
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

CONTROLLING SHAREHOLDER

As of the Latest Practicable Date, our Company was directly held as to 34.53% by Mr. Hou Juncheng (侯軍呈), our Chairman of the Board. Therefore, Mr. Hou is our Controlling Shareholder.

Immediately following the completion of the [REDACTED] (assuming the [REDACTED] and the [REDACTED] are not exercised), Mr. Hou will hold approximately [REDACTED]% of the issued share capital of our Company. Accordingly, Mr. Hou will continue to be regarded as our Controlling Shareholder upon the [REDACTED].

INTEREST IN COMPETING BUSINESS OF OUR CONTROLLING SHAREHOLDER

Our Controlling Shareholder has confirmed that he does not have any interests in any business (apart from the business of our Group) that competes or is likely to compete, directly or indirectly, with our principal business, which is required to be disclosed under Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDER

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

Management Independence

Our business is managed and conducted by our Board and senior management. Upon [REDACTED], our Board consists of seven Directors, comprising four executive Directors and three independent non-executive Directors. For more details, see “Directors and Senior Management”.

Our Directors consider that we are able to carry on our business independently from our Controlling Shareholder from a management perspective for the following reasons:

- (a) save for Mr. Hou who is our Chairman of the Board, none of our Directors and senior management is a Controlling shareholder;
- (b) our daily management and operations are carried out by a 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 Group;
- (c) 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 our Director and his/her personal interests. 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, he/she is required to declare the nature of such interest before voting at the relevant Board meetings of our Company in respect of such transactions and the interested Director shall abstain from voting and shall not be counted towards the quorum for the voting;
- (d) we have three independent non-executive Directors with extensive experience in their respective areas of expertise to ensure that the decisions of our Board are made after due consideration of independent and impartial opinions and in the best interests of our Company and our Shareholders as a whole. Certain matters of our Company must always be referred to the independent non-executive Directors for review and approval; and
- (e) our Company is an A-share listed company and has adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and our Controlling shareholder which would support our independent management. See “—Corporate Governance” below for details.

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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 Group independently from our Controlling Shareholder and his close associates after the [REDACTED].

Operational Independence

We do not rely on our Controlling Shareholder and his close associates for our daily operations. We have our own organizational structure with self-governing departments specializing in various aspects in relation to our business development, including but not limited to sales and marketing, financing, human resources, administration, internal audit and legal and compliance which have been in operation and are expected to continue to operate separately and independently from our Controlling Shareholder and his close associates. In addition, we have our own headcount of employees for our operations and management for human resources. We also maintain a set of comprehensive internal control procedures to facilitate the effective operation of our businesses.

We have independent access to suppliers and customers and an independent management team to handle our day-to-day operations. We also have sufficient capital, facilities, equipment and employees, administrative and corporate governance infrastructure, to operate the business independently. We are also in possession of all relevant licenses, certificates, facilities, intellectual property rights and approvals and permits from the relevant regulatory authorities necessary to carry on and operate our principal businesses and we have sufficient operational capacity in terms of capital and employees to operate independently.

Based on the above, our Directors believe that we are able to operate independently of our Controlling Shareholder and his close associates.

Financial Independence

We have an independent financial system and make financial decisions according to our Group’s own business needs. We have our own internal control and accounting systems and an independent finance department in charge of our treasury function and making financial decisions based on our Group’s needs. Our Company maintains bank accounts independently and does not share any bank account with our Controlling Shareholder. 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 Shareholder and his close associates. We do not expect to rely on our Controlling Shareholder and his close associates for financing after the [REDACTED] as we expect that our working capital will be funded by the cash, cash equivalents on hand as well as the [REDACTED] from the [REDACTED].

In addition, we are capable of obtaining financing from Independent Third Parties, if necessary, without relying on any guarantee or security provided by our Controlling Shareholder or his respective associates. As of the Latest Practicable Date, there were no outstanding loans or guarantee provided by or granted to our Controlling Shareholder or his associates.

Based on the above, our Directors believe that we are capable of carrying on our business independently from, and do not place undue reliance on our Controlling Shareholder and his close associates after the [REDACTED].

CORPORATE GOVERNANCE

Our Company and Directors are committed to upholding and implementing the highest standards of corporate governance and recognize the importance of protecting the rights and interests of all Shareholders, including the rights and interests of our minority Shareholders. Our Company will comply with the provisions of the Corporate Governance Code in Appendix C1 to the Listing Rules (the “**Corporate Governance Code**”), which sets out principles of good corporate governance.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER

Our Directors recognize the importance of implementing good corporate governance and effective internal control measures in 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 our Controlling Shareholder and his close associates:

- (a) where a Shareholders’ meeting is to be held for considering proposed transactions in which our Controlling Shareholder and his close associates have a material interest, our Controlling Shareholder will not vote on the resolutions and shall not be counted in the quorum in the voting;
- (b) 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 abstain 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;
- (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 Shareholder and his close associates, we will comply with the applicable Listing Rules;
- (d) we are committed that our Board shall include a balanced composition of executive Directors and non-executive Directors (including independent non-executive Directors). We have appointed three independent non-executive Directors, and we believe our independent non-executive Directors (i) possess sufficient experiences, (ii) are free of any business or other relationship which could interfere with the exercise of their independent judgment in any material manner, and (iii) will be able to provide an impartial and external opinion to protect the interests of our Shareholders as a whole. See “Directors and Senior Management” for details of the independent non-executive Directors;
- (e) the independent non-executive Directors will review, on an annual basis, whether there are any conflicts of interests between our Group and our Controlling Shareholder and provide impartial and professional advice to protect the interests of our Shareholders;
- (f) our Controlling Shareholder will undertake to provide all information necessary, including all relevant financial, operational and market information and any other necessary information as required by the independent non-executive Directors for the annual review of any conflicts of interests between our Group and our Controlling Shareholder;
- (g) where our Directors reasonably request the advice of independent professionals or advisors, such as financial advisors, valuers or legal advisors, the appointment of such independent professionals or advisors will be made at our Company’s expenses;
- (h) 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; and
- (i) we have established our Audit Committee, Remuneration and Appraisal Committee, Nomination Committee and Strategy and Sustainability Committee with written terms of reference in compliance with the Listing Rules and the Corporate Governance Code.

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 Shareholder, and to protect minority Shareholders’ interests after the [REDACTED].