
RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

As at the Latest Practicable Date, Tanshin Investments (a company wholly owned by Mr. Tian), Vicen Investments (a company wholly owned by Mr. Chen) and Sprus Investments (a company wholly owned by Mr. Zhang) beneficially owned 60%, 25% and 15% of the issued share capital of our Company, respectively. On 22 October 2021, Mr. Tian, Mr. Chen and Mr. Zhang entered into the Acting-in-Concert Agreement, pursuant to which Mr. Tian, Mr. Chen and Mr. Zhang confirmed that they had been acting in concert since 14 July 2017 when they started to own the equity interest of Hangzhou Rego in proportions of 60%, 25% and 15%, respectively, directly or indirectly and undertook to vote unanimously for any resolutions proposed at board meetings and shareholder meetings of our Group upon the signing of the Acting-in-Concert Agreement. Please see “History, Development and Reorganisation — Common Control by Acting-in-Concert Agreement” in this document for further details about the Acting-in-Concert Agreement. By virtue of the Acting-in-Concert Agreement, Tanshin Investments, Vicen Investments and Sprus Investments are collectively entitled to exercise voting rights of 100% of the issued share capital of our Company. As such, Mr. Tian, Mr. Chen, Mr. Zhang, Tanshin Investments, Vicen Investments and Sprus Investments are regarded as a group of Controlling Shareholders of our Company as at the date of this document.

Immediately following completion of the [REDACTED] and the [REDACTED], and assuming the [REDACTED] is not exercised, Tanshin Investments, Vicen Investments and Sprus Investments will collectively be entitled to exercise voting rights of approximately 75% of the issued share capital of our Company. Accordingly, Mr. Tian, Mr. Chen and Mr. Zhang, Tanshin Investments, Vicen Investments and Sprus Investments will continue to remain as our Controlling Shareholders.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying on our business independently from our Controlling Shareholders and their close associates after the [REDACTED].

Management Independence

Our business is managed and conducted by our Board and senior management. Upon [REDACTED], our Board will consist of seven Directors comprising four executive Directors and three independent non-executive Directors.

On the basis of the following reasons, our Directors consider that our Company is able to perform and manage our business independently from the Controlling Shareholders and their respective close associates after the [REDACTED]:

- (a) each of the Directors is aware of his/her fiduciaries duties as a Director which require, among others, that he/she must act for the benefit of and in the best interests of our Company and not allow any conflict between his/her duties as a Director and his/her personal interests;

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- (b) we believe our independent non-executive Directors bring independent judgment to the decision-making process of our Board;
- (c) continuing connected transactions between our Group (on the one hand) and connected person (on the other hand) have been and will be entered into in the ordinary and usual course of business of our Group on normal commercial terms, and the terms thereof are fair and reasonable and in the interest of our Company and our Shareholders as a whole. The parties will comply with the applicable requirements of the Listing Rules governing the continuing connected transactions. For details of the continuing connected transactions, please refer to the section headed “Connected Transaction” in this document;
- (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 our Directors or their respective close associates, the interested Director(s) will abstain from voting at the relevant Board meetings of our Company in respect of such transactions;
- (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. Please see “— Corporate Governance Measures” in this section for further details;
- (f) our Board includes three independent non-executive Directors, which form a strong corporate governance structure to supervise the management of our Company and minimise any risk brought by the influence of our Controlling Shareholders; and
- (g) 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. Please see “Corporate Governance Measures” in this section for further details.

Having considered the above factors, our Directors are satisfied that we are able to perform our roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders and their respective close associates following the completion of the [REDACTED] and the [REDACTED].

