
RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

THE CONTROLLING SHAREHOLDERS

The Company was incorporated as a joint stock limited liability company in December 2010, with GMK Holdings and Fengxiang Investment as its promoters. As at the Latest Practicable Date, the Company was owned as to 19.01% by GMK Holdings, 16% by Fengxiang Investment, 60% by Fengxiang Group and 4.99% by Guangdong Hengqin. Fengxiang Investment and Fengxiang Group are wholly owned by GMK Holdings and GMK Holdings is owned as to 51% by Mr. Liu XJ, 9% by Ms. Zhang XY, 20% by Mr. Liu ZG and 20% by Mr. Liu ZM. Guangdong Hengqin is a limited partnership owned as 99% and 1% by Xizang Xinfengxiang and Xinfengxiang Guangming. Xizang Xinfengxiang is owned as to 49.5%, 49.5% and 1% by Mr. Liu ZG, Mr. Liu ZM and Xinfengxiang Guangming, respectively. Xinfengxiang Guangming is owned as to 50% and 50% by Mr. Liu ZG and Mr. Liu ZM. Immediately following completion of the Global Offering, the members of the Liu Family, GMK Holdings, Fengxiang Group, Fengxiang Investment, Guangdong Hengqin, Xizang Xinfengxiang and Xinfengxiang Guangming will together control 74.64% of the Company's issued share capital and will be considered as a group of Controlling Shareholders upon Listing for the purpose of the Listing Rules.

BACKGROUND OF THE CONTROLLING SHAREHOLDERS

GMK Holdings was established in the PRC as a limited liability company on 29 October 2009 and is the holding company of a conglomerate, whose principal business activities primarily include (in addition to the businesses of the Group) the smelting of non-ferrous metals and the provision of financial services. Fengxiang Group, Fengxiang Investment, Guangdong Hengqin, Xizang Xinfengxiang and Xinfengxiang Guangming are investment holding companies.

For background of Mr. Liu XJ and Mr. Liu ZG, see "Directors, Supervisors and Senior Management". Ms. Zhang XY is Mr. Liu XJ's spouse and Mr. Liu ZG's and Mr. Liu ZM's mother, and Mr. Liu ZM is the brother of Mr. Liu ZG. Ms. Zhang XY and Mr. Liu ZM have not assumed any roles as Director or senior management in any member of the Group since their respective establishment and have no involvement in the business and operations of the Group. Ms. Zhang XY has retired since 2007. Mr. Liu ZM served several positions within GMK Holdings group, including vice president and the audit committee's deputy head of GMK Holdings, and is currently the executive director of Xinfengxiang Guangming and the executive partner's delegated representative of Xizang Xinfengxiang.

Mr. Liu XJ, Ms. Zhang XY, Mr. Liu ZG and Mr. Liu ZM (the "**Liu Family**") have demonstrated mutual trust and bonding as a group regarding reaching consensus on key decisions, and always had unanimous voting patterns by discussion through GMK Holdings, Fengxiang Group, Fengxiang Investment and Guangdong Hengqin for the key decisions at the shareholders' meetings since the establishment of the Company. The Liu Family also signed a confirmation letter on 15 October 2019 confirming that since the establishment of the Company, they are a group of actual controllers of the Company and such confirmation shall remain effective until the Liu Family ceases to hold the controlling equity interest of the Company.

For details of the businesses conducted by the associates of the Controlling Shareholders that will have transactions with us after Listing, see "Connected Transactions — Our Connected Persons" in this prospectus.

BUSINESS DELINEATION

It is the Group's strategy to focus on our core business, being chicken breeding, slaughtering and processing and sale of chicken meat products. The Liu Family indirectly control Zhongke

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Fengxiang Biotechnology Co., Ltd. (中科鳳祥生物工程股份有限公司) (“**Zhongke Biotechnology**”), the shares of which were quoted on the National Equities Exchange and Quotations. Zhongke Biotechnology is principally engaged in the production and sale of seasonings, sauces, chicken essence and chicken-bone oil (the “**Excluded Business**”).

