
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, Salubris HK held 635,279,380 A Shares, representing approximately 56.99% of the total issued share capital of our Company. As of the Latest Practicable Date, Salubris HK was owned as to 50% by each of Mei Zhou and Mr. Ye, and Mei Zhou was in turn owned as to 50% by each of Mr. Ye and Ms. Liu, the spouse of Mr. Ye. Immediately following the completion of the [REDACTED] and assuming the [REDACTED] is not exercised, Salubris HK, Mei Zhou, Mr. Ye and Ms. Liu in aggregate will control approximately [REDACTED]% of our total issued share capital and will constitute a group of Controlling Shareholders.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors consider that we are capable of carrying on our business independently from our Controlling Shareholders and their close associates after the [REDACTED], taking into consideration the factors below.

Management Independence

We are able to carry on our business independently from our Controlling Shareholders from a management perspective. Our Board consists of nine Directors, comprising six executive Directors and three independent non-executive Directors. For more information, please see the section headed “Directors and Senior Management” in this document.

Our Directors consider that our management will function independently of our Controlling Shareholders because:

- (a) each Director is aware of his/her fiduciary duties as a director which require, among other things, that he/she acts for the benefit and in the interest of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interests;
- (b) our day-to-day management and operations are carried out by a senior management team, all of whom have substantial experience in the industry in which our Company is engaged, and will therefore be able to make business decisions that are in the best interests of our Group;
- (c) we have three independent non-executive Directors and certain matters of our Company must always be referred to the independent non-executive Directors for review;
- (d) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and a Director and/or his/her associate, the interested Director shall abstain from voting and shall not be counted towards the quorum for the voting; and
- (e) we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and our Controlling Shareholders which would support our independent management. For details, see “—Corporate Governance” in this section below.

Based on the above, our Directors believe that our Board as a whole and together with our senior management are able to perform the managerial role in our Group independently from our Controlling Shareholders after the [REDACTED].

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Operational Independence

We do not rely on our Controlling Shareholders and their respective close associates for our daily operations. We have our own organizational structure with self-governing departments specializing in various aspects in relation to our business development, including but not limited to production, supply chain, sales and marketing, financing, human resources, administration, internal audit and legal and compliance, which have been in operation and are expected to continue to operate separately and independently from our Controlling Shareholders and their respective close associates. In addition, we have our own headcount of employees for our operations and management for human resources. We also maintain a set of comprehensive internal control procedures to facilitate the effective operation of our businesses.

We have independent access to suppliers and customers and an independent management team to handle our day-to-day operations. We also have sufficient capital, facilities, equipment and employees, as well as administrative and corporate governance infrastructure, to operate our business independently. We are also in possession of all relevant licenses, certificates, facilities, intellectual property rights, and approvals and permits from the relevant regulatory authorities necessary to carry on and operate our principal businesses and, we have sufficient operational capacity in terms of capital and employees to operate independently.

Based on the above, our Directors believe that we are able to operate independently of our Controlling Shareholders and their respective close associates.

Financial Independence

We have an independent financial system and make financial decisions according to our Group’s own business needs. We have our own internal control and accounting systems and an independent finance department in charge of our treasury function and making financial decisions based on our Group’s needs. Our Company maintains bank accounts independently of and does not share any bank account with our Controlling Shareholders. Our Company makes tax registration and pays tax independently with its own funds. As such, our Company’s financial functions, such as cash and accounting management, invoices and bills, operate independently from our Controlling Shareholders and their respective close associates.

In addition, we are capable of obtaining financing from Independent Third Parties, if necessary, without relying on any guarantee or security provided by our Controlling Shareholders or their respective close associates. As of the Latest Practicable Date, there were no outstanding loans or guarantees provided by our Controlling Shareholders or their respective close associates.

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

DISCLOSURE UNDER RULE 8.10(1) OF THE LISTING RULES

Our Controlling Shareholders confirmed that, as of the Latest Practicable Date, they did not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business that would require disclosure under Rule 8.10(1) of the Listing Rules.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CORPORATE GOVERNANCE

Our Company and Directors are committed to upholding and implementing the high standards of corporate governance and recognize the importance of protecting the rights and interests of all Shareholders, including the rights and interests of our minority 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.

Our Directors recognize the importance of implementing good corporate governance and effective internal control measures in protection of our Shareholders’ interests. We will adopt the following measures to safeguard good corporate governance standards and to avoid potential conflicts of interest between our Group and our Controlling Shareholders and their respective close associates:

- (a) where a Shareholders’ meeting is to be held for considering a proposed transaction in which our Controlling Shareholders or any of their respective close associates have a material interest, our Controlling Shareholders will 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 which will become effective upon [REDACTED]. In particular, our Articles of Association provides that, a Director shall abstain from voting on any resolution approving any contract, transaction or arrangement 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 Board meeting;
- (c) our Company has established internal control mechanisms to identify connected transactions. Upon [REDACTED], if our Group enters into connected transactions with our Controlling Shareholders or their respective associates, we will comply with the applicable Listing Rules;
- (d) we are committed to ensuring that our Board shall include a balanced composition of executive Directors and non-executive Directors (including independent non-executive Directors). We have appointed three independent non-executive Directors, and we believe our independent non-executive Directors (i) possess sufficient experience, (ii) are free of any business or other relationship which could interfere with the exercise of their independent judgment in any material manner, and (iii) will be able to provide an impartial and external opinion to protect the interests of our Shareholders as a whole. See the section headed “Directors and Senior Management” in this document for details of the independent non-executive Directors;
- (e) the independent non-executive Directors will review, on an annual basis, whether there are any conflicts of interest between our Group and our Controlling Shareholders and provide impartial and professional advice to protect the interests of our Shareholders;
- (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 annual review of any conflicts of interest between our Group and our Controlling Shareholders;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (g) where our Directors reasonably request the advice of independent professionals or advisors, such as financial advisors, valuers or legal advisors, the appointment of such independent professionals or advisors will be made at our Company’s expense;
- (h) we have appointed Anglo Chinese Corporate Finance, Limited as our Compliance Advisor to provide us with advice and guidance in respect of compliance with the applicable laws and regulations and the Listing Rules, including various requirements relating to Directors’ duties and corporate governance; and
- (i) we have established our Audit Committee, Remuneration Committee and Nomination Committee with written terms of reference in compliance with the Listing Rules and the Corporate Governance Code.

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