
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately following the completion of the Capitalisation Issue and the Global Offering (without taking into account of any Share which may be issued upon exercise of the Over-allotment Option), our Company will be owned as to 75% by Beautiful Homeland. As at the Latest Practicable Date, Beautiful Homeland was owned as to 70% by Mr. Zhu and 10% by each of Mr. Fang, Mr. Mao and Mr. Zhang, and is an investment-holding company and does not have any business operation.

Over the course of our business history, Mr. Zhu, Mr. Fang, Mr. Mao and Mr. Zhang have been acting in concert with each other in exercising and implementing the management and operations of our subsidiaries. As we were a group of private entities in the past, these arrangements were not formalised in writing and each of Mr. Zhu, Mr. Fang, Mr. Mao and Mr. Zhang was content with such arrangement based on their personal relationship, as well as the trust and confidence they have in each other.

On 28 April 2020, in preparation for the Listing, among others, Mr. Zhu, Mr. Fang, Mr. Mao and Mr. Zhang executed the Deed of Concert Parties, whereby they have confirmed their acting in concert arrangement in the past, as well as their intention to continue to act in the above manner upon Listing to consolidate their control over our Group until the Deed of Concert Parties is terminated by them in writing.

The Deed of Concert Parties covers our Company and all of our subsidiaries (the “**Relevant Companies**”). Pursuant to the Deed of Concert Parties, Mr. Zhu, Mr. Fang, Mr. Mao and Mr. Zhang have confirmed, agreed and acknowledged, among others, they have agreed to, and shall continue until the termination of the Deed of Concert Parties to:

- (a) reach unanimous decisions among themselves on all management matters (including but not limited to the operations and financial matters) of the Relevant Companies;
- (b) reach unanimous decisions among themselves on all material matters relating to the business of the Relevant Companies;
- (c) cast unanimous vote collectively for or against all board resolutions or shareholders’ resolutions to be passed at any board meetings or shareholders’ meetings of the Relevant Companies; and
- (d) maintain and centralise the ultimate control and management with respect to the Relevant Companies by way of mutual cooperation.

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Therefore, Mr. Zhu, Mr. Fang, Mr. Mao and Mr. Zhang, together through Beautiful Homeland, will be entitled to control approximately 75% of the issued share capital of our Company immediately upon completion of the Capitalisation Issue and the Global Offering (assuming that the Over-allotment Option is not exercised). As such, Beautiful Homeland, Mr. Zhu, Mr. Fang, Mr. Mao and Mr. Zhang will together form a group of Controlling Shareholders within the meaning of the Listing Rules. For details of the shareholding of the Controlling Shareholders in each of the companies in our Group, please refer to the section headed “History, Reorganisation and corporate structure”.

Mr. Zhu, Mr. Fang and Mr. Mao are also our executive Directors, and Mr. Zhang is also our senior management. For details, please refer to the paragraphs headed “Directors and senior management — Board of directors and senior management” in this prospectus.

DEREGISTRATION OF COMPANY HELD BY OUR CONTROLLING SHAREHOLDERS

In addition to our Group, our Controlling Shareholders held interests in BHP Huzhou, which was owned as to 79%, 7%, 7% and 7% by Mr. Zhu, Mr. Fang, Mr. Mao and Mr. Zhang, respectively. During the Track Record Period, BHP Huzhou was principally engaged in the sale of food and alcoholic beverages. It also generated a small portion of its revenue from the sale of our household necessity products to local customers in the PRC.

Based on the unaudited management accounts of BHP Huzhou, for the year ended 31 December 2018 and the period from 1 January 2019 up to the cessation of business of BHP Huzhou in July 2019, BHP Huzhou generated revenue of approximately RMB0.7 million and RMB1.4 million, respectively, of which approximately nil and RMB0.1 million were generated from the sale of our Group’s laundry products, respectively, accounting for approximately 0% and 7.1% of its total revenue for the period, respectively. BHP Huzhou recorded net loss of approximately RMB28,000 for the year ended 31 December 2018, and net profit of approximately RMB0.2 million for the period from 1 January 2019 up to the cessation of business of BHP Huzhou in July 2019. As set out above, the business focus and operation of BHP Huzhou and our Group are different. Our Directors had not participated in the daily operation and management of BHP Huzhou during the Track Record Period and thus, our Group and BHP Huzhou had independent sets of management, operation, administration and financial systems and personnel. BHP Huzhou was not included in our Group as our Directors are of the view that (i) the business of BHP Huzhou can be clearly delineated from the business of our Group in terms of business scope, target customers and suppliers and business location; (ii) the business of BHP Huzhou is not in line with our overall strategy to achieve sustainable growth in our current business, being the manufacture and sale of our products to overseas markets, and strengthen our production capacity; and (iii) the exclusion of BHP Huzhou can help streamline our business and operation. In particular, BHP Huzhou had carried out its business in the sale of a variety of products only in the PRC whereas our Group is export-oriented and our overseas sales of laundry products, household

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cleaning tools and kitchen gadgets contributed to approximately 99.1% and 98.6% of our total revenue for the years ended 31 December 2018 and 2019, respectively. Furthermore, in view of the small scale of operation of BHP Huzhou, our Directors confirmed that the inclusion of BHP Huzhou in our Group would not have any significant impact on our Group's business operation and financial performance during the Track Record Period.