The Group’s business primarily focuses on chicken breeding, slaughtering and processing and sale of chicken meat products, and the Group does not operate any business similar to the Excluded Business. Furthermore Zhongke Biotechnology does not operate any businesses similar to the business of the Group. There are certain continuing connected transactions between the Group and Zhongke Biotechnology. See “Connected Transactions” for details. Based on the foregoing, the Directors are of the view that the businesses of the Group and Zhongke Biotechnology are different in nature and display a clear delineation and hence do not compete with each other.

RULE 8.10 OF THE LISTING RULES

Based on the foregoing and except for their respective interests in the Company and our subsidiaries, none of the Controlling Shareholders, the Directors and Supervisors or any of their respective close associates had any interest in any other company which competes or is likely to competes, either directly or indirectly, with the business of the Group and would require disclosure pursuant to Rule 8.10 of the Listing Rules as at the Latest Practicable Date.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Management Independence

Our management and operational decisions are made by the Board and our senior management team. The Board comprises four executive Directors, two non-executive Directors and three independent non-executive Directors.

The table below sets forth certain information about the Directors who also hold positions in the Controlling Shareholders (the “**Overlapping Directors**”):

Name of the Director	Roles held in the Controlling Shareholders
Mr. Liu ZG (<i>executive Director</i>)	Director, vice chairman and general manager of GMK Holdings and supervisor of Xinfengxiang Guangming
Mr. Liu XJ (<i>non-executive Director</i>)	Director and chairman of GMK Holdings, director and general manager of Fengxiang Investment and Fengxiang Group
Mr. Zhang Chuanli (<i>non-executive Director</i>)	Director of GMK Holdings and Fengxiang Group

Notwithstanding that there is overlap between members of the Board and the directors of the Controlling Shareholders, we consider that the Board and senior management of the Company will be able to function independently from the Controlling Shareholders because:

- (a) each Director is aware of his fiduciary duties as a Director which require, among other things, that he acts for the benefit and in the best interests of the Company and must not allow any conflict between his duties as a Director and his personal interests;
- (b) except for the Overlapping Directors, no other members of the Board or our senior management team has any role in the Controlling Shareholders or their close associates.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

The Directors consider that both the Board and the Company can function independently from the Overlapping Directors for the following reasons:

- (i) a majority of the members of the Board are independent from the Controlling Shareholders and the Overlapping Directors do not, whether acting alone or jointly, have an absolute majority to pass any Board resolution;
 - (ii) the day-to-day operation of the Group is managed by our senior management team in addition to the Board. Members of our senior management team are all full time employees of the Group and are not close associates of the Controlling Shareholders or any of the Overlapping Directors;
 - (iii) there is no overlap in the independent non-executive Directors and the directors of other companies or entities controlled by the Controlling Shareholders, which is in line with the corporate governance best practice in Hong Kong. The independent non-executive Directors each has extensive experience in his respective area of expertise and has been appointed to ensure that the decisions of the Board are made only after due consideration of independent and impartial opinions. For their details, see “Directors, Supervisors and Senior Management”; and
 - (iv) the Board has put in place adequate arrangements set out in this section to manage conflicts of interest, impartial decision making and to ensure the Non-competition Undertaking is implemented in accordance with its terms, with the ultimate aim to ensure that the interests of the Shareholders are protected. The Directors believe that the presence of Directors who have extensive experience and from diverse backgrounds provides a balance of views and opinions;
- (c) in the event that a Director considers that he should abstain from voting on a resolution or where the counterparty involved in the relevant transaction with the Group has a connected relationship with that Director (a “**Conflicting Transaction**”), that Director (the “**Interested Director**”) shall abstain from voting at the relevant Board meeting in respect of the Conflicting Transaction and shall not be counted towards its quorum. The chairman of the Board may also on his/her initiative make a ruling that an Interested Director shall abstain from voting on a resolution. In the event that there is a Conflicting Transaction, it shall be submitted to the independent non-executive Directors (except for the independent non-executive Director who is himself an Interested Director) for their consideration and approval (in addition to any applicable requirements under the Listing Rules);
- (d) the Company has established internal control mechanism to identify connected transactions and related party transactions that are subject to the requirements under the Listing Rules, including the reporting, announcement, circular, independent shareholders’ approval and annual review requirements (where appropriate);
- (e) we have adopted a series of corporate governance measures to manage any potential conflicts of interest between the Group and the Controlling Shareholders;
- (f) the Controlling Shareholders will provide all information requested by the Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Non-competition Undertaking; and
- (g) the independent non-executive Directors will, based on the information available to them, review on an annual basis (i) compliance with the Non-competition Undertaking, (ii) all the decisions taken in relation to whether to pursue the new opportunity under the Non-

