
RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OVERVIEW

As of the Latest Practicable Date, Mr. Lyu Yixiong was directly interested in approximately 40.96% and indirectly interested in approximately 50.31% of the total issued share capital of our Company. Mr. Lyu Yixiong holds his indirect interest through (a) Hongyin Investment, of which Mr. Lyu Yixiong is the actual controller and an approximately 93.33%-shareholder, which directly holds 30.00% of our Shares; (b) Shanghai Kans, of which Mr. Lyu Yixiong is the actual controller and the sole shareholder, which directly holds approximately 2.93% of our Shares; (c) Nanyin Investment, of which Mr. Lyu Yixiong is the actual controller and an approximately 82.65%-shareholder, which directly holds approximately 16.91% of our Shares; and (d) Shanghai Shengyan, of which Mr. Lyu Yixiong is the actual controller and the sole owner, which directly holds approximately 0.46% of our Shares. For the details of the remaining shareholders of Hongyin Investment and Nanyin Investment, see “Appendix VII – Statutory and General Information – 5. Employee Share Ownership Plan”. Accordingly, our Controlling Shareholders are Mr. Lyu Yixiong, Hongyin Investment, Shanghai Kans, Nanyin Investment and Shanghai Shengyan.

Immediately following the completion of the [REDACTED], Mr. Lyu Yixiong will be interested in approximately [REDACTED]% of our total share capital (assuming the [REDACTED] is not exercised) or approximately [REDACTED]% of our total share capital (assuming the [REDACTED] is exercised in full). Mr. Lyu Yixiong, Hongyin Investment, Shanghai Kans, Nanyin Investment and Shanghai Shengyan will remain as our Controlling Shareholders upon the [REDACTED].

Confirmation

As of the Latest Practicable Date, (i) Mr. Lyu Yixiong holds 99.86% in Shanghai Dalu Business Consulting Co., Ltd. (上海大呂商務諮詢有限公司), a holding entity, the subsidiaries of which are engaged in a variety of business activities, including catering business and teahouse operations, and 49.00% in Shanghai Dihuo Catering Co., Ltd. (上海底火餐飲有限公司), which is principally engaged in catering business and hotpot restaurants operations; (ii) our executive Director, Ms. Luo Yan (羅燕) holds 49.00% in Shanghai Guli Education Technology Co., Ltd. (上海古力教育科技有限公司), which principally engages in the education industry; and (iii) Ms. Li Hanqiong holds 49.00% in Ningbo Shengda Development Co., Ltd. (寧波盛達發展有限公司) which principally engages in the garment business and is a director and shareholder of Youngor Group Co., Ltd. (雅戈爾集團股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600177), which principally engages in the garment business and real estate development. As we are a company focusing on developing skincare and personal care products and operating cosmetic brands, we consider that there is a clear delineation between our business and those of the aforementioned companies. As such, as of the Latest Practicable Date, none of our Directors was interested in any business which competes, or is likely to compete, directly or indirectly, with the business of our Group or would otherwise require disclosure under Rule 8.10 of the Listing Rules.

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INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

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

Management Independence

Our daily operational and management decisions are made collectively by our Board and our senior management. Our Board consists of four executive Directors, two non-executive Directors and three independent non-executive Directors. We believe that our Directors, Supervisors and senior management can independently perform their duties in our Company and we can operate independently from our Controlling Shareholders for the following reasons:

- Each of our Directors is aware of his/her fiduciary duties as a director of our Company which requires, among other things, that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interest.
- 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 Controlling Shareholders or each of his or its associates, 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 the quorum.
- Our Board has a balanced composition of executive Directors and independent non-executive Directors which ensures the independence of our Board in making decisions affecting our Company. Specifically, (a) our independent non-executive Directors are not associated with our Controlling Shareholders or each of his or its associates; (b) our independent non-executive Directors account for one-third of the Board; and (c) our independent non-executive Directors individually and collectively possess the requisite knowledge and experience as independent directors of listed companies and will be able to provide professional and experienced advice to our Company. In conclusion, our Directors believe that our independent non-executive Directors are able to bring impartial and sound judgment to the decision-making process of our Board and protect the interest of our Company and our Shareholders as a whole.
- We will establish corporate governance measures and adopt sufficient and effective control mechanisms to manage conflicts of interest, if any, between our Group and our Controlling Shareholders, which would support our independent management. See “– Corporate Governance Measures” in this Section.

