

## **RELATIONSHIP WITH OUR SINGLE LARGEST SHAREHOLDERS GROUP**

### **OVERVIEW**

On September 13, 2018, our Company adopted a WVR Structure (the “**Existing WVR Structure**”), through which each of the ordinary Shares held by our Co-founders Dr. Ji and Mr. Zhang were entitled to 10 votes, while each of the remaining ordinary Shares and the Preferred Shares were entitled to one vote. Under the Existing WVR Structure, each of Dr. Ji and Mr. Zhang are able to exercise 45.06% and 30.04% voting rights of the Company, respectively. On the even date, Mr. Zhang and his wholly owned subsidiary Mr. Zhang Entity entered into an Irrevocable Proxy and Power of Attorney, pursuant to which Mr. Zhang and Mr. Zhang Entity agreed to irrevocably appoint Dr. Ji and Dr. Ji Entity as his/its lawful proxy and attorney-in-fact to exercise all voting rights and powers with respect to all shares, options or other securities directly or indirectly held by him/it in the Company and any and all subsidiaries of the Company on all issues (the “**2018 Proxy Arrangement**”).

On February 21, 2022, Mr. Zhang, Mr. Zhang Entity, Huaqing Hongyi and Huaqing Yuyi entered into an Irrevocable Proxy and Power of Attorney, pursuant to which each of Mr. Zhang, Mr. Zhang Entity, Huaqing Hongyi and Huaqing Yuyi acknowledged, ratified, confirmed and agreed that since it/he became a shareholder of the Company and/or its subsidiary, it/he has appointed, and shall continue to irrevocably appoint Dr. Ji and his wholly owned subsidiary Dr. Ji Entity as his/its lawful proxy and attorney-in-fact to exercise all voting rights and powers with respect to all shares, options or other securities directly or indirectly held by him/it in the Company and any and all subsidiaries of the Company on all issues (the “**Mr. Zhang and Huaqing Proxy Arrangement**”). Mr. Zhang and Huaqing Proxy Arrangement superseded the 2018 Proxy Arrangement. The Mr. Zhang and Huaqing Proxy Arrangement is expected to continue upon the [REDACTED]. Mr. Zhang, Mr. Zhang Entity, Huaqing Hongyi and Huaqing Yuyi also confirmed that they are deemed to have been acting in concert with Dr. Ji and Dr. Ji Entity. In light of the Existing WVR Structure and the Mr. Zhang and Huaqing Proxy Arrangement, as of the Latest Practicable Date, Dr. Ji is entitled to exercise 75.44% voting rights attached to 13.90% Shares of the Company, among which, Dr. Ji is entitled to exercise (i) 45.06% voting rights attached to 13.90% Shares of the Company indirectly through Dr. Ji Entity; (ii) 30.04% voting rights attached to 9.27% Shares of the Company held by Mr. Zhang Entity pursuant to the Mr. Zhang and Huaqing Proxy Arrangement; and (iii) 0.34% voting rights attached to 1.06% Shares of the Company held by Huaqing Hongyi and Huaqing Yuyi pursuant to the Mr. Zhang and Huaqing Proxy Arrangement. In addition, Huaqing Kuaiyi is the general partner of each of Huaqing Hongyi and Huaqing Yuyi. Therefore, Dr. Ji, Dr. Ji Entity, Mr. Zhang, Mr. Zhang Entity, Huaqing Hongyi, Huaqing Yuyi and Huaqing Kuaiyi constitute our Single Largest Shareholders Group and are treated as a group of our controlling shareholders before the [REDACTED].

