
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OVERVIEW

As of the Latest Practicable Date, our Company was held as to approximately (i) 55.39% by Mr. Zha Daocun (查道存), our executive Director, chairman of the Board and president, and (ii) 0.35% by Ms. Jiang Hong (姜紅), the spouse of Mr. Zha Daocun. Mr. Zha Daocun and Ms. Jiang Hong were interested in an aggregate of 55,832,572 Shares and collectively controlled approximately 55.74% of the voting rights at the general meetings of our Company as of the Latest Practicable Date.

Immediately following the completion of the [REDACTED] and the Conversion of Unlisted Shares into H Shares (assuming the [REDACTED] is not exercised), Mr. Zha Daocun and Ms. Jiang Hong will be interested in an aggregate of [REDACTED] Shares, representing approximately [REDACTED]% of the voting rights exercisable at the general meetings of our Company immediately after the [REDACTED]. Accordingly, Mr. Zha Daocun and Ms. Jiang Hong will together constitute a group of our Controlling Shareholders upon [REDACTED]. For details of the shareholding of our Controlling Shareholders, see “History, Development and Corporate Structure.”

INTERESTS OF THE CONTROLLING SHAREHOLDERS IN OTHER BUSINESSES

Each of our Controlling Shareholders confirmed that as of the Latest Practicable Date, they did not have any interest in other business, apart from the business of our 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 can carry on our business independently of our Controlling Shareholders and their close associates upon the [REDACTED].

Management Independence

Upon the [REDACTED], our Board will comprise eight Directors, including five executive Directors and three independent non-executive Directors. For details, see “Directors and Senior Management.”

Our management and operational decisions are made collectively by our Board and senior management, most of whom have served our Group for a significant period and have substantial and extensive relevant industry experience and expertise. Save that Mr. Zha Daocun, our executive Director, chairman of the Board and president, is also our Controlling Shareholder, none of our Directors or members of the senior management is a controlling shareholder or holds any directorship or executive position in our Controlling Shareholders or their close associates.

Our Directors consider that our Board and senior management will function independently of our Controlling Shareholders for the following reasons:

- (i) each Director is aware of his or her fiduciary duties as a Director which require, among other things, that such Director acts for the best interests of our Company and our Shareholders as a whole and does not allow any conflict between his or her duties as a Director and his or her personal interests;
- (ii) when performing his or her duties as a Director, Mr. Zha Daocun has been and will continue to be supported by the separate and senior management team of our Group. The balance of power and authority is ensured by the operation of the senior management and our Board. For details, please see “Directors and Senior Management;”

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (iii) our Company has established internal control mechanisms to identify connected transactions to ensure that our Shareholders or Directors with conflicting interests in a proposed transaction will abstain from voting on the relevant resolutions pursuant to the relevant requirements under our Articles of Association and/or the Listing Rules;
- (iv) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Company and our Directors or their respective close 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;
- (v) we have appointed three independent non-executive Directors, comprising at least one third of the total members of our Board, who have sufficient knowledge, experience and competence to provide a balance of the potentially interested Directors and independent Directors with a view to safeguarding the interests of our Company and the Shareholders as a whole.

Based on the above, our Directors are of the view that our Board and senior management as a whole are capable of performing their roles in our Company independently and managing our business independently of our Controlling Shareholders and their respective close associates after the [REDACTED].

Operational Independence

Our Group operates independently from our Controlling Shareholders and their close associates.

We have full rights to make all decisions regarding, and carry out, our business operations independently. We have established our own organizational structure, with each department assigned to specific areas of responsibilities which have been in operation and are expected to continue to operate independently of our Controlling Shareholders and their respective close associates. We have independent access to suppliers and customers. We are also in possession of all assets, licenses, trademarks and other intellectual property and research and development facilities necessary to carry on and operate our business, and we have sufficient operational capacity in terms of capital and employees to operate independently.

We have entered into a transaction with a close associate of our Controlling Shareholders (the “**Continuing Connected Transaction with our Controlling Shareholders**”), which will constitute a *de minimis* transaction under Chapter 14A of the Listing Rules. See “Connected Transactions.”

Our Directors are of the view that the Continuing Connected Transaction with our Controlling Shareholders will not undermine the operational independence of our Group on the basis that: (i) with our access to independent sources, and in a sufficiently competitive market, our Group has other suppliers and customers who are Independent Third Parties; and (ii) the Continuing Connected Transaction with our Controlling Shareholders with size considered *de minimis* under the Listing Rules, has been and will be conducted in the ordinary and usual course of business and on normal commercial terms or better, for non-competing and non-overlapping business operations of our Group and our Controlling Shareholders and their close associates, respectively.

