
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OVERVIEW

Immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised), Mr. Jiang Yun, our founder, chairman of the Board and executive Director, will be able to exercise approximately [REDACTED]% of the voting rights in our Company through: (i) 18,498,500 Shares held directly by himself; and (ii) 9,151,965 Shares held by Kinna Investment. Accordingly, Mr. Jiang Yun and Kinna Investment will be the Controlling Shareholders of our Company after the [REDACTED].

Kinna Investment, formerly known as Chengdu Kinna Biopharmaceutical Co., Ltd. (成都國嘉生物股份有限公司), is a joint stock company established in the PRC on April 3, 1996. Kinna Investment is primarily engaged in investment holding business and property leasing businesses, and derives rental income from its self-owned real properties. Other than these, Kinna Investment has no other business. Kinna Investment is held as to 47.0% and controlled by Mr. Jiang Yun. For background of Mr. Jiang Yun, see “Directors and Senior Management.” The remaining shareholders of Kinna Investment, with the largest holding of 16.0%, are all passive investors and independent of Mr. Jiang Yun. Except for our Company, Kinna Investment held no other investment as of the Latest Practicable Date.

COMPETITION

Each of our Controlling Shareholders has confirmed that, as of the Latest Practicable Date, none of them had any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, and which would require disclosure under Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

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

MANAGEMENT INDEPENDENCE

Our business is managed and conducted by the Board and senior management. Our Board consists of five executive Directors, one non-executive Director and three independent non-executive Directors. For more information, see “Directors and Senior Management.” Notwithstanding that Mr. Jiang Yun, our executive Director, is also our Controlling Shareholder, our Directors believe that the Board and senior management of our Company are able to operate our business independently of our Controlling Shareholders for the following reasons:

- (i) our Directors are aware of their fiduciary duties as a director, which require, among other things, that they act for the benefit and in the interest of our Company and all our Shareholders as a whole and do not allow any conflict between their duties as a Director and their personal interests;
- (ii) our daily management and operations are carried out by our executive Directors and senior management team. As of the Latest Practicable Date, except for Mr. Jiang Yun, who acts as the chairman of the board of directors of Kinna Investment, none of them held any management position in our Controlling Shareholders’ close associates. They also have substantial experience in the industry in which our Company is engaged and will therefore be able to make impartial and sound business decisions that are in the best interest of our Group;
- (iii) our Board has a balanced composition of executive, non-executive and independent non-executive Directors, which ensures the independence of the Board in making decisions affecting our Company. Our three independent non-executive Directors are independent of our Controlling Shareholders and have extensive experience in their respective areas of expertise. For details, see “Directors and Senior Management.” All independent non-executive Directors are appointed in accordance with the requirements under the Listing Rules to ensure that the decisions of the Board are made only after the due consideration of independent and impartial opinions;

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- (iv) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and the Controlling Shareholders, the interested Director(s) shall abstain from voting, and not be counted in the quorum at the relevant Board meetings of our Company in respect of such transactions; and
- (v) upon the [REDACTED], we will adopt 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.”

Based on the above, our Directors believe that our Company has sufficient and effective control mechanisms to ensure that our Directors perform their respective duties properly and safeguard the interests of our Company and our Shareholders as a whole. Our Board together with our senior management team, therefore, is able to perform the managerial role in our Group independently.

OPERATIONAL INDEPENDENCE

We are in possession of all production and operating facilities and technology relating to our Group’s business and have obtained relevant requisite qualifications and approvals for conducting all our business. Currently, we engage in our Group’s business independently, with the independent right to make operational decisions and implement such decisions.

We have independent access to customers and suppliers and, therefore, are not dependent on our Controlling Shareholders for any significant amount of our revenue, R&D, staffing or marketing and sales activities, and we have sufficient capital, equipment and employees to operate our business independently from our Controlling Shareholders. We have an established and complete organizational structure comprising various separate departments, each charged with specific responsibilities, such as administration, finance, internal audit, R&D, sales and marketing, human resources, or company secretarial functions. These departments have been in operation and are expected to continue to operate separately and independently from our Controlling Shareholders and their close associates. We also maintain a set of comprehensive internal control procedures to facilitate the effective operation of our business.

Based on the above, our Directors believe that we are able to operate independently from our Controlling Shareholders.

FINANCIAL INDEPENDENCE

Our Company has established its own finance department with a team of independent financial staff responsible for discharging treasury, accounting, reporting, group credit and internal control functions independently from our Controlling Shareholders and their respective close associates, as well as a sound and independent financial system, and makes independent financial decisions according to our own business needs. Our Company maintains bank accounts independently and does not share any bank account with our Controlling Shareholders. Our Company makes tax registration and pays tax independently with its own funds. As such, our Company’s financial functions, such as cash and accounting management, invoices and bills, operate independently from our Controlling Shareholders and their close associates.

Any loans or guarantees provided by, or granted to, our Controlling Shareholders or their respective close associates have been or will be settled or terminated before the [REDACTED]. We do not expect to rely on our Controlling Shareholders or their close associates for financing after the [REDACTED] as we expect that our working capital will be funded by cash flows generated from operating activities, equity financing, bank loans with securities or guarantees to be provided by our Group as well as the [REDACTED] from the [REDACTED].

Based on the above, our Directors believe that we do not place undue reliance on our Controlling Shareholders and their respective close associates.

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CORPORATE GOVERNANCE MEASURES

Upon the [REDACTED], we will comply with the provisions of the Corporate Governance Code set forth in Appendix C1 to the Listing Rules, which sets out the principles of good corporate governance.

Our Directors recognize the importance of good corporate governance in the protection of our Shareholders’ interests. We would adopt the following measures to safeguard good corporate governance standards and to avoid potential conflict of interests between our Group and Controlling Shareholders:

- (i) where a Board meeting is held for the matters in which any Director has 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 associates have a material interest, the relevant member in our Controlling Shareholders will not vote on the resolutions and shall not be counted in the quorum in the voting;
- (iii) 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 associates, our Company will comply with the relevant requirements under Chapter 14A of the Listing Rules, including the announcement, reporting and independent Shareholders’ approval requirements (where applicable) under the Listing Rules;
- (iv) our Board will consist of a balanced composition of executive and non-executive Directors, including not less than 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, individually and collectively, possess the requisite knowledge and experience. They are committed to providing experienced and professional advice to protect the interests of our minority Shareholders;
- (v) our independent non-executive Directors will review, whether there are any conflicts of interests between our Group and any Controlling Shareholder and provide impartial and professional advice to protect the interests of our minority Shareholders;
- (vi) our Controlling Shareholders will provide our independent non-executive Directors with all relevant financial, operational and market and any other necessary information as required by the independent non-executive Directors;
- (vii) our Company shall disclose the decisions of the independent non-executive Directors either in its annual reports or by way of announcements as required by the Listing Rules;
- (viii) where our Directors reasonably request the advice of independent professionals, such as financial advisors, the appointment of such independent professionals will be made at our Company’s expenses; and
- (ix) we have appointed First Shanghai Capital Limited as our Compliance Advisor, which will provide advice and guidance to us in respect of compliance with the Listing Rules and applicable laws, rules, codes and guidelines, including but not limited to various requirements relating to Directors’ duties and internal controls.

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 to protect minority Shareholders’ rights after the [REDACTED].