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

competition Undertaking, and to disclose all decisions on the matters pertaining to the annual review through the annual report, or by way of announcement to the public.

On the basis of the above, the Directors are satisfied that given the extensive experience that the Directors (other than Overlapping Directors) and the senior management team possesses and their experience in the Group, they will be able to perform their roles in the Group independently, and the Directors are of the view that the Board together with its senior management team is capable of managing its business independently from the Controlling Shareholders and their respective close associates after the Listing.

Operational independence

Independent operations and productions

We do not rely on the Controlling Shareholders in relation to the key aspects of our operations. For example, we have our own breeding, administrative, e-commerce, sales and marketing, procurement, production planning, operation planning and research and development departments. Our different departments specialise in different operational areas and are able to operate separately and independently from the Controlling Shareholders.

We also have sufficient facilities and employees to operate our business independently, and we possess all material licences necessary to carry on and operate our principal businesses, and we have sufficient operational capacity in terms of capital and employees to operate independently.

As at the Latest Practicable Date, save for the two offices leased from GMK Holdings, the details of which are set out in “Business — Properties — Leased Properties”, all of the properties and facilities necessary to our business operations are either owned by us or leased by us from independent third parties.

Connected Transactions with the Controlling Shareholders and their close associates after Listing

During the Track Record Period, certain entities controlled by the Controlling Shareholders entered into related party transactions with the Group. These related party transactions were entered into on normal commercial terms and in the ordinary and usual course of business of the Group. For details, see Note 35 to the Accountants’ Report in Appendix I to this prospectus.

Upon Listing, the Group will have the following transactions with its connected persons including, sale of poultry products and by-products, procurement of raw materials and logistics services, sharing of administrative services, sales of substandard chicken feed and purchase of pork and procurement of merchandise on our online market places. Save as disclosed in this section and “Connected Transactions” section in this prospectus, the Directors do not expect the Group to have significant transactions with the Controlling Shareholders or their close associates after Listing.

The Directors confirm that the terms of these continuing connected transactions were negotiated on arm’s length basis and will be conducted in on normal commercial terms or better, and their transaction amounts are not material in value as far as the Group is concerned. After Listing, the maximum aggregated transaction amounts under the said continuing connected transactions for each of the three years ending 31 December 2022 will not exceed 5% of the Group’s revenue for the latest audited financial year of the Group (being the year ended 31 December 2019). Given the above, the Directors are of the view that the continuing connected transactions would not have any material impact on our operational independence from the Controlling Shareholders and its close associates after Listing.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Financial independence

Our finance department is independent from the Controlling Shareholders and their respective close associates, and staff in our finance department are independent from the Controlling Shareholders. Its responsibilities include, among other things, financial control, accounting, financial reporting, group credit and internal control. As at the Latest Practicable Date, none of our finance staff was employed by the Controlling Shareholders or their respective close associates. The Group is capable of making financial decisions independently, and the Controlling Shareholders will not interfere with our use of funds.

We have established an independent audit system and a financial and accounting system. In addition, we manage our bank accounts independently, and do not share any bank accounts with the Controlling Shareholders or their respective associates.