Based on the above, our Directors are satisfied that our Group is able to operate independently from our Controlling Shareholders and their close associates upon the [REDACTED].

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Financial Independence

We have the ability to operate independently of our Controlling Shareholders and their respective close associates from a financial perspective. We have an independent financial system and make financial decisions according to our Group’s own business needs. We have established internal control and accounting systems and an independent finance department responsible for our treasury functions, and an Audit Committee comprising solely of independent non-executive Directors to oversee our accounting and financial reporting processes. We make tax registration and pay tax independently with our own funds. As such, our financial functions, such as cash and accounting management, invoices and bills, operate independently of our Controlling Shareholders and their respective close associates.

During the Track Record Period, our Controlling Shareholders provided guarantees (the “**Connected Guarantees**”) for our Group’s bank borrowings and credit facilities (the “**Guaranteed Borrowings and Credit Facilities**”) from various commercial banks, for which our Directors confirm that no consideration was payable or will be payable. As of the Latest Practicable Date, Connected Guarantees in respect of the Guaranteed Borrowings and Credit Facilities in an aggregate amount of approximately RMB0.67 billion remained outstanding and were expected to be released prior to or upon [REDACTED] and we have obtained letters from all lenders of such Guaranteed Borrowings and Credit Facilities confirming that the lenders were in the process of releasing the Connected Guarantees.

Save as disclosed above, as of the Latest Practicable Date, there were no outstanding loans, borrowings or guarantees provided to our Group by any of the Controlling Shareholders and/or their close associates.

We do not rely on our Controlling Shareholders or their respective close associates to provide financial assistance to our Group. We have independent access to third party financing and, if necessary, we are capable of obtaining financing from external sources without reliance on our Controlling Shareholders or their respective close associates.

Based on the above, our Directors are satisfied that we will be able to maintain financial independence from our Controlling Shareholders and their respective close associates after [REDACTED].

CORPORATE GOVERNANCE MEASURES

Our Directors recognize the importance of good corporate governance to protect the interests of our Shareholders. Our Company will comply with the provisions of the Corporate Governance Code in Appendix C1 to the Listing Rules (the “**Corporate Governance Code**”), which sets out principles of good corporate governance.

In order to further safeguard the interests of our Shareholders, we will adopt the following corporate governance measures to manage any potential conflicts of interest with our Controlling Shareholders and their respective close associates:

- (i) as part of our preparation for the [REDACTED], we have amended our Articles of Association to comply with the Listing Rules which will become effective upon the [REDACTED]. In particular, our Articles of Association provide that, unless otherwise provided, a Director shall abstain from voting on any resolution for the approval of any contract, transaction or arrangement in which such Director or any of his/her close associates has a material interest, nor shall such Director be counted in the quorum present at the Board meeting;
- (ii) where a Shareholders’ meeting is to be held for considering proposed transactions in which any of our Controlling Shareholders or any of their respective close associates has a material interest, the relevant Controlling Shareholder(s) will not vote on the resolutions and shall not be counted towards the quorum;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (iii) our Company has established internal control mechanisms to identify connected transactions. Upon the [REDACTED], if our Company enters into connected transactions with any member of our Controlling Shareholders or their associates, our Company will comply with the relevant requirements of Chapter 14A of the Listing Rules, including the announcement, reporting and independent Shareholders’ approval requirements;
- (iv) our Board will consist of a balanced composition of executive and non-executive Directors (including not less than one-third of independent non-executive Directors). Our Company has appointed three independent non-executive Directors and believes that the independent non-executive Directors, individually and collectively, (i) possess sufficient experience, (ii) are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and (iii) will be able to provide an impartial and external opinion to protect the interest of our Shareholders as a whole. For details of the biographies of our independent non-executive Directors, see “Directors and Senior Management;”
- (v) we have established our Audit Committee, Remuneration and Appraisal Committee and Nomination Committee with written terms of reference in compliance with the Listing Rules and the Corporate Governance Code;
- (vi) where our Directors reasonably request for the advice of independent professionals, such as financial advisors, the appointment of such independent professionals will be made at our Company’s expenses; and
- (vii) we have appointed SPDB International Capital Limited as our Compliance Advisor, which 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 existing and potential conflict of interest, and to protect minority Shareholders’ interests after the [REDACTED].