

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

As at the Latest Practicable Date, (i) Mr. Li, Jiafeng Lihe, Shanghai Yanhang LLP, Shanghai Cangyan LLP and Shanghai CY LLP are directly interested in 9.63%, 56.15%, 6.42%, 4.01% and 4.01% of the issued share capital of our Company, respectively, (ii) Mr. Li is the sole general partner of each of Jiafeng Lihe, Shanghai Yanhang LLP, Shanghai Cangyan LLP and Shanghai CY LLP, and (iii) Ms. Cao is the spouse of Mr. Li and held approximately as to 1%, 65.82% and 39.33% of the partnership interests in Jiafeng Lihe, Shanghai Cangyan LLP and Shanghai CY LLP as a limited partner, respectively. As such, Mr. Li, Ms. Cao, Jiafeng Lihe, Shanghai Yanhang LLP, Shanghai Cangyan LLP and Shanghai CY LLP are a group of our Controlling Shareholders who collectively control the voting rights in approximately 80.22% of the issued share capital of our Company as at the Latest Practicable Date.

Immediately following the completion the [REDACTED], Mr. Li, Ms. Cao, Jiafeng Lihe, Shanghai Yanhang LLP, Shanghai Cangyan LLP and Shanghai CY LLP will be able to control the voting rights in approximately [REDACTED]% of the Shares (assuming the [REDACTED] is not exercised). Therefore, Mr. Li, Ms. Cao, Jiafeng Lihe, Shanghai Yanhang LLP, Shanghai Cangyan LLP and Shanghai CY LLP will be regarded as a group of Controlling Shareholders upon [REDACTED]. For further details about our Controlling Shareholders, please refer to the section headed “Relationship with our Controlling Shareholders” in this document.

COMPETITION

Each member of our Controlling Shareholders has confirmed that, during Track Record Period and as at the Latest Practicable Date, he/she/it does not have 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, which would require disclosure under Rule 8.10 of the Listing Rules.

UNDERTAKINGS

Our Controlling Shareholders have given certain undertakings in respect of the Shares (including those as required by Rules 10.07(1) and Note (3) to Rule 10.07(2) of the Listing Rules) to our Company, the Stock Exchange, the Sponsor, the Joint [REDACTED] and the [REDACTED]. Please refer to the section headed “[REDACTED] — Undertakings” in this document for further details.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

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

Management Independence

Our business is managed and conducted by our Board and senior management. Our Board comprises of two executive Directors and three independent non-executive Directors Mr. Li is our executive Director and Chairman, and his spouse, Ms. Cao, is our executive Director. See “Directors and Senior Management” in this document for more information.

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Save as disclosed in the section headed “Directors and Senior Management” in this document, there is no other relationship among the Directors. Notwithstanding that Mr. Li and Ms. Cao, each an executive Director, are also each a Controlling Shareholder, the Directors are of the view that our Company is capable of maintaining management independence as:

Our Directors consider that our Board and senior management will function independently from our Controlling Shareholders and their respective close associates because:

- (a) our Group’s strategies, management, operations and affairs are formulated, led, managed and/or supervised by our Board and not by any individual Director. All major and important corporate actions of our Company are and will be fully deliberated and determined by our Board collectively and objectively as a collective body;
- (b) our Company has established corporate governance procedures in safeguarding the interests of the shareholders and enhancing shareholders’ value. Each of our Directors is aware of his or her fiduciary duties as a Director which require, among other things, that he/she must act for the benefit and in the best interest of our Group and must not allow any conflict between his/her duties as a Director and his/her personal interests;
- (b) in the event that there is a potential conflict of interests arising out of any transaction to be entered into between our Company and our Directors or their respective associates, the interested Director(s) will abstain from voting at the relevant meeting of our Board in respect of such transactions and shall not be counted in the quorum;
- (c) our Board comprises of five Directors and three of them are independent non-executive Directors, which represents more than one-third of the members of our Board. This is in line with the requirements as set out in the [REDACTED] Rules. Our independent non-executive Directors will provide a balance of the number of potentially interested and independent Directors with a view to promote the interests of our Company and the Shareholders as a whole. The independent non-executive Directors will be entitled to engage professional advisers at our cost for advice on matters relating to any potential conflict of interest arising out of any transaction to be entered into between our Company and our Directors or their respective associates; and
- (d) our Board from time to time delegates certain functions to, and is assisted by its senior management in the implementation of the business plan and strategy as laid down by our Board. The day-to-day management and operations of our Group is operated independently from the influence of our Controlling Shareholders and their respective associates.

