the interests of our minority Shareholders;
- (e) our Company will disclose decisions on matters reviewed by the independent non-executive Directors either in its annual reports or by way of announcements as required by applicable laws and regulations, including the Listing Rules;
- (f) where advice from independent professionals, such as that from a financial advisor, is reasonably requested by our Directors (including our independent non-executive Directors), the appointment of such independent professional will be made at our Company’s expense; and
- (g) we have appointed Somerley Capital Limited as our compliance advisor to provide us with advice and guidance in respect of compliance with the applicable laws and regulations and the Listing Rules, including various requirements relating to Directors’ duties and 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 Group and our Controlling Shareholders, and to protect minority Shareholders’ interests after the [REDACTED].