

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OVERVIEW

Pursuant to the Concert Party Agreement, the Concert Party Group, namely Mr. Wu Shouyun and Mr. Wu Lianqiao (the son of Mr. Wu Shouyun), agreed to act in concert since December 22, 2023 and if the Concert Party Group would not reach consensus on certain issues in respect of material matters of our Company, Mr. Wu Shouyun’s decisions shall prevail. For further details of the Concert Party Agreement, see “History, Development and Corporate Structure — Concert Party Agreement.”

As of the Latest Practicable Date, the Concert Party Group was entitled to control the exercise of approximately 88.39% of the voting rights at the general meeting of our Company: (i) approximately 87.97% of our Shares directly held by Baifei Investment, which was in turn owned as to approximately 99.59% by Mr. Wu Shouyun and 0.41% by Mr. Wu Lianqiao; (ii) approximately 0.25% of our Shares directly held by Mr. Wu Shouyun; and (iii) approximately 0.17% of our Shares directly held by Mr. Wu Lianqiao. Accordingly, Mr. Wu Shouyun and Mr. Wu Lianqiao together with Baifei Investment are considered as our Controlling Shareholders.

Immediately after completion of the [REDACTED] (assuming the [REDACTED] is not exercised), our Controlling Shareholders will control [REDACTED]% of the voting rights at the general meeting of our Company. Therefore, Mr. Wu Shouyun, Mr. Wu Lianqiao and Baifei Investment will remain as our Controlling Shareholders under the Listing Rules.

COMPETING INTERESTS

Our Controlling Shareholders have confirmed that as of the Latest Practicable Date, none of them or any of their respective close associates has any interest in a business, apart from the business of our Group, that competes or is likely to compete, directly or indirectly, with our Group’s business, which would require disclosure under Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, we believe that our Group is capable of carrying on its business independently from our Controlling Shareholders and their respective close associates 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 established our own organizational structure, and each department is assigned to specific areas of responsibilities. Our Group holds or enjoys the benefits of material licenses and intellectual properties and research and development facilities necessary to carry on our business. We have our own facilities, equipment and employees to operate our business independently from our Controlling Shareholders. We also have independent access to our customers and suppliers.

There was no business transaction between our Group and our Controlling Shareholders and/or their respective close associates during the Track Record Period.

Having considered the above, our Directors are of the view that our Group will be able to function and operate independently from our Controlling Shareholders and their respective close associates.

Management independence

Our business is primarily managed and conducted by our Board and senior management. Upon [REDACTED], our Board will consist of seven Directors, comprising three executive Directors, one non-executive Director and three independent non-executive Directors. For more information, please see the section headed “Directors and Senior Management” in this document. Mr. Wu Shouyun and Mr. Wu Lianqiao, who are our Controlling Shareholders, are also our executive Directors, with Mr. Wu Shouyun also serving as our general manager.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our Directors are of the view that our Board and senior management team have been and will continue to be able to manage our business and function independently from our Controlling Shareholders and their close associates for the following reasons:

- (a) Mr. Wu Shouyun serves as the Chairman of the Board of Baifei Investment, and Mr. Wu Lianqiao serves as its director. Baifei Investment was established for the purpose of holding shares in our Company and has no actual operation activities as of the Latest Practicable Date. Save for the above, our executive Directors and senior management members do not hold any other role as an executive director or member of senior management in any close associates of our Controlling Shareholders (other than our Group);
- (b) Our daily operational and management activities are carried out collectively by all our executive Directors and senior management, all of whom have substantial experience in the industry in which our Company is engaged and/or business management in general, and will therefore be able to make business decisions that are in the best interest of our Group. For details of the industry experience of our executive Directors and senior management, see the section headed “Directors and Senior Management” in this document;
- (c) Each Director is aware of his/her fiduciary duties as a Director of our Company which require, among other things, that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interest. 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 Directors and/or their respective close associates, the interested Director(s) and his/her/their respective close associates shall abstain from voting at the relevant Board meetings of our Company in respect of such transactions and shall not be counted in the quorum;
- (d) We have three independent non-executive Directors who have extensive experience in different professions. They have been appointed in compliance with the requirements under the Listing Rules to ensure that the decisions of our Board will be made only after due and careful consideration of independent and impartial opinions. Our Directors believe that the presence of independent non-executive Directors from different backgrounds provides a balance of views and opinions and will bring independent judgement to the decision-making process of the Board; and
- (e) We have also adopted a series of corporate governance measures to manage potential conflicts of interest, if any, between our Group and our Controlling Shareholders which would support our independent management. See “—Corporate Governance Measures” in this section below.

Having considered the above factors, our Directors are of the view that our Board together with the senior management team as a whole is capable of managing its business independently from our Controlling Shareholders and their respective close associates after the [REDACTED].

Financial independence

Our Group has an independent financial system and makes financial decisions according to our Group’s own business needs. We have established an independent finance department responsible for discharging the treasury function of our Group, and the Audit Committee to oversee our accounting and financial reporting processes. We are able to make financial decisions independently from our Controlling Shareholders and their respective close associates, and they do not intervene with our use of funds.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our Directors believe that we have sufficient capital to operate our business independently. During the Track Record Period, our Group primarily relied on cash generated from operations and internally generated funds. Our operating activities consistently generated positive net cash flows, which were sufficient to meet our daily operational needs. We believe we will continue to have sufficient working capital to support our business operations independently and have adequate internal resources and a strong credit profile to obtain financing from Independent Third Parties to support our daily operations without reliance on our Controlling Shareholders or their respective close associates after the [REDACTED]. Our source of funds was independent from our Controlling Shareholders and neither our Controlling Shareholders nor any of their respective close associates financed our operations during the Track Record Period.