During the Track Record Period and up to the Latest Practicable Date, certain of the Group's banks loans, finance leases and commercial bills were guaranteed by the Controlling Shareholders or their close associates (the "**CP Guarantors**") through either personal or corporate guarantees or pledges over assets (the "**CP Guarantees**") owned by them (the "**Guaranteed Loans**"). The Directors confirm that no consideration was payable or will be payable to the CP Guarantors for the provision of the CP Guarantees. As at 30 April 2020, being the latest practicable date for liquidity disclosure in this prospectus, the aggregate principal amounts due to the independent third party lenders under the Guaranteed Loans amounted to approximately RMB1,345.5 million. For details of our outstanding bank loans and credit facilities and the Guaranteed Loans, see "Financial Information — Indebtedness" and Note 29 to the Accountants' Report in Appendix I.

The Directors consider that premature discharge of the CP Guarantees would be unduly onerous to the Group and would not be in the best interests of the Shareholders. As at 30 April 2020, being the latest practicable date for liquidity disclosure in this prospectus, the interest rates under the Guaranteed Loans ranged from 2.85% to 6.65% per annum and, other than a finance lease for equipment, having maturity dates between June 2020 and December 2022. The Directors are of the view that early replacement or discharge of the CP Guarantees would require the renegotiation of the terms with the relevant banks and financial institutions, and the renegotiated terms of the loans without guarantees would generally be less favourable than those offered by the same banks and financial institutions that have the benefit of the CP Guarantees, which are at the low end of the PBOC published base lending rate of 4.35% per annum for loan tenures shorter than one year as at the Latest Practicable Date.

GMK Finance, a financial institution licensed by the Shandong Office of CBIRC, had also provided loan facilities to the Group, including (a) the provision of loans by GMK Finance on the basis of the discounting of commercial bills received by the Group, (b) the provision of term loans by GMK Finance, and (c) the provision of entrusted loans by GMK Finance (the "**GMK Facilities**").

As at 30 April 2020, being the latest practicable date for liquidity disclosure in this prospectus, the interest rates payable for the discounting of commercial bills was 2.70% to 3.045% per annum, and as at 30 April 2020, the aggregate principal amount due to GMK Finance was approximately RMB150.0 million, having maturity dates between September 2020 and January 2021.

The Directors believe that the terms offered to the Group are commercially favourable to us as GMK Finance does not require the Group or the Controlling Shareholders to provide any guarantee or security. The Directors intend to keep the GMK Facilities to maintain maximum financial flexibility for the Company.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

To demonstrate that we do not rely on the CP Guarantees or the GMK Facilities, the Company has obtained letters of intent from certain lenders of the Guaranteed Loans, in which they are agreeable to replace the CP Guarantees with guarantees to be provided by certain members of the Group upon Listing, subject to their respective internal approval procedures. The aggregate amounts under the said letters of intent amounted to approximately RMB856.4 million, representing approximately 63.65% of the aggregate principal amounts under the Guaranteed Loans as at 30 April 2020. Due to the reasons set out above and the nature of the Guaranteed Loans of which its terms are relatively short, we will not early replace or discharge the CP Guarantees. Nevertheless, we have the intention to replace the CP Guarantees with corporate guarantees to be provided by members of the Group upon Listing and maturity of the Guaranteed Loans, which the Directors believe is in the best interests of the Company and the Shareholders as a whole.

In addition, we obtained a one-year term loan on 14 June 2019 and 24 June 2019 from a PRC licensed bank (the “Loans”) in the aggregate principal amount of RMB300.0 million which are secured by the pledge of certain properties of the Company, Yanggu Xiangyu Organic Fertiliser and Fengxiang Industrial, but no guarantees are required from the Controlling Shareholders or their close associates. Interest is determined with reference to the benchmark lending interest rate for one-year loan announced by the PBOC. The terms of the Guaranteed Loans are similar to the terms of the Loans except that the Company takes a higher risk in obtaining the Loans as they are secured by way of asset pledge of the Group. We also obtained letters of intent from three independent third party banks, confirming that loans may be extended to the Company in the aggregate amount of RMB1,100.0 million upon the terms that are to be set by the banks but are not subject to the provision of CP Guarantees. We also obtained a half-year term loan on 30 April 2020 from another PRC licensed bank in the aggregate principal amount of RMB54.0 million which does not require guarantees from the Controlling Shareholders or their close associate.

