
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OVERVIEW

As of the Latest Practicable Date, Mr. SONG Yang, our founder, Chairman, executive Director and chief executive officer, directly and indirectly (through Lanchi Platform, Zichi Platform, Suzhou Hongchi and Suzhou Luchi), was entitled to exercise the voting rights attaching to approximately 39.9% of the issued share capital of our Company.

Immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised), Mr. SONG Yang, directly and indirectly (through Lanchi Platform, Zichi Platform, Suzhou Hongchi and Suzhou Luchi), will be entitled to exercise the voting rights attaching to approximately [REDACTED]% of the issued share capital of our Company. Accordingly, upon completion of the [REDACTED], Mr. SONG Yang, Lanchi Platform, Zichi Platform, Suzhou Hongchi and Suzhou Luchi will collectively constitute a group of Controlling Shareholders of our Company. Please see “Directors, Supervisors and Senior Management” and “History and Corporate Structure” for more information about our Controlling Shareholders.

COMPETITION

Each of our Controlling Shareholders and Directors has confirmed that he or she or it or his or her or its respective close associates do 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, and which would require disclosure under Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

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

Management Independence

Our business is managed and conducted by our Board and senior management. Our Board consists of three executive Directors, three non-executive Directors and three independent non-executive Directors. The Directors believe that the Board and senior management of our Company are able to operate our business independently of our Controlling Shareholders for the following reasons:

- (i) our Directors are aware of their fiduciary duties as a director, which require, among other things, that they act for the benefit and in the interest of our Company and all our Shareholders as a whole and do not allow any conflict between their duties as a Director and their personal interests;

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- (ii) our daily management and operations are carried out by our three executive Directors and senior management team. As of the Latest Practicable, except for Mr. SONG Yang, none of them holds any management position in our Controlling Shareholders’ associates. They also have substantial experience in the industry in which our Company is engaged and will therefore be able to make impartial and sound business decisions that are in the best interest of our Group;
- (iii) our Board acts collectively by majority vote in accordance with our Articles of Association and applicable laws and regulations, and no single Director is able to make any decisions unless authorized by the Board;
- (iv) our Board has a balanced composition of executive, non-executive and independent non-executive Directors, which ensures the independence of the Board in making decisions affecting our Company. Our independent non-executive Directors account for one-third of the Board, and do not and will not take up any position with our Controlling Shareholders. All of our three independent non-executive Directors are independent of our Controlling Shareholders and have extensive experience in their respective areas of expertise. For details, see “Directors, Supervisors and Senior Management.” All independent non-executive Directors are appointed in accordance with the requirements under the Listing Rules, and certain matters of our Company must always be referred to the independent non-executive Directors for review, ensuring the decisions of the Board are made only after the due consideration of independent and impartial opinions;
- (v) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and a Director or their respective associate, 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; and
- (vi) upon completion of the [REDACTED], we will adopt 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. For details, see “— Corporate Governance Measures” in this section.

Based on the above, our Directors believe that our Company has sufficient and effective control mechanisms to ensure that the Directors perform their respective duties properly and safeguard the interests of our Company and our Shareholders as a whole. Our Board together with our senior management team, therefore, are able to perform the managerial role in our Group independently.

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Operational Independence

We are in possession of all production and operating facilities and technology relating to our Group's business and have obtained relevant requisite qualifications and approvals for conducting all our business. Currently, we engage in our Group's business independently, with the independent right to make operational decisions and implement such decisions.

We have independent access to customers and suppliers and, therefore, are not dependent on our Controlling Shareholders for any significant amount of our revenue, R&D, staffing or marketing and sales activities, and we have sufficient capital, equipment and employees to operate our business independently from our Controlling Shareholders. We have an established and complete organizational structure comprising various separate departments, each charged with specific responsibilities, such as staffing, administration, finance, internal audit, R&D, sales and marketing, or company secretarial functions. These departments have been in operation and are expected to continue to operate separately and independently from our Controlling Shareholders and their close associates. We also maintain a set of comprehensive internal control procedures to facilitate the effective operation of our business.

Based on the above, our Directors believe that our Company operates independently from our Controlling Shareholders and their close associates.

Financial Independence

Our Company has established its own finance department with a team of independent financial staff responsible for discharging treasury, accounting, reporting, group credit and internal control functions independent from our Controlling Shareholders and their respective close associates, as well as a sound and independent financial system, and makes independent financial decisions according to our own business needs. Our Company maintains bank accounts independently and does not share any bank account with our Controlling Shareholders. Our Company makes tax registration and pays tax independently with its own funds. As such, our Company's financial functions, such as cash and accounting management, invoices and bills, operate independently of our Controlling Shareholders and their close associates.

We do not expect to rely on our Controlling Shareholders and their close associates for financing after the [REDACTED] as we expect that our working capital will be funded by cash flows generated from operating activities, equity financing, bank loans as well as the [REDACTED] from the [REDACTED].

As of the Latest Practicable Date, there were no outstanding loans or guarantees provided by, or granted to, any member of our Controlling Shareholders or their close associates.

Based on the above, our Directors believe that we do not place undue reliance on our Controlling Shareholders and his close associates.

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CORPORATE GOVERNANCE MEASURES

Upon [REDACTED], we will comply with the provisions of the Corporate Governance Code set forth in Appendix 14 to the Listing Rules, which sets out the principles of good corporate governance.

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

- (i) where a Board meeting is held for the matters in which any Director has a material interest, such Director(s) shall abstain from voting on the relevant resolutions and shall not be counted in the quorum for the voting;
- (ii) where a Shareholders' meeting is to be held for considering proposed transactions in which our Controlling Shareholders or any of their associates has a material interest, the relevant member in our Controlling Shareholders will not vote on the resolutions and shall not be counted in the quorum in the voting;
- (iii) our Company has established internal control mechanisms to identify connected transactions. Upon the [REDACTED], if our Company enters into connected transactions with our Controlling Shareholders or any of their associates, our Company will comply with the relevant requirements of Chapter 14A of the Listing Rules, including the announcement, reporting and independent Shareholders' approval requirements (if applicable) under the Listing Rules;
- (iv) our Board will consist of a balanced composition of executive and non-executive Directors, including not less than one-third of independent non-executive Directors, to ensure that our Board is able to effectively exercise independent judgment in its decision-making process and provide independent advice to our Shareholders. Our independent non-executive Directors, individually and collectively, possess the requisite knowledge and experience. They are committed to providing experienced and professional advice to protect the interests of our minority Shareholders;
- (v) in the event that our independent non-executive Directors are requested to review any conflict of interests between our Group and our Controlling Shareholders, the relevant member in our Controlling Shareholders shall provide the independent non-executive Directors with all relevant financial, operational and market and any other necessary information. Our Company shall disclose the decisions of the independent non-executive Directors either in its annual reports or by way of announcements;

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- (vi) we have established our audit committee, remuneration committee and nomination committee with written terms of reference in compliance with the Listing Rules and the Corporate Governance Code in Appendix 14 to the Listing Rules. All the members of our audit committee, including its chairman, are independent non-executive Directors;
- (vii) 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 Code on Corporate Governance Practices and Corporate Governance Report as set out in Appendix 14 to the Listing Rules; and
- (viii) we have appointed Quam Capital Limited as our Compliance Advisor, which will provide advice and guidance to us in respect of compliance with the Listing Rules and applicable laws, rules, codes and guidelines, including but not limited to various requirements relating to Directors’ duties and internal controls.

Based on the 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 Directors to protect minority Shareholders’ rights after the [REDACTED].