As at the Latest Practicable Date, there were no existing loans, guarantees or pledges provided by our Controlling Shareholders and/or their respective close associates to our Group. We have adopted a set of internal control procedures for cash receipts and payment and have independent access to third party financing.

Having considered the above, our Directors believe that we are able to maintain financial independence from our Controlling Shareholders and their respective close associates after [REDACTED].

CORPORATE GOVERNANCE MEASURES

Our Directors recognise the importance of good corporate governance to protect the interests of our Shareholders. We would adopt the following measures to safeguard good corporate governance standards and to manage potential conflict of interests between our Group and our Controlling Shareholders:

- (a) where a Shareholders' meeting is to be held for considering proposed transactions in which our Controlling Shareholders or any of their respective associates have a material interest, the interested Shareholders shall not vote on the resolutions and shall not be counted in the quorum in the voting;
- (b) as part of our preparation for the [REDACTED], we have amended our Articles of Association to comply with the Listing Rules. In particular, pursuant to our Articles of Association, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his/her associates has a material interest nor shall such Director be counted in the quorum present at the meeting;
- (c) our Company has established internal control mechanisms to identify connected transactions. Upon [REDACTED], if our Company enters into connected transactions with our Controlling Shareholders or any of their respective close associates, our Company will comply with the applicable Listing Rules;
- (d) our Board is committed to the view that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors) so that there is a strong independent element in our Board which can effectively exercise independent judgement. Our Company has appointed three independent non-executive Directors. Our Directors believe that our independent non-executive Directors are of sufficient experiences, are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgement and will be able to provide impartial and professional advice to protect the interests of the minority Shareholders;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (e) as required by the Listing Rules, our independent non-executive Directors shall review any continuing connected transactions annually and confirm in our annual report that such transactions which have been entered into in our ordinary and usual course of business, are either on normal commercial terms or on terms no less favourable to us than those available to or from Independent Third Parties and on terms that are fair and reasonable and in the interests of our Shareholders as a whole;
- (f) in the event that our independent non-executive Directors are requested to review any conflict of interests circumstances between our Group, on one hand, and our Controlling Shareholders and/or our Directors, on the other hand, our Controlling Shareholders and/or our Directors shall provide our independent non-executive Directors with all necessary information for consideration. Where our independent non-executive Directors reasonably request the advice of independent professionals, such as financial advisers, to help them make the judgement, the appointment of such independent professionals will be made at the expense of our Company; and
- (g) our Company has appointed Altus Capital Limited as our Compliance Adviser, which will provide advice and guidance to our Company in respect of compliance with applicable laws and the Listing Rules including various requirements relating to directors’ duties and internal control.

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

NON-COMPETITION UNDERTAKINGS

On December 25, 2023, our Controlling Shareholders executed a letter of non-competition undertaking in favour of our Company with irrevocable effect from the date of the letter to avoid competition with our business (the “**Non-competition Undertaking**”), pursuant to which, each of our Controlling Shareholders has undertaken that:

- (a) as of the date of the Non-competition Undertaking, he/it or his/its controlled entities do not directly or indirectly manufacture or develop any product that competes or potentially competes with the products manufactured by our Group, nor does he/it directly or indirectly operate any business that is competitive or potentially competitive with the main business of our Group;
- (b) unless with the prior written consent of our Board of Directors and/or the general meeting of our Company, he/it or his/its controlled entities do not, whether within or outside the PRC, engage in any business in any way, including through investment, mergers and acquisitions, or cooperations with others, that is competitive or potentially competitive with the main business currently conducted or to be conducted by our Group;
- (c) he/it or his/its controlled entities do not, whether within or outside the PRC and in any form, directly or indirectly support any third party (other than our Group) in engaging in any business that is competitive or potentially competitive with the main business currently conducted or to be conducted by our Group;
- (d) in the event that he/it or his/its controlled entities become aware of any business opportunity that is competitive or potentially competitive with the main business of our Group, he/it shall promptly notify our Company and, to the extent of his/its lawful rights, procure that such opportunity is offered on terms no less favorable than those offered to him/it;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (e) during the period when he/it acts as a controlling shareholder, actual controller or party acting in concert, if for any reason any business conducted or to be conducted by him/it or his/its controlled entities competes or potentially competes with the business of our Group, he/it will, at the request of our Company, grant our Company a right of first refusal, on equal terms, to acquire the relevant assets or equity interests relating to such business, or to adopt other fair, reasonable and lawful measures to adjust such business so as to avoid any actual or potential competition with our Group;
- (f) he/it fully respects our Company’s status as an independent legal person and ensures, in accordance with the applicable laws and the Articles of Association, that our Company operates independently and that its Directors properly perform their fiduciary duties; and
- (g) he/it does not use his/its position as a controlling shareholder, actual controller or party acting in concert to seek improper interests to the detriment of other Shareholders, and will compensate our Company in cash for any losses arising from a breach of the foregoing by him/it or his/its controlled entities.