Given the different nature of business between our Group and BHP Huzhou, our Directors do not consider there was any overlap nor competition between the business of our Group and BHP Huzhou during the Track Record Period. Notwithstanding that, to avoid possible competition that BHP Huzhou may have against our Group's business in the future, BHP Huzhou ceased its operation in July 2019, applied for deregistration on 20 April 2020 and was deregistered on 9 June 2020. Since BHP Huzhou had inventory, comprising mainly food and alcoholic beverages and miscellaneous office supplies, of approximately RMB1.5 million prior to its cessation of business, our Group purchased the said sundry supplies at cost value, on arm's length basis and normal commercial terms for use as our employee benefits in 2019.

Our Directors confirmed that BHP Huzhou was solvent and did not have any outstanding liabilities at the time of its deregistration. As confirmed by our PRC Legal Advisers, BHP Huzhou had not been subject to any material non-compliance incidents, claims, litigations or proceedings arising from its operation during the Track Record Period before its deregistration.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Our Directors are satisfied that our Group is capable of carrying on its business independently from our Controlling Shareholders and their close associates upon completion of the Global Offering.

Management Independence

Our management rests with our Board and senior management. Our Board comprises three executive Directors, namely Mr. Zhu, Mr. Fang and Mr. Mao, one non-executive Director, namely Ms. Zhu Yi, and three independent non-executive Directors, namely Mr. Guan Yuchun, Mr. Zhao Xiaoming and Ms. Kung On Yee Annet. For details, please refer to the section headed "Directors and senior management" in this prospectus. Mr. Zhu is the sole director of Beautiful Homeland. Save as disclosed above, our Directors and senior management do not hold any directorships or positions in Beautiful Homeland or its close associates.

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We consider that our Board and senior management are able to function independently from our Controlling Shareholders due to the following reasons:

- (a) Each Director, including Mr. Zhu, Mr. Fang and Mr. Mao, our Controlling Shareholders, is aware of his fiduciary duties as a Director which require, among other things, that he acts for the benefit and in the best interest of our Company and does not allow any conflict between his duties as a Director and his personal interests;
- (b) our Board consists of three independent non-executive Directors and there will be sufficiently robust and independent voice within our Board to counter-balance any situation involving conflict of interest and protect the interests of our independent Shareholders;
- (c) the management, operation and affairs of our Group are headed, managed and supervised by our Board as a whole and not by any individual Directors. According to the Articles, our Board must act collectively by a majority decision, and no individual Director is allowed to transact or make any decision for and on behalf of our Company alone unless he is authorised by our Board or in accordance with the provisions of the Articles. Any view of a Director will be checked and balanced by the view of other Board member;
- (d) in the event that there is a potential conflict arising out of any transaction to be entered into between our Group and our Directors or their respective associates (the “**Conflicting Transaction**”), the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions, and shall not be counted in forming quorum, unless otherwise permitted under the Articles and/or the Listing Rules. The interested Director(s) shall not attend any independent board committee meetings comprising our independent non-executive Directors only. In the event that there is a Conflicting Transaction which shall be submitted to our independent non-executive Directors for their consideration and approval, they would have sufficient experience and knowledge to oversee such Conflicting Transaction from different aspects;
- (e) our Company has also established internal control mechanism to identify related party transactions and/or connected transactions that are subject to the requirements under the Listing Rules, including the requirements of reporting, announcement, circular and independent Shareholders’ approval (where appropriate);

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- (f) in order to allow the non-conflicting members of our Board to function properly and make informed decision with the necessary professional advice, our Company will engage third party professional adviser(s) to advise our Board when necessary, depending on the nature and significance of the Conflicting Transaction;
- (g) our Controlling Shareholders have undertaken to provide all information requested by our Group which is necessary for the annual review conducted by the independent non-executive Directors and the enforcement of the Deed of Non-competition;
- (h) our independent non-executive Directors will, based on the information available to them, review on annual basis (i) compliance with the Deed of Non-competition; and (ii) all the decisions taken in relation to whether to pursue the new opportunity under the Deed of Non-competition, and to disclose all decisions on the matters pertaining to the annual review either through the annual report, or by way of announcement to the public; and
- (i) our Company has established corporate governance procedures in safeguarding the interests of our Shareholders and enhancing our Shareholders' value. For details, please refer to the paragraphs headed "Corporate governance measures" in this section.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles as our Directors and manage the business of the Group independently from our Controlling Shareholders and their respective close associates after the Listing.