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Operational Independence

We have full rights to make business decisions and to carry out our business independent of our Controlling Shareholders and their respective close associates. On the basis of the following reasons, our Directors consider that our Company will continue to be operationally independent from our Controlling Shareholders and their respective close associates after the [REDACTED]:

- (a) we are not reliant on intellectual properties owned by our Controlling Shareholders, or by other companies controlled by our Controlling Shareholders;
- (b) we are the holder of all relevant licenses material to the operation of our business and has sufficient capital, equipment and employees to operate our business independently;
- (c) none of our Controlling Shareholders and their respective close associates have any interest which competes or is likely to compete with the business of our Group;
- (d) save as disclosed in the section headed “Connected Transactions” in this document, we have independent access to our customers and suppliers. Our suppliers and customers are predominantly members of the public, to whom we have independent access; and
- (e) we have our own administrative and corporate governance infrastructure, including our own accounting, legal and human resources departments.

Financial Independence

During the Track Record Period and up to the Latest Practicable Date, we had our own finance department and independent accounting systems. Our Directors also believe that we are able to obtain financing independent from our Controlling Shareholders. As at 31 December 2019, our Group did not have any bank borrowings. As at 31 December 2020 and 2021, our Group had bank borrowings of RMB10.4 million and RMB21.1 million, respectively, some of our loans were secured by guarantees provided by our Controlling Shareholders and their associates. As at the Latest Practicable Date, we have repaid all the loans that were secured by guarantees of our Controlling Shareholders, their associates and the then shareholders of Xi’an Tiantai. Please refer to the paragraph headed “Financial Information — Indebtedness” for details.

Amounts due from our Controlling Shareholders, their respective associates and/or related parties from our Group, which were non-trade nature, amounted to approximately RMB90,000, RMB84,000 and RMB96,000 as at 31 December 2019, 2020 and 2021, respectively. Such amounts were unsecured, interest free and repayable upon demand and will be settled before the [REDACTED].

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Amounts due to our Controlling Shareholders, their respective associates and/or related parties from our Group, which were non-trade nature, amounted to approximately RMB4.9 million, RMB4.8 million and RMB27.7 million as at 31 December 2019, 2020 and 2021, respectively. The amounts due to related parties as at 31 December 2021 was mainly attributable to the amounts owed to Zhejiang Runye of approximately RMB22.8 million after the Termination of our Contractual Arrangements with Zhejiang Runye, which was an intra-group balance resulting from our Group’s internal funding management which Zhejiang Runye transferred the funds arising from our business operations to other subsidiaries prior to the Termination. Such amounts will be repaid by us to Zhejiang Runye prior to the [REDACTED] and could be distributed among our Controlling Shareholders, namely Mr. Tian, Mr. Zhang and Mr. Chen. Accordingly, such balance was, in substance, a distribution of dividends to our Controlling Shareholders. For further details of the Termination of the Contractual Arrangements, please refer to the paragraphs headed “History, Development and Reorganisation — Reorganisation for [REDACTED] — 5. Subsequent Termination of Zhejiang Runye’s Contractual Arrangements” in this document. Such balances were non-trade related, unsecured, interest-free and repayable on demand and will be settled before [REDACTED]. For details of the balances and related party transactions, please see Notes 24 and 33 of the Accountants’ Reports in Appendix I to this document.

Save as disclosed above, during the Track Record Period and up to the Latest Practicable Date, we had not provided any loans to, nor given any guarantee, security or pledge for, our Controlling Shareholders, our Directors or their respective associates, and none of our Directors or any of their respective associates had provided any personal guarantee, security or pledge for any of our banking facilities and other borrowings. In light of the foregoing, our Directors are of the view that our Group does not rely on our Controlling Shareholders and/or their associates for any financial assistance.

CONTROLLING SHAREHOLDERS’ AND DIRECTORS’ INTERESTS IN OTHER BUSINESSES

Each of our Controlling Shareholders has confirmed that none of them and their respective close associates (other than members of our Group) has any interest in a business apart from our business which competes or is likely to compete, either directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

Further, each of our Directors has confirmed that he/she is not interested in any business apart from our business (where relevant), which competes or is likely to compete, either directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

To minimise the potential competition in the future, our Controlling Shareholders, Mr. Tian, Mr. Chen, Mr. Zhang, Tanshin Investments, Vicen Investments and Sprus Investments [had entered] into the Deed of Non-Competition with us.