Capital risk control measures

As a non-banking financial institution established with the approval of the CBIRC, GMK Finance is subject to the direct routine supervision by the Shandong Office of the CBIRC. It is subject to all applicable regulatory requirements, including capital adequacy ratio, liquidity ratio, ratio restriction on borrowing balances from banks and other financial institutions and outstanding guarantee to total capital, ratio restriction on short-term securities investment and long-term investment to total capital. Meanwhile, GMK Finance is also subject to the direct supervision of the PBOC to pay deposit reserve in full and timely manner.

GMK Finance has established a comprehensive corporate governance structure, including shareholders’ meeting, a board of directors, a supervisory committee and a management team, as well as professional committees established under the board of directors and management team, which ensures stable operation and effective supervision of GMK Finance. GMK Finance has established an internal control system which ensures effective internal control and strict implementation of charters and policies through audit, examination and other measures. It also sets up a risk management committee dedicated to the identification, prevention and control of risks.

GMK Finance established a core business system to ensure safe and stable operation. At present, the system has been connected with the commercial banking system and has reached the national security standards focused on commercial banks, providing assurance to information technology facilities, systems functions and performance to safeguard fund security. The Group will also have transactions with its connected persons after Listing, of which their monetary settlement may also be made through GMK Finance. See “Connected Transactions”. The Directors believe that

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

the core business system provides the necessary support to the Company to monitor the relevant transaction information so as to ensure that the scale of deposit services does not exceed applicable maximum daily balances, GMK Finance will set prescribed alert amounts and notification rules in its core business system for the respective applicable maximum daily balances in accordance with the Deposit Services Framework Agreement. Such cap alerts will be set with the aim of ensuring appropriate adjustment measures will be taken in respect of the relevant transactions, and will usually be set to be automatically sent out when 80% of the applicable maximum daily balances (and thereafter when a higher percentage) are reached. The core business system of GMK Finance will timely compute the statistics of relevant transaction scale and automatically compare them with the prescribed alert amounts, and send out notification signals and instructions focusing on controlled transaction behaviour in accordance to the prescribed rules. GMK Finance will closely monitor the transaction status under the Deposit Services Framework Agreement, and will examine and check the implementation status of the cap alert on a daily basis. The Directors believe that the above system design will facilitate and ensure that the actual transaction amount will not exceed the applicable maximum daily balances under the Deposit Services Framework Agreement.

GMK Finance will provide sufficient information to the finance department of the Company (including copies of all regulatory reports required to be submitted to the CBIRC). The finance department of the Company will closely monitor the transactions under respective financial services framework agreements, check the maximum daily balances of deposits on daily basis to ensure that the relevant amounts will not exceed the applicable maximum daily closing balances, and immediately review relevant information in the regulatory reports, monthly financial statements and monthly deposits balance statements provided by GMK Finance. Follow-up measures will be taken immediately when problems are identified and the issues will be immediately reported to the management when appropriate.

Directors' view

The Directors are of the view that in light of the above arrangements, in particular, a significant majority of the Guaranteed Loans are expected to be replaced with guarantees to be given by the members of the Group after Listing, and that independent third party banks have indicated their willingness to extend loans to us, our financial independence is not affected by the CP Guarantees and the GMK Facilities.

The Directors consider that the provision of personal or corporate guarantees by the Controlling Shareholders and their close associates and the GMK Facilities will not affect our financial independence from the Controlling Shareholders and their close associates for the following reasons:

- a significant majority of the Guaranteed Loans are expected to be replaced with guarantees to be provided by the members of the Group, and independent third party banks have indicated their willingness to extend loans to us;
- in addition, part of the net proceeds from the Global Offering will be applied towards reducing the indebtedness of the Group. For further details on breakdown of these repayments, see “Future Plans and Use of Proceeds — Use of Proceeds”; and
- as at 30 April 2020, being the most recent practicable date for liquidity disclosure in this prospectus, the Group has cash (or cash equivalents) of approximately RMB1,150.8 million.

