
RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

OVERVIEW

As of the Latest Practicable Date, the equity interest of the Company was controlled directly as to approximately 37.07% by Mr. Yin, approximately 18.32% by Hangzhou Qixin, approximately 4.36% by Hangzhou Lincheng and approximately 2.82% by Dr. Shen. Hangzhou Qixin was held as to 6.33% by Mr. Yin as its sole general partner and Hangzhou Lincheng was held as to 9.24% by Mr. Yin as its sole general partner. Being the sole general partner of Hangzhou Qixin and Hangzhou Lincheng, Mr. Yin is able to control the voting rights of Hangzhou Qixin and Hangzhou Lincheng in the general meetings of the Company. Further, Mr. Yin and Dr. Shen entered into the Acting-In-Concert Agreements, pursuant to which Dr. Shen agreed to act in concert with Mr. Yin to vote in general meetings of the Company. Therefore, Mr. Yin, Hangzhou Qixin, Hangzhou Lincheng and Dr. Shen were collectively entitled to exercise approximately 62.57% of the voting rights at general meetings of the Company as of the Latest Practicable Date. For a simplified corporate structure chart of the Group before the [REDACTED], see “History, Development and Corporate Structure” in this Document.

Accordingly, immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised), Mr. Yin, Hangzhou Qixin, Hangzhou Lincheng and Dr. Shen will control in aggregate approximately [REDACTED]% of the total issued share capital of the Company. As such, Mr. Yin, Hangzhou Qixin, Hangzhou Lincheng and Dr. Shen will together constitute a group of Controlling Shareholders upon [REDACTED] under the Listing Rules.

COMPETING INTEREST

Each of the Controlling Shareholders confirms that, as of the Latest Practicable Date, he/it did 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 the business that would require disclosure under Rule 8.10 of the Listing Rules.

DIRECTORS’ INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors had any interest in a business, apart from the business of the Group, which competes or is likely to compete (directly or indirectly) with the Group’s business.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

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

Management Independence

The business is managed and conducted by the Board and senior management. Upon [REDACTED], the Board will consist of five executive Directors and three independent non-executive Directors. For more information, see “Directors and Senior Management”.

As of the Latest Practicable Date, except for Mr. Yin (the Chairman, general manager and CEO of the Company) and Dr. Shen (an executive Director and CTO of the Company), there was no other overlapping Director and senior management between the Group and the Controlling Shareholders and their close associates. Hence, we have sufficient Board and senior management team members who do not hold any position in and are not the Controlling Shareholders and/or their respective close associates. The Directors consider that the Board and senior management of the Company are capable of functioning independently of the Controlling Shareholders for the following reasons:

- (i) the daily management and operations are carried out by a senior management team, all of whom have substantial experience in the industry in which the Company is engaged, and will therefore be able to make business decisions that are in the best interest of the Group;

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

- (ii) each Director is aware of her/his fiduciary duties as a director which require, among other things, that he/she must act for the benefit and in the interest of the Company and the Shareholders as a whole, and not allow any conflict between her/his duties as a Director and her/his personal interests;
- (iii) the decision-making mechanism of the Board as specified in the Articles of Association has set out relevant provisions to avoid conflicts of interests, including requiring a Director to abstain from voting on any resolution approving any contract, transaction or arrangement in which such Director or any of his/her close associates have a material interest;
- (iv) except for Mr. Yin and Dr. Shen, there was no other overlapping Director and senior management between the Group and the Controlling Shareholders and their close associates. Furthermore, we have three independent non-executive Directors and the independent non-executive Directors individually and collectively possess the requisite knowledge and experience, and a majority of them have experiences as independent directors of listed companies and will be able to provide professional and experienced advice to the Company. In conclusion, the Directors believe that the independent non-executive Directors are able to bring impartial and sound judgment to the decision-making process of the Board and protect the interest of the Company and the Shareholders as a whole;
- (v) we have formulated and adopted a comprehensive internal control and management system in compliance with the relevant PRC laws and regulations. The Directors shall not vote in any Board resolution approving any contract or arrangement or any other proposal in which he/she or any of her/his close associates have a material interest and shall not be counted in the quorum present at the particular Board meeting; and
- (vi) we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between the Group and the Controlling Shareholders which would support the independent management. See “— *Corporate Governance Measures*” in this section for further information.

Based on the above, the Directors are satisfied that they are able to perform their managerial roles in the Company independently, and the Directors are of the view that we are capable of managing the business independently from the Controlling Shareholders after the [REDACTED].

Operational Independence

We have full rights to make business decisions and to carry out the business independently from the Controlling Shareholders. We have complete production, research and development, management, purchasing and sales business systems, capable of conducting business independently in the market. On the basis of the following reasons, the Directors consider that the Company will continue to be operationally independent from the Controlling Shareholders and their respective close associates after the [REDACTED]:

- (i) we have sufficient capital, facilities, equipment and employees to operate the business independently from the Controlling Shareholders;
- (ii) we have independent access to the customers and suppliers;
- (iii) we have the own administrative and corporate governance infrastructure, including the own accounting, legal and human resources departments; and
- (iv) none of the Controlling Shareholders or their respective close associates have any interests in any business which competes or is likely to compete with the business of the Group.

Based on the above, the Directors believe that we are able to operate independently from the Controlling Shareholders.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Financial Independence

We have independent internal control and accounting systems. We also have an independent finance department and specialized personnel responsible for discharging the financial management, accounting, reporting, funding and treasury function of the Group. We are capable of obtaining financing from third parties, if necessary, without reliance on the Controlling Shareholders and their respective close associates. Further, the Group has opened bank accounts independently and such accounts are not shared with the Controlling Shareholders or their related parties. In addition, the Controlling Shareholders are not in position to interfere with the Group’s disposal of funds.

As of the Latest Practicable Date, there were no outstanding loans or guarantees provided by, or granted to, the Controlling Shareholders or its respective close associates.

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

CORPORATE GOVERNANCE MEASURES

The Company and Directors recognize the importance of protecting the rights and interests of all Shareholders, including the rights and interests of the minority Shareholders.

In order to further protect the Shareholder’s interests, we have adopted, among others, the following measures to ensure good corporate governance standards and to avoid potential conflicts of interest between the Group and the Controlling Shareholders:

- (i) where a Shareholders’ meeting is to be held pursuant to the Listing Rules for considering proposed transactions in which the Controlling Shareholders or any of their respective close associates have a material interest, the relevant Controlling Shareholders or close associates shall not vote on the relevant resolutions;
- (ii) the Company has established internal control mechanisms to identify connected transactions and related party transactions. Upon the [REDACTED], if the Company enters into connected transactions or related party transactions with the Controlling Shareholders or any of their close associates, the Company will comply with the applicable laws and regulations, including Listing Rules;
- (iii) the independent non-executive Directors will review, on an annual basis, whether there are any conflicts of interests between the Group and the Controlling Shareholders and provide impartial and professional advice to protect the interests of the minority Shareholders;
- (iv) the Company will disclose decisions on matters reviewed by the independent non-executive Directors either in its annual reports or by way of announcements as required by applicable laws and regulations, including Listing Rules;
- (v) where the Directors reasonably request the advice of independent professionals, such as financial advisors, the appointment of such independent professionals will be made at the Company’s expense;
- (vi) we have appointed Innovax Capital Limited as the Compliance Adviser 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
- (vii) we have established the Audit Committee, the Nomination Committee and the Remuneration and Appraisal Committee with written terms of reference in compliance with the Listing Rules and the Corporate Governance Code in Appendix C1 to the Listing Rules.

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