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DEED OF NON-COMPETITION

For the purpose of the [REDACTED], our Controlling Shareholders have entered into with and in favour of our Company (for ourselves and as trustee for our subsidiaries) the Deed of Non-Competition. Pursuant to the Deed of Non-Competition, each of our Controlling Shareholders has confirmed that none of them is engaged in, or interested in, any business (other than our Group) which, directly or indirectly, competes or may compete with our business. To protect our Group from any potential competition, each of our Controlling Shareholders has unconditionally and irrevocably undertaken in favour of our Company (for ourselves and for the benefits of our subsidiaries), on a joint and several basis, that at any time during the Relevant Period (as defined below), each of them shall, and shall procure that their respective close associates and/or companies controlled by them (other than our Group) shall:

- (a) not, directly or indirectly, be interested or involved or engaged in or carry on or be concerned with or acquire or hold any right or interest (in each case whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) in any business, or is about to be engaged in any business which competes or is likely to compete directly or indirectly with the business currently and from time to time engaged by our Group in the PRC and any other country or jurisdiction to which our Group provides such products and/or services and/or in which any member of our Group carries on business mentioned above currently and from time to time (the "**Restricted Activity**");
- (b) not solicit any existing employee or then existing employee of our Group for employment by him/it or his/its close associates (excluding our Group);
- (c) not, without the consent from our Company, make use of any information pertaining to the business of our Group which may have come to his/its knowledge for any purpose of engaging, investing or participating in any Restricted Activity;
- (d) not, either on his/its own or in conjunction with any body corporate, partnership, joint venture or other contractual agreement, whether directly or indirectly, whether for profit or not, carry on, participate in, hold, engage in, acquire or operate, or provide any form of assistance to any person, firm or company (except members of our Group) to conduct any Restricted Activity;
- (e) not, either on his/its own or in conjunction with any body corporate, partnership, joint venture or other contractual agreement, whether directly or indirectly, whether for profit or not, solicit or endeavour to entice away from or discourage from dealing with our Group any person who was at any time during the period of one year preceding the date of the Deed of Non-Competition a manufacturer for or supplier or subcontractor, customer or client of our Group;

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- (f) if there is any project or new business opportunity (the "**Business Opportunity**") that relates to the Restricted Activity and is offered or becomes aware to our Controlling Shareholders, they shall (i) promptly refer such project or new business opportunity to our Group in writing for consideration and provide such information as is reasonably required in order to enable our Group to come to an informed assessment of such opportunity, (ii) use his/its best endeavours to procure such opportunity offered to our Group on terms no less favourable than the terms on which such opportunity is offered to them and/or his/its close associates, and (iii) with regard to any project or new business opportunity which shall have been rejected by our Group and the principal terms of which our Controlling Shareholders and/or any of his/its close associates and/or entities or companies controlled by him/it invest or participate shall be no more favourable than those made available to our Company;
- (g) not invest or participate in or carry on any project or business opportunity of the Restricted Activity; and
- (h) procure his/its close associates (excluding our Group) not to invest or participate in or carry on any project or business opportunity of the Restricted Activity.

The above undertakings under the Deed of Non-Competition do not apply to:

- (a) the holding of, or interests in, the shares of any members of our Group; and
- (b) the holding of, or interests in, the shares of a company other than a member of our Group whose shares are [REDACTED] on a recognised stock exchange provided that the total number of the shares held by the relevant Controlling Shareholder and/or his/its close associates does not exceed 5% of the issued shares of that class of the company in question, and such Controlling Shareholder and his/its respective close associates, whether acting singly or jointly, would not participate in or be otherwise involved in the management of the company in question.