On [●], the Shareholders of our Company resolved to terminate the Existing WVR Structure effective upon the [REDACTED]. Immediately after the completion of the [REDACTED] (assuming that the [REDACTED] is not exercised and no Shares are issued pursuant to the Pre-[REDACTED] Option Plan), Dr. Ji will be entitled to exercise [REDACTED]% voting rights of the Shares of the Company, including (i) [REDACTED]% voting rights of the Shares of the Company indirectly through Dr. Ji Entity; (ii)

## **RELATIONSHIP WITH OUR SINGLE LARGEST SHAREHOLDERS GROUP**

[REDACTED]% voting rights of the Shares the Company held by Mr. Zhang Entity pursuant to the Mr. Zhang and Huaqing Proxy Arrangement; and (iii) [REDACTED]% voting rights of the Shares of the Company held by Huaqing Hongyi and Huaqing Yuyi pursuant to the Mr. Zhang and Huaqing Proxy Arrangement. As such, Dr. Ji, Dr. Ji Entity, Mr. Zhang, Mr. Zhang Entity, Huaqing Hongyi, Huaqing Yuyi and Huaqing Kuaiyi will no longer constitute a group of our controlling shareholders, but will remain as our Single Largest Shareholders Group upon completion of the [REDACTED].

### **NO COMPETITION AND CLEAR DELINEATION OF BUSINESS**

Each member of our Single Largest Shareholders Group confirms that, as of the Latest Practicable Date, they 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 business.

### **INDEPENDENCE FROM OUR SINGLE LARGEST SHAREHOLDERS GROUP**

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

#### **Management Independence**

Our business is managed and conducted by our Board and senior management. As at the date of this document, our Board consist of eight Directors comprising four executive Directors and four independent non-executive Directors. For more information, see "Directors and Senior Management." Notwithstanding that our executive Directors, Dr. Ji and Mr. Zhang, are members of our Single Largest Shareholders Group, our Directors are of the view that our Company is capable of maintaining management independence due to the following reasons:

- (a) each Director is aware of his/her fiduciary duties as a Director which require, among other things, that he/she acts for the benefit and in the interest of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interests;
- (b) we have four independent non-executive Directors and certain matters of our Company must always be referred to the independent non-executive Directors for review;
- (c) 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) is required to declare the nature of such interest before voting at the relevant Board meetings of our Company in respect of such transactions;

## **RELATIONSHIP WITH OUR SINGLE LARGEST SHAREHOLDERS GROUP**

- (d) Our Board has a balanced composition of executive Directors and independent non-executive Directors which ensures the independence of the Board in making decisions affecting our Company. Specifically, (a) our independent non-executive Directors are not associated with the members of the Single Largest Shareholders Group or their respective close associates; (b) our independent non-executive Directors account for more than one-third of the Board; and (c) our independent non-executive Directors individually and collectively possess the requisite knowledge and experience and will be able to provide professional and experienced advice to our Company. In conclusion, the 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; and
  
- (e) we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and our Single Largest Shareholders Group which would support our independent management. See “– Corporate Governance Measures” in this section for further information.

Based on the above, 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 the Single Largest Shareholders Group after the [REDACTED].

### **Operational Independence**

We have full rights to make business decisions and to carry out our business independently from our Single Largest Shareholders Group 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 Single Largest Shareholders Group and their respective close associates after the [REDACTED]:

- (a) we are not reliant on trademarks owned by our Single Largest Shareholders Group, or by other companies controlled by our Single Largest Shareholders Group;
- (b) we are the holder of all relevant licenses material to the operation of our business;
- (c) we have independent access to our customers and suppliers;
- (d) we have sufficient capital, facilities, devices and employees to operate our business independently from our Single Largest Shareholders Group;
- (e) we have our own administrative and corporate governance infrastructure, including our own accounting, legal and human resources departments; and
- (f) none of our Single Largest Shareholders Group or their respective close associates have any interests in any business which competes or is likely to compete with the business of our Group.

## **RELATIONSHIP WITH OUR SINGLE LARGEST SHAREHOLDERS GROUP**

Based on the above, our Directors believe that we are able to operate independently of our Single Largest Shareholders Group.

### **Financial Independence**

During the Track Record Period, Dr. Ji and Mr. Zhang provided guarantees over certain loans and credit lines for the benefit of our Group (the "**Founders' Guarantees**") which applied in our ordinary course of business. The Founders' Guarantees are on normal commercial terms and are not secured by any assets of the Group, therefore are fully exempted connected transactions in accordance with rule 14A.90 of the Listing Rules. As of the Latest Practicable Date, we had an aggregate of approximately RMB1,290.4 million outstanding loans and credit lines guaranteed by, among others, Dr. Ji and/or Mr. Zhang (the "**Founders Guaranteed Loans**"), of which the latest maturity date is in October 2025.

