

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the [REDACTED] (without taking into consideration our Shares which may be issued and allotted pursuant to the exercise of the [REDACTED] and any option that may be granted under the [REDACTED] Share Option Scheme), Mr. SU, Mr. ZHENG and Mr. JIN will together form a group of controlling shareholders within the meaning of the Listing Rules and will be entitled to exercise voting rights of [REDACTED]% of the total issued share capital of our Company immediately upon the [REDACTED] through investment holding companies or limited partnerships controlled by Mr. SU, Mr. ZHENG and Mr. JIN, namely Hongzun Investment, Hongzun International, Ertian International, Seven Color Pearl Investment, Liuzhou Qise LP, Liuzhou Colorful LP and Liuzhou Lianrun LP.

NON-DISPOSAL UNDERTAKINGS BY OUR CONTROLLING SHAREHOLDERS

Each of our Controlling Shareholders has, jointly and severally, undertaken to the Sole Sponsor and the [REDACTED] (for itself and on behalf of the other [REDACTED]) that none of them would dispose of their Shares held as of the [REDACTED] during the First Six-Month Period and the Second Six-Month Period, further information on which is set forth in the section headed “[REDACTED]” in this document. Similar non-disposal undertakings have also been provided to the [REDACTED], further information on which is set forth in the section headed “[REDACTED]” in this document.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Controlling Shareholders are Mr. SU, Mr. ZHENG, Mr. JIN, Hongzun Investment, Hongzun International, Ertian International, Seven Color Pearl Investment, Liuzhou Qise LP, Liuzhou Colorful LP and Liuzhou Lianrun LP, all of which are investment holding companies or limited partnerships without engaging in any business activities. As of the Latest Practicable Date, Hongzun International, Ertian International, Seven Color Pearl Investment, Liuzhou Qise LP, Liuzhou Colorful LP and Liuzhou Lianrun LP did not hold investments other than our Shares. Mr. SU, Mr. ZHENG, Mr. JIN, our Directors and their respective close associates has confirmed that he/she/it is not interested in any other business activities that compete with our business.

Management independence

Although our Controlling Shareholders will retain controlling interest in our Group following the [REDACTED], the day-to-day management and operation of our business will be the responsibility of our executive Directors and senior management. Our Board has 11 Directors comprising four executive Directors, [three] non-executive Director, one alternate Director and three independent non-executive Directors. One of our non-executive Directors and our alternate Director will cease to become our Directors prior to the [REDACTED]. Our Board will consist of nine Directors at the time of [REDACTED]. With three independent non-executive Directors out of a total of nine Directors in our Board, there will be sufficient independent voice and check-and-balance within our Board to safeguard the interests of our Shareholders other than our Controlling Shareholders.

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Each of our Directors is aware of his fiduciary duties as a Director which require, among other things, that he (a) acts for the benefit of and in the best interests of our Shareholders and our Company as a whole and (b) he does not allow any conflict between his duties as a Director and his personal interests. 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 or their respective close associates, the interested Director(s) will abstain from voting at the relevant meetings of our Board in respect of such transaction and will not be counted towards the quorum.

Having considered the above factors, our Directors are satisfied that our Board as a whole, and together with our senior management, is capable of managing our business independently from our Controlling Shareholders.

Operational independence

In addition to the management independence set forth above, we have independent access to our customers and suppliers which are Independent Third Parties. None of our Controlling Shareholders and their associates has any interest in any of our customers or suppliers. For procuring new customers, we have our own sales and marketing departments which are led by our senior management, and we have our own sourcing, marketing, production and distribution functions which are operated independently from our Controlling Shareholders. Accordingly we do not rely on our Controlling Shareholders or their associates for such crucial business functions.

Financial independence

All the amounts due to or from our Controlling Shareholders and their associates were fully settled as of the Latest Practicable Date. During the Track Record Period, our bank loans and other borrowings were secured by our property, plant and equipment and right-of-use assets and also secured by the corporate guarantee from Hongzun Investment, together with personal guarantees of Mr. SU, Mr. JIN, Mr. ZHENG and their close family members, and pledged by equity interests of Chesir Pearl held by them. The guarantees and pledges given by Hongzun Investment and these persons will be released or replaced by corporate guarantees executed by our Company upon the [REDACTED]. Our Directors believe that we are capable of obtaining our source of funding from debt and equity financing without any reliance on our Controlling Shareholders.

DEED OF NON-COMPETITION

Each of our Controlling Shareholders and executive Directors (collectively, the “Covenantors”) has entered into the Deed of Non-Competition in favour of our Company, pursuant to which each of the Covenantors has jointly and severally, irrevocably and unconditionally, undertaken with our Company (for itself and for the benefit of its subsidiaries) that with effect from the [REDACTED] and for so long as our Shares remain so [REDACTED] on the Stock Exchange and the Covenantors, individually or collectively with their associates, are, directly or indirectly, interested in not less than 30% of our Shares in issue or otherwise regarded as controlling shareholders (as defined in the Listing

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Rules) of our Company, the Covenantors shall not, and shall procure that none of their associates (except any members of our Group) or affiliates (named in this document) shall:

- (a) directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of any member of the Group or be in competition with any member of our Group in any business activities which any member of our Group may undertake in the future save for the holding of not more than five per cent shareholding interests (individually or any of the Covenantors with their associates collectively) in any listed company in Hong Kong; and
- (b) take any direct or indirect action which constitutes an interference with or a disruption to the business activities of any member of our Group including, but not limited to, solicitation of the customers, suppliers or personnel of any member of our Group.

In addition, each of the Covenantors hereby jointly and severally, irrevocably and unconditionally, has undertaken by way of deed to our Group that:

- (a) if any new business opportunity relating to any of the products and/or services of the Group (the “**Business Opportunity**”) is made available to any of the Covenantors or their respective associates (other than members of the Group), it shall direct or procure the relevant associate to direct such Business Opportunity to us with such required information to enable the Company to evaluate the merits of the Business Opportunity.
- (b) in connection with the Business Opportunity, the relevant Covenantor shall provide or procure the relevant associate to provide all such reasonable assistance to us to enable us to secure the Business Opportunity.

For the avoidance of doubt, none of the Covenantors and their respective associates (other than members of our Group) shall not pursue the Business Opportunity even though we decide not to pursue the Business Opportunity because of commercial reasons. Any decision of our Company shall have been approved by our independent non-executive Directors.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to avoid any conflict of interests arising from competing business and to safeguard the interests of our Shareholders:

- (a) our independent non-executive Directors will review, on an annual basis, the compliance with the undertaking given by our Controlling Shareholders under the Deed of Non-competition;
- (b) our Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-Competition;

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- (c) our Company will disclose with basis decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the Deed of Non-Competition in the annual reports of our Company;
- (d) our Controlling Shareholders will make an annual confirmation on compliance with their undertaking under the Deed of Non-Competition in the annual report of our Company; and
- (e) our Company has appointed Essence Corporate Finance (Hong Kong) Limited as 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.