Each of our Controlling Shareholders has further unconditionally and irrevocably undertaken to our Company (for ourselves and for the benefit of our subsidiaries):

- (a) to allow our Directors, their respective representatives and our auditors to have sufficient access to the records of each of our Controlling Shareholders and its respective close associates to ensure compliance with the terms and conditions of the Deed of Non-Competition;
- (b) to provide to our Group and our Directors (including the independent non-executive Directors) from time to time all information necessary for the annual review by the independent non-executive Directors with regard to compliance with the terms of the Deed of Non-Competition by our Controlling Shareholders; and
- (c) to make an annual declaration as to full compliance with the terms of the Deed of Non-Competition and a consent to disclose such letter in our annual report.

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The Deed of Non-Competition will become effective upon the [REDACTED] becoming unconditional. The obligations of our Controlling Shareholders under the Deed of Non-Competition will remain in effect during the period (the “**Relevant Period**”) from the [REDACTED] until the earlier of the date on which:

- (a) our Controlling Shareholders, together with their close associates (other than members of our Group), whether individually or taken together, cease to be interested directly or indirectly in 30% (or such other amount as may from time to time be specified in the Listing Rules as being the threshold for determining controlling shareholder) or more of the issued share capital of our Company; or
- (b) the Shares cease to be [REDACTED] and traded on the Stock Exchange.

We believe the 30% threshold is justifiable as it is equivalent to the thresholds applied under the Listing Rules and the Takeovers Code for the concept of “control”.

CORPORATE GOVERNANCE MEASURES

Our Company will comply with the provisions of the Corporate Governance Code in Appendix 14 to the Listing Rules, which sets out principles of good corporate governance.

Our Directors recognise the importance of good corporate governance in protection of our Shareholders’ interests. We would adopt the following measures to safeguard good corporate governance standards and to avoid potential conflict of interests between our Group our Controlling Shareholders:

- where a Shareholders’ meeting is to be held for considering proposed transactions in which any of our Controlling Shareholders or any of their close associates has a material interest, the relevant Controlling Shareholders or their close associates will not vote on the relevant resolutions;
- where a Directors’ meeting is to be held for considering proposed transactions in which any of our Directors or any of their close associates has a material interest, the relevant Director will not vote on the relevant resolutions;
- we have established internal control mechanisms to identify connected transactions. Upon the [REDACTED], if we enter into connected transactions with our Controlling Shareholders or any of their close associates, our Company will comply with the applicable Listing Rules;
- the independent non-executive Directors will review, on an annual basis (i) the compliance with and enforcement of the Deed of Non-Competition; and (ii) all the decisions taken in relation to whether to take up the Business Opportunity (the “**Annual Review**”) and provide impartial and professional advice to protect the interests of our minority Shareholders;

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- 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;
- any Business Opportunity under the Deed of Non-Competition and all other matters determined by our Board as having a potential conflict of interest with our Controlling Shareholders will be referred to the independent non-executive Directors for discussion and decision. When necessary, such independent non-executive Directors will engage an independent financial adviser to advise them on these matters. In the event that any Business Opportunity presented by otherwise arising in connection with any of our Controlling Shareholders are turned down by our Group according to the Deed of Non-Competition, our Company will disclose such decision, as well as the basis of such decision in the annual report of our Company;
- we will disclose decisions on matters reviewed by the independent non-executive Directors either in our annual reports or by way of announcements as required by the Listing Rules;
- where our Directors reasonably request the advice of independent professionals, such as financial advisers, the appointment of such independent professionals will be made at our expenses;
- our Company will use our best endeavours to ensure that our Board includes a balanced composition of executive and independent non-executive Directors. We have appointed three independent non-executive Directors whom we believe possess sufficient experience and are not involved in any business or other relationship which could interfere in any material manner with the exercise of their independent judgement. Please see “Directors and Senior Management — Directors — Independent non-executive Directors” in this document for further details about background of our independent non-executive Directors; and
- we have appointed CMBC International Capital Limited as our compliance adviser to provide advice and guidance to us in respect of compliance with the applicable laws and regulations, as well as the Listing Rules, including various requirements relating to corporate governance.

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