Based on the above, our Directors are satisfied that our Board as a whole together with our senior management are able to perform the managerial roles in our Group independently, and our Directors are of the view that we are capable of managing our business independent from our Controlling Shareholders and their respective close associates (other than our Group) after the [REDACTED].

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Operational Independence

Our Company has full rights to make all decisions on, and to carry out, our own business operations independently. We have our own organisational structure made up of divisions including management and administration, finance and accounting, sales and marketing, production, design and development, quality control and other divisions. Each division has a clear delineation of duties and functions as determined by our Board to promote efficiency, effectiveness and quality in the development of our Group’s business. Our Company holds the relevant licences and qualifications and owns the relevant intellectual properties necessary to carry out our current business, and has sufficient capital, facilities, equipment, technology and employees to operate our business independently from our Controlling Shareholders and their respective close associates. We have independent access to sources of suppliers or materials necessary for the operation of its business as well as customers which are all Independent Third Parties.

Based on the above, our Directors are satisfied that we are able to function and operate independently from our Controlling Shareholders and their close associates after the [REDACTED].

Financial Independence

We have established our own finance department with a team of financial staff, who are responsible for financial control, accounting, reporting, group credit and internal control functions of our Company, independent from our Controlling Shareholders and their respective close associates. We are able to make financial decisions independently according to our own business needs and our Controlling Shareholders and their respective close associates do not intervene with our financial matters. We have also established an independent audit system, a standardized financial and accounting system and a complete financial management system. In addition, we are capable of obtaining financing from third parties at reasonable costs without relying on any guarantee or security provided by our Controlling Shareholders or their close associates. There were no outstanding loans or guarantees or other financial assistance provided by, or granted to, our Controlling Shareholders or their associates as at the Latest Practicable Date, save and except that, during the Track Record Period, Mr. Li and Ms. Cao had provided guarantees for certain of our bank borrowings. Please refer to the section headed “Financial Information — Indebtedness” in this document and Note 25 to the Accountants’ Report in Appendix I to this document for details. Our Directors confirm that all the guarantees provided by Mr. Li and Ms. Cao will be released or replaced by our Company’s corporate guarantee before or upon [REDACTED]. Save as disclosed above, none of our Controlling Shareholders or their respective close associates financed our operations during the Track Record Period.

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Based on the above, our Directors are of the view that they and our senior management are capable of carrying on our business independently of, and do not place undue reliance on our Controlling Shareholders and their respective close associates after the [REDACTED].

CORPORATE GOVERNANCE MEASURES

Our Company will comply with the provisions of the Corporate Governance Code, which sets out principles of good corporate governance.

Our Directors recognize the importance of good corporate governance in protecting our Shareholders’ interests. We would adopt the following measures to promote good corporate governance and to avoid potential conflict of interests between our Group and our Controlling Shareholders and their respective close associates:

- (a) where a Shareholders’ meeting is to be held for considering proposed transactions in which our Controlling Shareholders and their respective close associates has a material interest, our Controlling Shareholders will not vote on the resolutions and shall not be counted in the quorum in the voting;
- (b) our Company has established internal control mechanisms to identify connected transactions. Upon [REDACTED], if our Company enters into connected transactions with our Controlling Shareholders and their respective associates, our Company will comply with the applicable [REDACTED] Rules;
- (c) we are committed that our Board should include a balanced composition with not less than one-third of independent non-executive Directors to enable our Board to effectively exercise independent judgment in its decision-making process and provide independent advice to our Shareholders. We have appointed three independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial, external opinion to protect the interests of our minority Shareholders. For details of our independent non-executive Directors, see the section headed “Directors and Senior Management — Directors — Independent non-executive Directors” in this document;
- (d) our independent non-executive Directors will review, on an annual basis, whether there is any conflict of interests 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 (with basis) on matters reviewed by the independent non-executive Directors either in its annual report or by way of announcements as required by the [REDACTED] Rules;
- (f) our Controlling Shareholders 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 purpose of their annual review;

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- (g) 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 expense; and
- (h) we have appointed South China Capital Limited as our compliance adviser to provide advice and guidance to us in respect of compliance with the [REDACTED] Rules, including various requirements relating to directors’ duties and corporate governance, and inform us on a timely basis of any amendment or supplement to the [REDACTED] Rules or applicable laws and regulations in Hong Kong.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflict of interests that may arise between our Group and our Controlling Shareholders and their respective close associates, and to protect our minority Shareholders’ interests after the [REDACTED].