
RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

OVERVIEW

As at the Latest Practicable Date, Zhan Rui, an investment holding company, owned 68% of the issued share capital of the Company and is an investment holding vehicle wholly owned by Mr. Cai Chenyang. Immediately following the completion of the Global Offering and the Capitalisation Issue, Zhan Rui will hold approximately 51% of the issued share capital of the Company (assuming the Over-allotment Option is not exercised). Assuming the Over-allotment Option is fully exercised, Zhan Rui will hold approximately 49.2% of the issued share capital of the Company. Each of Zhan Rui and Mr. Cai Chenyang is therefore the Controlling Shareholder of the Company. Apart from the Group's business, the Controlling Shareholders, i.e. Zhan Rui and Mr. Cai Chenyang, and all the Directors do not have any interest in any business which competes or is likely to compete, either directly or indirectly, with the Group's business.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

The Directors are satisfied that the Group is capable of carrying on the business independently from the Controlling Shareholders and their respective associates after the Global Offering. This conclusion is based on, among other factors, the following:

Financial Independence

The Group has its own financial system and makes financial decisions according to its own business needs. As at the Latest Practicable Date, all the guarantees provided by Mr. Cai Chenyang for the benefit of the Group had been released, and all amounts due from Mr. Cai Chenyang to the Group had been settled. After completion of the Global Offering and the Capitalisation Issue, there will be no financing from the Controlling Shareholders or their associates and the Directors are of the opinion that, taking into account of the Group's internal resources, banking facilities and the estimated net proceeds from the Global Offering, the Group will have sufficient working capital for its requirements for at least the next twelve months from the date of publication of this prospectus. The Directors believe that the Group will be able to obtain its own third party financing after the Global Offering without support or assistance from the Controlling Shareholders or their respective associates. Therefore, there is no financial dependence of the Group on the Controlling Shareholders or any of their respective associates.

Operational Independence

The Group has been operating independently from the Controlling Shareholders and their associates with its own production team, production facilities and sales and marketing teams. In addition, the Group has its own operational facilities, source of supplies, customer base and sales and distribution channels. Such source of supplies, customer base and sales and distribution channels are independent from the Controlling Shareholders and their respective associates. The Group has sufficient capital, equipment and employees to operate its business independently. The Group makes its business decisions independently. Further, the Group has also implemented internal control to facilitate effective operations of the business.

As of the Latest Practicable Date, the Group had not entered into any connected transactions with any of the Controlling Shareholders, their respective associates or any connected person of the Group.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

The Directors consider that the Group's operation do not rely on the Controlling Shareholders or any of their respective associates.

Management Independence

In addition to Mr. Cai Chenyang, the Board comprises two other executive Directors and three independent non-executive Directors. The Board is able to function independently from the Controlling Shareholders or their respective associates.

The Group's independent non-executive Directors are experienced in different areas and they have been appointed pursuant to the requirements under the Listing Rules to ensure that the decisions of the Board will be made only after due consideration of independent and impartial opinions. The Directors believe that the presence of Directors from different backgrounds provides a balance of views and opinions. Further, the Board acts collectively by majority decisions in accordance with the Articles and the applicable laws, and no single Director has any decision-making power unless otherwise authorised by the Board.

In addition, the Group has adopted certain corporate governance measures for conflict situations in order to safeguard the interests of the Shareholders as a whole, the details of which are set out in the paragraph headed "Corporate Governance" below in this section of this prospectus.

Based on the above circumstances and reasons, the Directors are of the view that the Directors and senior management are able to function independently from the Controlling Shareholders.