Having considered the above factors and taking into account the financial resources presently available to the Group and the net proceeds from the Global Offering, the Directors are satisfied that

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

the Group would be able to operate independently and maintain financial independence from the Controlling Shareholders after Listing.

NON-COMPETITION UNDERTAKING

Non-competition

On 24 June 2020, the Controlling Shareholders executed the Non-Competition Undertaking in favour of us which is effective in the Relevant Period (as defined below). Pursuant to the Non-Competition Undertaking, the Controlling Shareholders have confirmed that, as at the date of the signing of the Non-Competition Undertaking, each of the Controlling Shareholders and any of its close associates, has not held any interest in any business (except for holding the interests in the Group), which constitute or may constitute competition with our business directly or indirectly, and has not engaged in any form of business activities which, constitute or may constitute competition with our principal business directly or indirectly. The Controlling Shareholders have also undertaken to support the development of the Group on a priority basis.

The Controlling Shareholders have also jointly and severally made irrevocable covenants to the Company that during the Relevant Period (as defined below), each of the Controlling Shareholders, will not and will procure that its respective close associates will not:

- (a) solely or jointly with a third party, engage in or participate in any commercial business or activity (domestic or abroad) which constitute or may constitute competition with our principal business directly or indirectly (the “**Restricted Business**”) in any manner (including but not limited to investments, merger and acquisitions, associations, joint ventures, cooperation, partnerships, contracting or operating leases, purchases of shares of listed companies or equity participation) (in each case whether as a director, shareholder (other than being a director or shareholder of the Group) partner, agent or otherwise and whether for profit, reward or interest otherwise;
- (b) directly or indirectly, hold any interest or obtain any control domestically or abroad (in each case whether as a director or shareholder (other than being a director or shareholder of the Group), partner, agent or otherwise and whether for profit, reward or interest otherwise) in any business entities, institutions or economic organisations, which constitute or may constitute competition with our principal business;
- (c) directly or indirectly, induce or attempt to induce, any director, manager, consultant or employee of the Group to terminate his service contract or employment contract with the Group, whether or not such act of that person would constitute a breach of that person’s service contract or employment contract;
- (d) without the prior consent from the Company, make use of any information pertaining to the principal business of the Group which may have come to their knowledge in the capacity as the Controlling Shareholders for any purpose of engaging in any commercial activities (except for activities related to the Group) or obtaining his personal benefits; and
- (e) directly or indirectly, solicit any customer or supplier or employee of the Group for employment by them to engage in the Restricted Business.

The restrictions as set out in (a) and (b) above are not applicable to circumstances where any of the Controlling Shareholders or its close associates invests in, holds, engages in or participates in less than 5% of the equity interests and does not take part in the business management in any other companies (whether listed or not) which engage in business competing with our business.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Options for New Business Opportunities

Pursuant to the Non-Competition Undertaking, each of the Controlling Shareholders jointly and severally undertakes that, during the Relevant Period (as defined below), if any of the Controlling Shareholders or its close associates (the “**Offeror**”) is aware of, is made available of, or has identified any new business investment or opportunity which directly or indirectly competes or may compete with our principal business (the “**New Business Opportunities**”), such Controlling Shareholder will and will procure its close associates to notify the Company as soon as practicable, and will use its best efforts to procure that the New Business Opportunity will be referred to the Company in the following manner:

