
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Our Controlling Shareholders comprises Mr. Li, Mr. Xu and their shareholding platforms (including Smartco Development, Quiet Well, Magnifice HK and Magnifice). Pursuant to the Concert Party Agreement, Mr. Li and Mr. Xu shall act in concert collectively for, among others, matters (including but not limited to operational matters) of the Company which require the Board’s or Shareholders’ approval, or matters involving the exercise of their Shareholders’ rights. For further details, see the paragraph headed “History, Development and Corporate Structure — Acting in Concert Arrangement”. As of the Latest Practicable Date, the total issued Shares of our Company was held as to (i) approximately 26.99% by Smartco Development, a limited liability company wholly-owned by Mr. Li through Quiet Well, (ii) approximately 0.08% by Mr. Li directly, and (iii) approximately 24.50% by Magnifice HK, a limited liability company owned as to 66.32% by Magnifice, a limited liability company wholly-owned by Mr. Xu. The remaining 33.68% shareholding interests of Magnifice HK is owned by Simple Well Limited, which is in turn controlled by Ms. Jian Yao through Simple Well (BVI) Holding Limited. Further, Shenzhen Ruifu and Shenzhen Ruilong held approximately 0.23% and 0.10% of the issued Shares of the Company as of the Latest Practicable Date. Mr. Li and Mr. Xu held approximately 47.04% and 42.71% of the limited partnership interests of each of Shenzhen Ruifu and Shenzhen Ruilong, respectively. Therefore, as of the Latest Practicable Date, Mr. Li, Mr. Xu, Smartco Development, Magnifice HK, Quiet Well and Magnifice collectively held approximately 51.58% of the total issued share capital of the Company, and are therefore our Controlling Shareholders.

Immediately following the completion of the [REDACTED] and assuming no new Shares are issued pursuant to the [REDACTED], Mr. Li (directly and indirectly through Smartco Development and Quiet Well) and Mr. Xu (through Magnifice HK and Magnifice) will collectively be interested in approximately [REDACTED]% of our issued share capital. Accordingly, Mr. Li, Mr. Xu, Smartco Development, Magnifice HK, Quiet Well and Magnifice will remain as our Controlling Shareholders upon the completion of the [REDACTED].

INDEPENDENCE OF OUR BUSINESS

Having considered the following factors, our Directors are satisfied that we are able to carry out our business independently from our Controlling Shareholders and their respective close associates upon and after the [REDACTED].

Operational Independence

Our Company has full rights to make all decisions on, and to carry out, our own business operations independently. We hold our own operation resources including but not limited to customers and suppliers, as well as our own registered patents which can be used for producing our products. We have a team of senior management to operate the business independently from our Controlling Shareholders and their respective close associates. We also have access to third parties independently from, and not connected with, our Controlling Shareholders for sources of suppliers, customers and business partners.

Based on the above, our Directors are satisfied that we have been operating independently from our Controlling Shareholders and/or its close associates during the Track Record Period and will continue to operate independently of the business of our Controlling Shareholders upon [REDACTED].

Management Independence

Our management and operational decisions are made by the Board in a collective manner. Upon [REDACTED], the Board comprises of twelve Directors, including three executive Directors, two non-executive Directors and seven independent non-executive Directors. For details, see “Directors and Senior Management”.

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Our Directors have relevant experience to ensure the proper functioning of the Board. We further believe that our Directors and members of the senior management are able to perform their roles in our Company in managing our business independently from the Controlling Shareholders (which include Mr. Li, our executive Director and Mr. Xu, our non-executive Director) and their respective close associates for the following reasons:

- (a) all of our Directors and senior management (except Mr. Li and Mr. Xu) have no other relationship with our Controlling Shareholders and their respective close associates that would affect their independence. They have substantial experience in the industry and have been with our Group in management capacity for a number of years as further described in the section headed “Directors and Senior Management”, which will enable them to discharge their duties independently from the Controlling Shareholders;
- (b) our independent non-executive Directors have extensive experience in different areas. We believe that they will be able to exercise their independent judgment and will be able to provide impartial opinions in the decision-making process of our Board to protect the interests of our Shareholders;
- (c) each of our Directors is aware of his or her fiduciary duties as a director, which requires, among other things, that he or she acts for our Company’s best interests and he or she must not allow any conflict between his or her duties as a Director and his or her personal interests;
- (d) our Company is an A-share listed company and has established internal control mechanisms to identify related party transactions and connected transactions to ensure that our Shareholders or Directors with conflicting interests in a proposed transaction will abstain from voting on the relevant resolutions. Where a Board meeting or Shareholders’ meeting is held to consider a proposed transaction in which our Directors or Controlling Shareholders or any of their respective close associates have a material interest, the relevant Directors or our Controlling Shareholders and their respective close associates shall abstain from voting on the relevant resolutions and shall not be counted towards the quorum for the voting; and
- (e) we have adopted a series of corporate governance measures to manage potential conflicts of interest, if any, between our Group and our Controlling Shareholders, which would enhance our independent management. For further information, see “— Corporate Governance Measures” below.

Financial Independence

Our Group has its own internal control, accounting, funding, reporting and financial management system as well as accounting and finance department. Moreover, our Group opens and manages bank accounts independently, and has never shared any bank account with our Controlling Shareholders. Our Group has independent taxation registration according to the relevant laws, and makes tax payments independently according to the applicable PRC taxation laws and regulations. Our Group has never made any tax payment jointly with our Controlling Shareholders or any other entities controlled by them.

As of the Latest Practicable Date, our Group does not rely on our Controlling Shareholders and/or their respective close associates for any provision of financial assistance. Our Directors confirm that as of the Latest Practicable Date, on one hand, none of the Controlling Shareholders or their respective close associates provided any loans, guarantees or pledges to our Group and, on the other hand, our Group did not provide any loans, guarantees or pledges to our Controlling Shareholders.

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Based on 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.

RULE 8.10 OF THE LISTING RULES

As of the Latest Practicable Date, none of our Controlling Shareholders had any interest in any business which competes or is likely to compete, either directly or indirectly, with our Company's business which would require disclosure under Rule 8.10 of the Listing Rules.

CORPORATE GOVERNANCE MEASURES

Our Directors believe that there are adequate corporate governance measures in place to manage the potential conflict of interests between our Controlling Shareholders and our Group and to safeguard the interests of our Shareholders taken as a whole for the following reasons:

- where a Shareholders' meeting is to be held for considering proposed transactions in which our Controlling Shareholders or any of 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;
- our Group has established internal control mechanisms to identify connected transactions. Upon the [REDACTED], if any transaction is proposed between our Group and our Controlling Shareholders and their respective associates, we will comply with the requirements of the Articles of Association and the Listing Rules, including, where appropriate, the reporting, annual review by the independent non-executive Directors, announcement and independent Shareholders' approval;
- our Board consists of a balanced composition of executive Directors, non-executive Director and independent non-executive Directors, with independent non-executive Directors constitute a majority of our Board 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 to perform their duties. 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 interests of our minority Shareholders;
- 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
- we have appointed Maxa Capital Limited as our Compliance Advisor, who will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing 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 Listing 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 conflicts of interest that may arise between our Company and our Controlling Shareholders, and to protect our minority Shareholders' interests after the [REDACTED].