
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OVERVIEW

As at the Latest Practicable Date, Zhengxin Dexu directly held approximately 37.72% of the total issued share capital of our Company, and Zhengxin Dexu was wholly owned by Shanghai Lejin, which was controlled by Shanghai Zhengxingu as its general partner. Shanghai Zhengxingu was owned as to 99.90% by Mr. Lin Lijun. See “History, Development and Corporate Structure — Corporate Structure of the Company” for details.

Upon the completion of the [REDACTED] (assuming the [REDACTED] is not exercised), Zhengxin Dexu, Shanghai Lejin, Shanghai Zhengxingu and Mr. Lin Lijun will collectively control approximately [REDACTED]% of the total issued share capital of our Company and will be our Controlling Shareholders for the purpose of the Listing Rules.

Zhengxin Dexu, Shanghai Lejin and Shanghai Zhengxingu are investment vehicles of Loyal Valley Capital, which is an equity investment management firm driven by in-depth industry research and insights. Based on thorough industry research, Loyal Valley Capital focuses on making long-term investments in leading enterprises that represent future direction of industrial development, and unlocking portfolio’s potential through post-investment value-creation. Over more than a decade, Loyal Valley Capital has invested in over 100 enterprises, among which, more than 40 enterprises have been listed, emerged as global industrial leaders representing China’s technological advancement and innovation-driven growth. Mr. Lin Lijun, the founder of Loyal Valley Capital, has been serving as the executive director and general manager of Shanghai Zhengxingu since its establishment in late 2015. See “History, Development and Corporate Structure — Corporate Structure of the Company” for biographical details of Mr. Lin Lijun.

INTERESTS OF THE CONTROLLING SHAREHOLDERS IN OTHER BUSINESSES

Our Controlling Shareholders confirmed that as of the Latest Practicable Date, none of them or any of their respective close associates had any interest in a business that competes or is likely to compete, either directly or indirectly, with our business, which is subject to disclosure pursuant to Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

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

Operational Independence

We have full rights to make business decisions and to carry out our business independent of our Controlling Shareholders and their respective close associates. On the basis of the following reasons, our Directors consider that the Company will continue to be operationally independent of our Controlling Shareholders and their respective close associates after [REDACTED]:

- (a) we are not reliant on trademarks owned by our Controlling Shareholders, or by other companies controlled by our Controlling Shareholders;
- (b) we are the holder of all relevant licenses material to the operation of our business and has sufficient capital, equipment and employees to operate our business independently;
- (c) we make our own procurement purchases and conduct our own sales and marketing primarily through independent third party distributors. Save as disclosed in this document, the Group has a large and diversified base of customers and our customers and suppliers are unrelated to our Controlling Shareholders and their respective close associates;
- (d) as at the Latest Practicable Date, we leased factory and office space from independent third parties. All the properties and facilities necessary to our business operations are independent from our Controlling Shareholders and their respective close associates;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (e) we have our own administrative and corporate governance infrastructure, including our own accounting, legal and human resources departments;
- (f) as at the Latest Practicable Date, all of our full-time employees were recruited independently from our Controlling Shareholders and their respective close associates and primarily through campus recruiting, job market recruiting, headhunters’ recommendations and internal referrals;
- (g) our Directors do not expect that there will be any other transactions between our Group and our Controlling Shareholders or their respective close associates upon or shortly after [REDACTED]; and
- (h) none of our Controlling Shareholders and their respective close associates has any interest which competes or is likely to compete with the business of our Group.

Management Independence

Our business is managed and conducted by our Board and senior management. The Board comprises of seven directors, consisting of two executive Directors, two non-executive Directors and three independent non-executive Directors. See the section headed “Directors and Senior Management” in this document for further details.

Our Directors are of the view that 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 our Controlling Shareholders for the following reasons:

- (i) as a part of our preparation for the [REDACTED], we have promulgated the Articles of Association to comply with the Listing Rules. In particular, our Articles of Association provides that any Director and senior management member should not place himself or herself in a position where his or her duty and his or her own interests may conflict. In the event of a conflict of interest arising out of any transactions to be entered into by our Group, all Directors with conflicting interest shall abstain from voting in respect of such transactions and shall not be counted in forming a quorum at the relevant Board meetings;
- (ii) all of the Directors are independent from our Controlling Shareholders, and decisions of the Board require the approval of a majority vote from the Board;
- (iii) our independent non-executive Directors constitute more than one-third of the members of our Board, who have extensive experience in different professions. 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;
- (iv) our daily operational and management decisions are made collectively by our Board and our senior management, all of whom have substantial experience in the industry and will therefore be able to make business decisions that are in the best interests of our Company;
- (v) each of our Directors is aware of his or her fiduciary duties as a director, which require, 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;
- (vi) we will establish a series of corporate governance measures and adopt sufficient and effective control mechanisms to manage conflicts of interest, if any, between our Group and our Controlling Shareholders, which would support our independent management. For details, please refer to “— Corporate Governance Measures” in this section.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Financial Independence

We have our own financial management system and we make financial decisions according to our own business needs. During the Track Record Period, we primarily financed our business operation with cash generated from our operating and financing activities. As at the Latest Practicable Date, we did not have any outstanding borrowing or guarantee from our Controlling Shareholders or any of their respective close associates.

Having considered the above, our Directors confirm that we will not rely on our Controlling Shareholders for financing after the [REDACTED] as we expect that our working capital will be primarily funded from the [REDACTED] and cash flow from operations. Therefore, there is no financial dependence on our Controlling Shareholders and their respective close associates.

Corporate Governance Measures

We recognize the importance of good corporate governance in protecting our Shareholders’ interests. 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:

- (i) in the event that the independent non-executive Directors are requested to review any conflicts of interests circumstances between our Group on the one hand and our Controlling Shareholders and/or the Directors on the other hand, our Controlling Shareholders and/or the Directors shall provide the independent non-executive Directors with all necessary information and our Company shall disclose the decisions of the independent non-executive Directors either through its annual report or by way of announcements;
- (ii) where a Shareholders’ meeting is held for considering proposed transactions in which our Controlling Shareholders or any of their respective close associates have a material interest, our Controlling Shareholders shall abstain from voting on the relevant resolutions and shall not be counted in the quorum for the voting;
- (iii) our Directors (including the independent non-executive Directors) will seek independent and professional opinions from external advisers at our Company’s expense as and when appropriate in accordance with the Corporate Governance Code;
- (iv) our Company has established internal control mechanisms to identify connected transactions. Upon [REDACTED], our Company will comply with the requirements in connection with connected transactions under the Listing Rules;
- (v) the independent non-executive Directors will review, at least on an annual basis, whether there are any conflicts of interests between our Group and our Controlling Shareholders and provide impartial and professional advice to protect the interests of our minority Shareholders;
- (vi) we have appointed Altus Capital Limited as our compliance adviser, 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.

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].