- (a) each of the Controlling Shareholders will and shall procure its close associates to refer or procure the referral of, the New Business Opportunities to the Company and give written notice (the “**Offer Notice**”) to the Company of any New Business Opportunities, containing all information reasonably necessary (including but not limited to the nature of the New Business Opportunities and details of investment or acquisition costs) for the Company to consider whether such New Business Opportunities constitute competition with the Group’s principal business and whether to pursue such New Business Opportunities is in the interest of the Group;
- (b) If the Company gives a notice declining the New Business Opportunities or if the Company has not sent such notice to the Offeror within 10 business days from the Company’s receipt of the Offer Notice, the Offeror will be entitled to pursue the New Business Opportunities in accordance to the terms stipulated in the Offer Notice;
- (c) If there is a material change in the terms and conditions of the New Business Opportunities pursued by the Offeror, the Offeror will refer to the New Business Opportunities as so revised to us in the manner as set out above; and
- (d) where the Controlling Shareholders or its close associates (the “**Pre-emptive Offeror**”) have acquired any business, investment or interest in any entity relating to the principal business engaged by the Group pursuant to “— Options for New Business Opportunities” above, and intends to sell such investment or interest, the Controlling Shareholders shall or shall procure its close associates to provide us with pre-emptive right (the “**Pre-emptive Right**”) by way of written notice (the “**Pre-emptive Notice**”). If the Company gives a written notice within 30 days from the Company’s receipt of the Pre-emptive Notice, deciding not to proceed with such acquisition opportunity or if the Company has not sent such notice to the Pre-emptive Offeror within 30 days from the Company’s receipt of the Pre-emptive Notice, the Pre-emptive Offeror may offer to sell such business, investment or interest to other third parties on such terms which are no more favourable than those made available to the Group.

Options for Acquisitions

Pursuant to the Non-Competition Undertaking, each of the Controlling Shareholders jointly and severally undertakes that, subject to applicable laws, the Group is entitled to acquire any equity interest, asset or other interest retained by the Controlling Shareholders (including but not limited to the Controlling Shareholders’ subsidiaries) (the “**Retained Business**”) from the Controlling Shareholders at any time, unless a third party exercises its pre-emptive rights pursuant to relevant laws or constitutional documents on the same conditions. Each of the Controlling Shareholders also jointly and severally undertakes that it will use its best efforts to procure its close associates to provide to us such option for their respective businesses in accordance with the provisions as stated

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

in the Non-Competition Undertaking and when deciding whether to exercise our option for acquisitions (the **“Option for Acquisition”**).

If the Company gives a written notice to any Controlling Shareholder or its close associates after receiving the terms of exercising the Options for Acquisition (the **“Terms of Exercising the Option”**), deciding not to exercise our Option for Acquisition or if the Group has not exercised its Option for Acquisition within the required time according to the Terms of Exercising the Option, in any event, not less than 10 business days (the **“Option Period”**), such Controlling Shareholder or its close associates may offer to sell such Retained Business, to other third parties on such terms which are no more favourable than those made available to the Group within three months after the Option Period.

The Controlling Shareholders have also jointly and severally undertaken to the Company that during the Relevant Period (as defined below), each of the Controlling Shareholders, will not and will procure that its respective close associates will not disclose the existence and/or terms of the Option for Acquisition to any third party prior to receipt of our written response or the expiration of the Option Period, whichever is earlier.

FURTHER UNDERTAKINGS FROM THE CONTROLLING SHAREHOLDERS

Each of the Controlling Shareholders further undertakes that:

- (a) upon request from our independent non-executive Directors, it will provide all necessary information to our independent non-executive Directors to review the compliance with and implementation of the Non-Competition Undertaking by the Controlling Shareholders and its subsidiaries;
- (b) we can disclose the decisions made by the independent non-executive Directors regarding its compliance with and implementation of the Non-Competition Undertaking in our annual reports and announcements; and
- (c) it shall make an annual statement to the Company and our independent non-executive Directors on its compliance with the Non-Competition Undertaking for disclosure in our annual reports.

The Non-Competition Undertaking will take effect from the date of the execution of the undertaking until the occurrence of one of the following events, whichever is earlier (the **“Relevant Period”**):

- (a) when the Controlling Shareholders and his/her close associates, individually or taken as a whole, directly or indirectly hold less than 30% interests in the Company; or
- (b) our H Shares cease to be listed on the Stock Exchange except for suspension of trading of our H Shares due to any reason.

The PRC Legal Advisers are of the view that the contents of Non-Competition Undertaking does not violate relevant laws of the PRC. Upon signing of the Non-Competition Undertaking, the undertakings made by the Controlling Shareholders pursuant to the Non-Competition Undertaking are valid under the laws of the PRC in accordance with its terms and are binding on the Controlling Shareholders, and we may enforce them by courts of the PRC.

