

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, Ms. Ye, the Chairlady, executive Director and chief executive officer, was entitled to exercise approximately 54.74% of the voting rights in our Company through Ningbo Xilan, Shanghai Shixin, Shanghai Zhushi and Shanghai Haotang.

Immediately after completion of the Share Subdivision and the [REDACTED] (assuming that the [REDACTED] is not exercised), Ms. Ye will, through Ningbo Xilan, Shanghai Shixin, Shanghai Zhushi and Shanghai Haotang, control approximately [REDACTED] of the aggregate voting power of our enlarged share capital. Therefore, upon completion of the [REDACTED], Ms. Ye, Ningbo Xilan, Shanghai Shixin, Shanghai Zhushi and Shanghai Haotang will constitute a group of Controlling Shareholders.

COMPETITION

Each member of our Controlling Shareholders has confirmed that she/it does not have any interest in a business, apart from the business of the 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.

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 three executive Directors, three non-executive Directors and three independent non-executive Directors. Ms. Ye is the Chairlady, our executive Director and chief executive officer. See “Directors and Senior Management” for more details.

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

- (a) 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 nine Directors and three of them are independent non-executive Directors, which represents one-third of the members of our Board. This is in line with the requirements as set out in the Listing Rules; and
- (d) our daily management and operations are carried out by the senior management team, all of whom have substantial experience in the industry which our Company is engaged in, and will therefore be able to make business decisions that are in the best interests of our Group.

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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].

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 independent departments to support the operations and management of our current business. Our Company holds the relevant licenses 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. For further details, see “Business—Licenses, Approvals and Permits” and the section headed “Appendix VII—Statutory and General Information—B. Further Information about our Business—2. Intellectual Property Rights.” We have access to third parties independently from our Controlling Shareholders and their respective close associates for sources of suppliers and customers.

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.

We have sufficient capital to operate our business independently, and have adequate internal resources to support our daily operations. There will be no financial assistance, security and/or guarantee provided by our Controlling Shareholders or their respective close associates in our favor or vice versa (as the case may be) upon the [REDACTED]. We are capable of obtaining financing from third parties, if necessary, without reliance on our Controlling Shareholders and their respective close associates. We have engaged an independent internal control consultant, to assist us in putting in place controls in relation to transactions with connected persons and their associates to ensure that any advances to or from such persons are in compliance with the Listing Rules.

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].

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CORPORATE GOVERNANCE MEASURES

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 Listing 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”;
- (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 Listing 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;
- (g) 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; and
- (h) we have appointed Somerley Capital Limited as our compliance advisor to provide advice and guidance to us in respect of compliance with 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 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].