Financial Independence

Our Board believes that we are able to operate financially independent from our Controlling Shareholders and their associates due to the following reasons:

- (a) we have an independent financial system and we make financial decisions independently according to our Group's own business and operation needs;
- (b) we have sufficient capital to operate our business independently, and have adequate internal resources and credit profile to support our daily operation as evidenced by the fact that we had not relied on any banking facilities, bank and other borrowings for our financial results during the Track Record Period;
- (c) all loans, advances and balances due to and from our Controlling Shareholders and their close associates will be fully settled upon the Listing;

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- (d) all personal guarantee provided by our Controlling Shareholders for our banking facilities and finance leases is expected to be released upon the Listing and, if necessary, be replaced by a corporate guarantee provided by our Company;
- (e) we have independent access to third party financing on market terms and conditions for our business operations as and when required; and
- (f) we have independent bank accounts and do not share any of our bank accounts, loan facilities or credit facilities with our Controlling Shareholders or their close associates.

Operational Independence

We make business decisions independently. Our Directors consider that we will continue to be operationally independent from our Controlling Shareholders and their respective associates after the Listing due to the following reasons:

- (a) we hold all licences, permits and approvals that are material to the operation of our business and have sufficient capital, equipment and employees to operate our business independently;
- (b) we have our own operational and administrative resources and we do not share such resources with our Controlling Shareholders and their respective associates or other companies controlled by our Controlling Shareholders and their respective associates;
- (c) we have our own organisational and corporate governance structure and have established our own accounting, legal and human resources departments;
- (d) we have established a set of internal control measures to facilitate the effective operation of our business;
- (e) we have independent access to customers and suppliers. Although we have engaged companies controlled by relatives of our Controlling Shareholders to provide us with plastic injection moulding services, we would be able to replace such suppliers if necessary without material disruption to our operation, taking into consideration that the terms of the relevant service agreements are on normal commercial terms and fair and reasonable; and
- (f) each of our Controlling Shareholders and their respective associates has no relationship with our five largest customers and five largest major suppliers of our Group (other than the business contracts in the ordinary and usual course of business of our Group) during the Track Record Period.

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DISCLOSURE PURSUANT TO RULE 8.10 OF THE LISTING RULES

Each of our Controlling Shareholders, our Directors, our substantial Shareholders and their respective close associates confirmed that as at the Latest Practicable Date, he, she or it 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 Group's business, and requires disclosure under Rule 8.10 of the Listing Rules.

NON-COMPETITION UNDERTAKING

Each of our Controlling Shareholders entered into the Deed of Non-competition in favour of our Company (for ourselves and as trustee for our subsidiaries). Pursuant to the Deed of Non-competition, each of our Controlling Shareholders has irrevocably and unconditionally undertaken to our Company (for ourselves and for the benefit of our subsidiaries) on a joint and several basis that, save and except as disclosed in this prospectus, during the period that the Deed of Non-competition remains effective, he/it shall not, and shall procure that his/its close associates (other than any member of our Group) not to carry on or be engaged, concerned or interested, or otherwise be involved in or acquire or hold, directly or indirectly, any business in competition with or likely to be in competition with the existing business activity(ies) of any member of our Group and any business(es) that our Group may engage in from time to time within Hong Kong, the PRC and elsewhere where any member of our Group may operate from time to time, save for the holding of not more than 5% shareholding interest (individually or with his/its close associates) in any company listed on a recognised stock exchange and at any time the relevant listed company shall have at least one shareholder (individually or with his/its close associates, if applicable) whose shareholding interest in the relevant listed company is higher than that of the relevant Controlling Shareholder (individually or with his/its close associates).

Each of our Controlling Shareholders has further undertaken that, if he/it or his/its close associates, other than any member of our Group, is offered or becomes aware of any business opportunity which may compete with the business of our Group, he/it shall promptly notify our Group in writing and our Group shall have a right of first refusal to take up such opportunity. Our Group shall, within 30 days after receipt of the written notice (or such longer period if our Group is required to complete any approval procedures as set out under the Listing Rules from time to time), notify the relevant Controlling Shareholder whether our Group will exercise the right of first refusal.