In view of (a) the Controlling Shareholders’ undertaking that it will support the development of our business on a priority basis; (b) the legally binding obligations of the Controlling Shareholders

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

under the Non-Competition Undertaking and the options for new business opportunities, options for acquisitions and the pre-emptive rights granted to the Company thereunder; and (c) the information-sharing and other mechanisms in place as described above to monitor the compliance with the Non-Competition Undertaking by the Controlling Shareholders, the Directors are of the view that the Company has taken all appropriate and practicable measures to ensure that the Controlling Shareholders will comply with its obligations under the Non-Competition Undertaking.

No member of the Group has experienced any dispute with its Shareholders or among its Shareholders themselves and the Directors believe that each member of the Group has maintained positive relationship with its Shareholders. With corporate governance measures and the further undertaking provided by the Controlling Shareholders as mentioned above, the Directors believe that the interests of the Shareholders as a whole will be protected.

CORPORATE GOVERNANCE MEASURES

In addition to the measures to address potential conflicts of interests and competition as stated above, the Directors believe that there are also adequate corporate governance measures in place to manage any potential conflicts of interest between the Controlling Shareholders and the Group and to safeguard the interests of the Shareholders taken as a whole.

We will comply with the Corporate Governance Code upon Listing, which sets out certain principles relating to, among other matters, directors, chief executive, board composition, the appointment, re-election and removal of directors, their responsibilities and remuneration, and communication policies with shareholders.

The Directors are therefore satisfied that sufficient corporate governance measures have been put in place to manage potential or actual conflicts of interest between the Controlling Shareholders with us, and to protect the rights of the minority Shareholders.

We are committed to the view that the 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 on the Board which can effectively exercise independent judgement over the decisions that are made by our executive Directors. The independent non-executive Directors, details of whom are set out in “Directors, Supervisors and Senior Management”, individually and together possess the requisite knowledge and experience to represent a strong and independent element of the Board. All of the independent non-executive Directors are experienced and are committed to providing impartial and professional advice to protect the interest of the minority of Shareholders.

We have also adopted, as part of our corporate governance measures, investor relationship policy and connected transaction management policy. In addition, following Listing:

- (a) Any transaction made (or proposed to be made) between the Group and our connected persons will be required to comply with (i) Chapter 14A of the Listing Rules which include, among other things, announcement, reporting, circular, independent shareholders’ approval and annual review requirements, and (ii) those other conditions that may be imposed by the Stock Exchange for the granting of waiver(s) from strict compliance with the relevant requirements under the Listing Rules.
- (b) If there is any conflict of interest in the operations of the companies and entities controlled by the Controlling Shareholders and the Group, and in respect of any proposed contracts or arrangements entered into or to be entered into between the companies and

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

entities controlled by the Controlling Shareholders, any director of the Company who is considered to have a related interest in the counterparty shall not be counted towards the quorum and shall not vote in the relevant Board meeting. In general, after Listing, any Director who has a material interest in actual or potential connected transactions will be required, under the Listing Rules, to abstain from voting in meetings of the Board in relation to such transactions. In these circumstances, the independent non-executive Directors will exercise their independent judgement to the Board's decision making process. They will also advise and vote on the transaction and can seek independence advice from external advisers (including where applicable, our compliance adviser if required). Our other non-conflicted Directors can also bring their extensive experience and expertise to the Board. We will form an independent board committee comprising the independent non-executive Directors without the attendance by any Director with beneficial or conflicting interest which will have the power to waive or modify the Non-Competition Undertaking after assessing the actual situation and the terms of the Non-Competition Undertaking, and if necessary, propose to convene a shareholders' meeting to be held for considering the waiver or modification of the terms of the Non-Competition Undertaking.

In light of the above measures to be implemented by the Board, the Directors confirm that the Board will be able to function and operate independently and effectively representing the interests of the Shareholders as a whole.