Our Directors are of the view that premature replacement or discharge of the Founders' Guarantees would be impractical and unduly onerous to the Group and would not be in the best interests of our Group and our Shareholders, considering that early replacement or discharge of the Founders Guaranteed Loans would require renegotiation of the terms with the relevant banks, and the renegotiation would take considerable time which may affect our normal operation. Therefore, we currently do not intend to release or replace the Founders' Guarantees before the Founders Guaranteed Loans become due.

Notwithstanding the above, our Directors are of the view that we are financially independent of our Single Largest Shareholders Group and/or their close associates for the following reasons:

- (1) we have sufficient capital to operate our business independently. As of the Latest Practicable Date, our banking deposit balance amounted to approximately RMB559.38 million. We are capable of obtaining, if necessary, financing from Independent Third Parties banks without relying on any guarantee or security provided by our Single Largest Shareholders Group and/or their close associates. In particular, as of the Latest Practicable Date, we have obtained letters from independent third-party commercial banks who confirmed that they were willing to provide our Group with loans in the amount of RMB2.08 billion in aggregate (the "**Loans**"), without any assistance, guarantee or security from our Single Largest Shareholders Group, subject to regulatory requirements, negotiation of the detailed terms and the customary credit policies of such banks. Having considered the financial status and business development of the Group, the Company considers that it can obtain the Loans on comparable terms as the existing loans obtained by the Group. Such loans from independent commercial banks can be used as our working capital, and are sufficient to cover the Founders' Guarantees; and

## **RELATIONSHIP WITH OUR SINGLE LARGEST SHAREHOLDERS GROUP**

- (2) we have an independent financial system and make financial decisions according to our Group's own business needs independently. We have internal control and accounting systems and an independent finance department for discharging the treasury function. None of our Single Largest Shareholders Group and/or their close associates interferes with our use of funds.

Based on the above, our Directors are of the view that we are capable of carrying on our business independently of, and do not place undue reliance on, our Single Largest Shareholders Group and their respective close associates after the [REDACTED].

### **CORPORATE GOVERNANCE MEASURES**

Our Company and Directors recognize the importance of protecting the rights and interests of all Shareholders, including the rights and interests of our minority Shareholders.

We have adopted the following measures to ensure good corporate governance standards and to avoid potential conflicts of interest between our Group and our Single Largest Shareholders Group:

- (a) where a Shareholders' meeting is to be held for considering proposed transactions in which our Single Largest Shareholders Group or any of their respective associates has a material interest, the relevant Single Largest Shareholders Group or associates will not vote on the relevant resolutions;
- (b) our Company has established internal control mechanisms to identify connected transactions. Upon the [REDACTED], if our Company enters into connected transactions with our Single Largest Shareholders Group or any of their respective associates, our Company will comply with the applicable Listing Rules;
- (c) the independent non-executive Directors will review, on an annual basis, whether there are any conflicts of interests between the Group and our Single Largest Shareholders Group and provide impartial and professional advice to protect the interests of our minority Shareholders;
- (d) our Single Largest Shareholders Group 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 purpose of their annual review;
- (e) our Company will disclose decisions on matters reviewed by the independent non-executive Directors either in its annual reports or by way of announcements as required by the Listing Rules;

## **RELATIONSHIP WITH OUR SINGLE LARGEST SHAREHOLDERS GROUP**

---

- (f) where our Directors reasonably request the advice of independent professionals, such as financial advisors, the appointment of such independent professionals will be made at our Company's expense;
- (g) we have appointed Somerley 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; and
- (h) we have established our Audit Committee, Nomination Committee and Remuneration Committee with written terms of reference in compliance with the Listing Rules and the Code on Corporate Governance and Corporate Governance Report in Appendix 14 to the Listing Rules.

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 our Group and our Single Largest Shareholders Group, and to protect our minority Shareholders' interests after the [REDACTED].