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Our Group shall only exercise or reject the right of first refusal upon the approval by all independent non-executive Directors who do not have any interest in such opportunity. The relevant Controlling Shareholder(s) and other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of the Board convened to consider such opportunity including but not limited to the relevant meeting(s) of our independent non-executive Directors for considering whether or not to exercise the right of first refusal.

Our Company will adopt the following procedures to monitor that the Deed of Non-competition is being observed:

- (i) each of our Controlling Shareholders has undertaken to provide any information as is reasonably required by our Group and/or our independent non-executive Directors, to decide whether to exercise the right of first refusal by our Company from time to time;
- (ii) our independent non-executive Directors shall review, on an annual basis, the compliance of the above undertakings from the Controlling Shareholders and to evaluate the effective implementation of the Deed of Non-competition; and
- (iii) each of the Controlling Shareholders has undertaken to provide all information necessary for the aforesaid annual review on the enforcement of the Deed of Non-competition by our independent non-executive Directors and to provide an annual confirmation on his/its compliance with the Deed of Non-competition for inclusion in the annual report of our Company.

The undertakings contained in the Deed of Non-competition are conditional upon the Listing Committee granting approval for the listing of and permission to deal in the Shares on the Stock Exchange and all conditions precedent under the Underwriting Agreements having been fulfilled (or where applicable, waived) and the Underwriting Agreements not having been terminated in accordance with its terms. If any such condition is not fulfilled on or before the date specified in the Underwriting Agreements (unless such conditions are waived on or before such date) or in any event on or before the date falling 30 days after the date of this prospectus, the Deed of Non-competition shall lapse and cease to have any effect whatsoever and no party shall have any claim against the other under the Deed of Non-competition.

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The Deed of Non-competition shall terminate on the date on which (i) in relation to any Controlling Shareholders, when he/it together with his/its close associates, whether individually or taken together, ceases to be interested in 30% (or such other amount as may from time to time be specified in the Listing Rules as being the threshold for determining a controlling shareholder of a company) or more of the entire issued share capital of our Company provided that the Deed of Non-competition shall continue to be in full force and effect as against the other Controlling Shareholders; or (ii) our Shares cease to be listed and traded on the Stock Exchange (except for temporary trading halt or suspension of trading of the Shares on the Stock Exchange due to any reason).

CORPORATE GOVERNANCE MEASURES

Our Company expects to comply with the Corporate Governance Code which sets out the principles of good corporate governance in aspects such as directors' responsibilities and their appointment, re-selection and removal, board composition, remuneration of directors and senior management, accountability and audit, and communication with Shareholders. Our Company will state in our interim and annual reports whether we have complied with such code provisions, and will provide details of, and reasons for, any deviation from it in the corporate governance reports attached to our annual reports.

In addition, our Company has adopted the following measures to strengthen our corporate governance practice and to safeguard the interests of our Shareholders:

- (a) our Board will ensure that any material conflict or potential conflict of interests involving our Controlling Shareholders will be reported to our independent non-executive Directors as soon as practicable;
- (b) the Articles provide that a Director shall not be counted in the quorum or vote on any resolution of our Board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested unless in certain circumstances as expressly stated in the Articles;
- (c) each Director is aware of his fiduciary duties as a Director, which require, among other things, him to act for the benefit of our Company and our Shareholders as a whole and not to allow any conflict of interests between his duties as a Director and his personal interests;
- (d) our audit committee will review, on an annual basis, compliance with the Deed of Non-competition given by our Controlling Shareholders;

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- (e) our Company will obtain (i) an annual written confirmation in respect of our Controlling Shareholders' compliance with the terms of the Deed of Non-competition, (ii) consent (from each of our Controlling Shareholders) to refer to the said confirmation in our annual reports, and (iii) all information as may reasonably be requested by us and/or our independent non-executive Directors for our review and enforcement of the Deed of Non-competition;
- (f) our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the Deed of Non-competition of our Controlling Shareholders in the annual reports of our Company;
- (g) our independent non-executive Directors may appoint independent financial advisers and other professional advisers as they consider appropriate to advise them on any matter relating to the non-competition undertaking or connected transaction(s) at the cost of our Company; and
- (h) our Company has appointed Giraffe Capital Limited as the compliance adviser which shall provide our Company with professional advice and guidance in respect of compliance with the Listing Rules.

Further, any transaction that is proposed between our Group and our Controlling Shareholders and their respective associates will be required to comply with the requirements of the Listing Rules, including, where appropriate, the reporting, annual review, announcement and independent Shareholders' approval requirements.

With the corporate governance measures including the measures set out above, our Directors believe that the interest of our Shareholders will be protected.