NON-COMPETITION UNDERTAKINGS

In order to avoid any possible future competition between the Group on the one hand, and the Controlling Shareholders on the other hand, the Controlling Shareholders executed a Deed of Non-Competition on 22 June 2012 in favour of the Company (for itself and for the benefit of each member of the Group). Pursuant to the Deed of Non-Competition, the Controlling Shareholders have jointly and severally, irrevocably and unconditionally undertaken with the Company (for itself and for the benefit of each member of the Group) that with effect from the Listing Date and for as long as the Shares remain listed on the Stock Exchange and the Controlling Shareholders are, either individually or collectively with their respective associates, directly or indirectly interested in not less than 30% of the issued share capital of the Company (the "Restricted Period"), the Controlling Shareholders and their respective associates (other than members of the Group) shall not directly or indirectly be engaged, invest, be interested or otherwise be involved in any business of the Group as set out in this prospectus or any business which, directly or indirectly, competes or may compete with the business presently carried on by the Group or any other business that may be carried on by the Group from time to time throughout the Restricted Period (the "Restricted Activity") in the PRC, save for the holding of not more than 5% shareholding interests (individually or with other executive Directors and/or their respective associates) in any company which is engaged or interested in the Restricted Activity, provided that (a) that company is listed on a recognised stock exchange; (b) the Controlling Shareholders do not have any right to appoint any person to the board of directors of that company; and (c) there is at least one other shareholder having shareholding in that company which is larger than the aggregate shareholding of the Controlling Shareholders in that company; or the obtaining of the Company's approval as mentioned in the paragraph below.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

If the Controlling Shareholders or any of the Controlling Shareholders is offered or becomes aware of any business opportunity to engage or become interested directly or indirectly in a Restricted Activity (“New Opportunity”), they:

- (a) shall promptly notify the Company in writing (“Offer Notice”) and refer such business opportunity to the Company for consideration and provide such information as may be reasonably required by the Company in order to make an informed assessment of such business opportunity; and
- (b) shall not, and procure that their respective associates shall not, invest or participate in any project or business opportunity unless such project or business opportunity shall have been rejected by the Company and the principal terms of which the Controlling Shareholders and their respective associates invest or participate are no more favorable than those made available to the Company.

The Controlling Shareholders will be entitled to pursue the New Opportunity only if (i) the Controlling Shareholders have received a notice from the Company declining the New Opportunity and confirming that such New Opportunity would not constitute competition with the Restricted Activity (“Approval Notice”), or (ii) the Controlling Shareholders have not received such Approval Notice from the Company within three months from the receipt of the Offer Notice. In deciding whether an Approval Notice should be given, Mr. Cai Haifang and Ms. Cai Shengyin would restrain from voting. Such Approval Notice shall only be given by the Company after the review by the independent non-executive Directors (provided always that those Directors who are interested in the relevant Restricted Activity shall not vote on the relevant resolutions of the Board).

An additional one month shall be granted by the Controlling Shareholders upon receiving a written request from the Company asking for additional time to assess the New Opportunity.

Pursuant to the said Deed of Non-Competition, each of the Controlling Shareholders has also undertaken not to, and procure his associates not to, use the trademarks as set out under the paragraph headed “Intellectual Property” in Appendix V to this prospectus anywhere in the world (including the PRC). For details of the Group’s intellectual property rights, please refer to the paragraphs headed “Intellectual Property Rights” in the “Business” section in this prospectus.

The Controlling Shareholders have further undertaken with the Company that they would, during the term of the Deed of Non-Competition indemnify the Group and keep the Group indemnified against any loss suffered by the Group arising out of any breach of any of their undertakings under the Deed of Non-Competition.

CORPORATE GOVERNANCE

The Company has adopted the following corporate governance measures to manage any potential conflicts of interest arising from any future potential competing businesses and to safeguard the interests of the Shareholders:

- the Controlling Shareholders will make an annual declaration on compliance with their undertakings under the Deed of Non-Competition in the annual report of the Company;

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

- the independent non-executive Directors will review, at least on an annual basis, the compliance of the Controlling Shareholders with the Deed of Non-Competition;
- the Company will make disclosures in its annual reports or by way of announcements regarding the review conducted by the independent non-executive Directors relating to such compliance with and enforcement of the Deed of Non-Competition including, among others, any new business opportunity turned down by the Company under the Deed of Non-Competition and the basis thereon; and
- the Company has appointed CICL as the Company's compliance adviser which shall provide it with professional advice and guidance, in respect of compliance with the Listing Rules and applicable laws and regulations.