Having considered the above factors, our Directors are satisfied that they are able to perform their managerial 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 each of his or its close associates after the [REDACTED].

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Operational Independence

Our Group holds all the relevant material intellectual properties rights, licenses, qualifications and permits required for conducting our Group’s business. Our Group has sufficient capital, facilities and employees to operate our business independently from our Controlling Shareholders and each of his or its close associates. Our Group also has independent access to our customers. We have our own accounting and financial department, human resources and administration department, internal control department and technology department. We have also established a set of internal control procedures and adopted corporate governance practices to facilitate the effective operation of our business.

For details about our related party transactions during the Track Record Period, see Note 37 of the Accountant’s Report as set out in Appendix I of this document. As of the Latest Practicable Date, save for the transaction as disclosed in the section headed “Connected Transactions” in this document, all related party transactions which will constitute connected transactions have been terminated. The Directors do not expect that there will be any other transactions between the Group and the Controlling Shareholders and each of his or its close associates upon or shortly after the [REDACTED].

We believe that we are capable of carrying on our business independently of our Controlling Shareholders and each of his or its close associates. Our Directors confirmed that our Group will be able to operate independently from our Controlling Shareholders and each of his or its close associates after the [REDACTED].

Financial Independence

Our Group has an independent internal control, accounting and financial management system as well as an independent finance department which makes financial decisions according to our Group’s own business needs. Our Group’s accounting and finance functions are independent of our Controlling Shareholders and each of his or its close associates.

From December 29, 2018 to September 30, 2020, Shanghai Zhongyi, a wholly owned subsidiary of the Company, entered into a series of agreements with the Fengxian branch of Shanghai Pudong Development Bank (上海浦東發展銀行股份有限公司奉賢支行) (“**SPD Bank**”) pursuant to which SPD Bank agreed to lend Shanghai Zhongyi loans (the “**Loans**”) in an aggregate amount of RMB227,000,000 (as amended by the third supplemental agreement entered into between Shanghai Zhongyi and SPD Bank on September 30, 2020) for the construction of and purchase of equipment for the new plant of Shangmei Industrial Park Project (上美產業園項目), and a guarantee against Shanghai Zhongyi’s obligations under the Loans (the “**Guarantee**”) was provided by one of our Controlling Shareholders, Mr. Lyu Yixiong. See “Financial Information – Indebtedness” and Note 28. Interest-bearing bank and other borrowings of the Accountant’s Report as set out in Appendix I for more details. The Guarantee was terminated pursuant to the fourth supplemental agreement entered into between Shanghai Zhongyi and SPD Bank on December 24, 2021. As such, our Directors are of the view that our financing from SPD Bank does not affect our financial independence.

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Based on the aforesaid, our Directors believe that we have the ability to conduct our business independently from our Controlling Shareholders and each of his or its close associates from a financial perspective and are able to maintain financial independence from our Controlling Shareholders and each of his or its close associates.

CORPORATE GOVERNANCE MEASURES

Our Directors recognize the importance of good corporate governance to protect the interest of our Shareholders. We would adopt the following corporate governance measures to manage potential conflict of interests between our Group and our Controlling Shareholders:

- (a) Where a Shareholders' meeting is held for considering proposed transactions in which our Controlling Shareholders has a material interest, our Controlling Shareholders shall abstain from voting on the relevant resolutions and shall not be counted in the quorum for the voting.
- (b) Where a Board meeting is held for the matters in which a Director has a material interest, such Director shall abstain from voting on the relevant resolutions and shall not be counted in the quorum for the voting.
- (c) In the event that our independent non-executive Directors are requested to review any conflict of interest between our Group and our Controlling Shareholders, our Controlling Shareholders shall provide the independent non-executive Directors with all necessary information and our Company shall disclose the decisions of the independent non-executive Directors either in its annual reports or by way of announcements.
- (d) Our Directors (including the independent non-executive Directors) will seek independent and professional opinions from external advisors at our Company's cost as and when appropriate in accordance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules.
- (e) Any transactions between our Company and its connected persons shall be in compliance with the relevant requirements of Chapter 14A of the Listing Rules, including the announcement, annual reporting and independent shareholders' approval requirements (if applicable) under the Listing Rules.
- (f) We have appointed Maxa Capital Limited as our compliance advisor, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules, including various requirements relating to directors' duties and corporate governance.

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