
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OVERVIEW

As of the Latest Practicable Date, Dr. Yuan directly held 113,535,123 A Shares. Ms. Zhong, Dr. Yuan’s mother, directly held 22,543,669 A Shares. Borui Xinwen, the general partner of which is Ms. Zhong, directly held 26,801,844 A Shares. As advised by our PRC Legal Advisor, pursuant to the Administrative Measures for the Takeover of Listed Companies (上市公司收購管理辦法) promulgated by the CSRC, the parents or other close relatives of a natural person, if such natural person is a director or senior management of a A-share listed company, or if he/she holds 30% or more shares of a A-share listed company, shall be deemed as a person acting in concert of that natural person unless there is counter-evidence. In this regard, Ms. Zhong is deemed as a person acting in concert with Dr. Yuan. Dr. Yuan, Ms. Zhong and Borui Xinwen therefore constitute a group of our Controlling Shareholders, who collectively held approximately 37.84% of the total issued share capital of the Company (including the 560,332 A Shares held by our Company as treasury Shares as of the Latest Practicable Date) and were entitled to exercise, or control the exercise of, the voting rights attaching to approximately 37.89% of our total issued shares as of the Latest Practicable Date (excluding the 560,332 A Shares held by our Company as treasury Shares as of the Latest Practicable Date). For further details of the treasury Shares, see “Share Capital — Our Shares” section in this document.

Immediately following completion of the [REDACTED] (assuming the [REDACTED] is not exercised and no other changes are made to the issued share capital of our Company between the Latest Practicable Date and the [REDACTED]), Dr. Yuan, Ms. Zhong and Borui Xinwen, will control approximately [REDACTED]% of voting rights in our Company (excluding the 560,332 A Shares held by our Company as treasury Shares as of the Latest Practicable Date). Therefore, Dr. Yuan, Ms. Zhong and Borui Xinwen will continue to be our Controlling Shareholders upon the [REDACTED].

COMPETITION

As of the Latest Practicable Date, none of our Controlling shareholders or their respective close associates had any interest in any business that competes or is likely to compete, either directly or indirectly with our Group’s business, which would require disclosure under Rule 8.10 of the Listing Rules.

NON-COMPETITION UNDERTAKING

For the purpose of the listing of our A Shares on the SSE STAR Market and to avoid any potential competition with our Company, each of Dr. Yuan and Ms. Zhong entered into a non-competition undertaking in favor of our Company on March 18, 2019, pursuant to which each of them has undertaken that, for so long as he/she remains the controlling shareholder under the SSE STAR Market Listing Rules, among others, that: (i) he/she will not provide to any person or entity that conducts the business in competition with the business of our Group any proprietary technology, sales channels, customer information or other trade secrets; (ii) he/she will not, directly or through any controlled entity, engage in any business in competition with the business of our Group; (iii) if any his/her controlled entities conduct a business that competes with our Company, he/she will procure effective measures to avoid such competition, including injecting such business into our Group, and our Company may at any time require the transfer of all of his/her equity in such entity, for which our Company shall have a right of first refusal and the consideration shall be fair and reasonable; and (iv) in the event of any breach of the foregoing undertakings, he/she agrees to compensate our Group for all direct or indirect losses caused.

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INDEPENDENCE OF OUR BUSINESS

We believe that we are capable of carrying on our business independently from the Controlling Shareholders and/or their respective close associates upon the [REDACTED] for the following principal reasons:

Management Independence

Our business is managed and conducted by our Board and senior management. Upon the [REDACTED], our Board will consist of eleven Directors comprising five executive Directors, two non-executive Directors and four independent non-executive Directors. For more information, please see the section headed “Directors and Senior Management.” Dr. Yuan, one of our Controlling Shareholders, is the chairman of our Board and an executive Director. Notwithstanding the role of Dr. Yuan in our Board, our Directors believe that our Company is capable of maintaining management independence due to the following reasons:

- (1) our Directors are aware of their fiduciary duties as a director, which require, among other things, that they act for the benefits and in the interests 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;
- (2) 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;
- (3) our Board acts collectively by majority vote in accordance with our Articles of Association and applicable laws and regulations, and no single Director is able to make any decisions unless authorized by the Board;
- (4) 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 independent non-executive Directors account for more than one-third of the Board, and do not and will not take up any position with our Controlling Shareholders; and
- (5) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Controlling Shareholders or their respective associates, the interested Director(s) 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 will abstain from voting at the relevant meeting in accordance with the Listing Rules.

Operational Independence

We are in possession of all technologies relating to our Group’s business all requisite qualifications and approvals for conducting all our business. 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 staffing, administration, finance, internal audit, R&D, sales and marketing, 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.

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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 respective close associates.

During the Track Record Period, Dr. Yuan provided guarantees (the “CS Guarantees”) to secure certain bank loans and credit facilities of our Group. As of the Latest Practicable Date, the aggregate outstanding drawn amount under the bank loans and credit facilities secured by the CS Guarantees was RMB54.0 million. We have obtained confirmations from the relevant banks, which consent to the release of the CS Guarantees prior to the [REDACTED]. Accordingly, upon [REDACTED], there will be no outstanding loans, advances, or balances of a non-trade nature due to or from, nor any pledges or guarantees provided by, our Controlling Shareholders or any of their respective close associates. Following the [REDACTED], we do not expect to rely on financing from our Controlling Shareholders or their close associates. We expect our working capital requirements will be met through a combination of cash flows generated from operating activities, bank borrowings, equity and debt financing, and the [REDACTED] from the [REDACTED].

CORPORATE GOVERNANCE MEASURES

Our Company and our 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.

We have adopted the following measures to ensure good corporate governance standards and to avoid potential conflicts of interest between our Group and our Controlling Shareholders:

- (1) under the Articles of Association, where our Company has knowledge that any Shareholder is, under the Listing Rules, required to abstain from voting on any particular resolution of our Company or restricted to vote only for or only against any particular resolution of our Company, any votes cast by or on behalf of such Shareholder in contravention of such requirement or restriction shall not be counted;
- (2) 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 applicable Listing Rules;
- (3) our independent non-executive Directors will provide impartial and professional advice to protect the interests of our minority Shareholders;
- (4) 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 expense;
- (5) we have appointed First Shanghai Capital Limited as our Compliance Advisor to provide advice and guidance to us in respect of compliance with the applicable laws and regulations, as well as the Listing Rules, including various requirements relating to corporate governance; and

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

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- (6) we have established the Audit Committee, the Nomination Committee, the Remuneration and Appraisal Committee and the Strategy and ESG Committee with written terms of reference in compliance with the Listing Rules and the Code on Corporate Governance and Corporate Governance Report in Appendix C1 to the Listing Rules.