
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, CareCapital Orthotech held approximately 67.1242% of the total issued share capital and thus a Controlling Shareholder of our Company. CareCapital Orthotech is wholly-owned by CareCapital EA, Inc., which is in turn owned by CareCapital Holdings and CareCapital Moonstone Holdings Limited, a wholly-owned subsidiary of CareCapital Holdings. CareCapital Group is the holder of all voting shares and has the right to appoint the sole director of CareCapital Holdings. Accordingly, as of the Latest Practicable Date, CareCapital Group is entitled to exercise approximately 67.1242% of the voting rights at the general meetings of our Company. Immediately after the completion of the [REDACTED] (assuming no exercise of the [REDACTED] and without taking into account of any Shares that may be issued pursuant to the Share Award Schemes), CareCapital Group will continue to control approximately [REDACTED]% of the voting rights at the general meetings of our Company, and thus become the Controlling Shareholders of our Company. See “Our History and Corporate Development” for details of the voting arrangement and more information of CareCapital Group.

BUSINESS DELINEATION AND COMPETITION

Our core business is to research and development, manufacture and marketing of clear aligners treatment solutions in China (the “Core Business”). During the Track Record Period, our revenues from clear aligners solutions accounted for approximately 95.2%, 97.2% and 97.9% of our total revenues, respectively, and all of our revenues were generated in China.

CareCapital Group, our Controlling Shareholders, is a long-term investment and operating group committed to dental and oral care industry, and its investment portfolios cover the full value chain in the industry from upstream education and training, product and equipment to mid-stream clinic management software and distribution to downstream hospitals and clinics. As of the Latest Practicable Date, other than the interest in our Group, CareCapital Group has invested and controlled certain other companies in dental industry, including, among others, dental clinics, dental device manufacturer (intraoral scanners or other medical devices than clear aligners) or medical devices distributors, where our non-executive Directors, as representatives of CareCapital Group, serve as directors of certain such companies. The businesses of such companies are different types of businesses as compared to our Core Business.

CareCapital Group is also interested in approximately 30% of the equity interests of Ortho Caps GmbH, a small German family business primarily engaging in the provision of clear aligner treatment solutions in Europe. CareCapital Group is only a passive minority financial investor. CareCapital Group cannot exercise control over Ortho Caps GmbH and has not participated in the management of the company. Furthermore, Ortho Caps GmbH primarily focuses on the business and targets at the patients and customers in Europe, the geographical and market focuses as well as the patient origins of which are different from our Core Business.

In light of such investment portfolio companies of CareCapital Group, CareCapital Group has undertaken to provide a Non-Competition Undertaking in favor of us, which includes that CareCapital Group will grant the Group the right of first refusal for the new business opportunities that is similar to our Core Business. See “— Non-Competition Undertaking” for details. We have adopted and will adopt appropriate enhanced measures to manage the conflict of interests between our Controlling Shareholders, our Directors and our Group and Shareholders as a whole. See “— Corporate Governance Measures” for details.

Our Controlling Shareholders and our Directors confirm that as of the Latest Practicable Date, save as disclosed above, neither of them nor their respective close associates have any interest in any business, apart from the Core Business operated by members of our Group, that competes or is likely to compete, directly or indirectly, with the business of our Group and would require disclosure pursuant to 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 our Group is capable of carrying on our business independently from our Controlling Shareholders and their respective close associates after the [REDACTED].

Management Independence

Our business is managed and conducted by our Board and senior management. Upon the completion of the [REDACTED], our Board consist of two executive Directors, three non-executive Directors and three independent non-executive Directors. See “Directors and Senior Management” for details.

All of our non-executive Directors are employees and senior management of CareCapital Group, our Controlling Shareholders. Despite such relationship, our Directors believe that our Board and senior management has been and will continue to be able to independently manage our business and function independently from our Controlling Shareholders based on the following grounds:

- (1) each of our Directors is aware of his fiduciary duties as a Director of our Company which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest;
- (2) 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 associates, the interested Directors 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;
- (3) our daily management and operations are carried out by our executive Directors and a senior management team, all of whom are independent from our Controlling Shareholders and have substantial experience in the industry in which our Company is engaged, and will therefore be able to make business decisions that are in the best interest of our Group;
- (4) we have three independent non-executive Directors who have extensive experience in different professions. They have been appointed pursuant to the requirements under the Listing Rules to ensure that the decisions of the Board are made only after due consideration of independent and impartial opinions. Our Directors believe that the presence of our independent non-executive Directors from different backgrounds provides a balance of views and opinions; and
- (5) 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. See “— Corporate Governance Measures.”

Our Directors are satisfied that our Board together with our senior management team as a whole is able to manage our business independently from our Controlling Shareholders and their close associates.

Operational Independence

We have established our own organizational structure comprised of individual departments, each with specific areas of responsibilities. We have also established various internal controls procedures to facilitate the effective operation of our business. Our Group is not operationally dependent on our Controlling Shareholders. Our Company (through our subsidiaries) holds or enjoys the benefit of all relevant licenses and owns all relevant intellectual property and research and development facilities necessary to carry on our business. We have sufficient capital, facilities, equipment and employees to operate our business independently from our Controlling Shareholders. We also have independent access to our customers and suppliers.

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Apart from the transactions set out in “Connected Transactions,” our Directors do not expect that there will be any other significant transactions between our Group and our Controlling Shareholders upon or shortly after the [REDACTED]. Based on the above, our Directors believe that we are capable of carrying on our business independently of our Controlling Shareholders and their respective close associates.

Financial Independence

Our Group has an independent financial system and makes financial decisions according to our Group’s own business needs. Our Group’s accounting and finance functions are independent of our Controlling shareholders. During the Track Record Period, we primarily financed our business operation through cash generated from our business activities. As of the Latest Practicable Date, we did not have any outstanding borrowing or guarantee from our Controlling Shareholders or any of their respective close associates.

Having considered the above, we believe we are able to obtain external financing, when and if necessary, without guarantee or security provided by our Controlling Shareholders. Our Directors confirm that we will not rely on our Controlling Shareholders for financing after the [REDACTED] as we expect that our working capital will be funded from the [REDACTED] and cash flow from operations. Therefore, there is no financial dependence on our Controlling Shareholders and their respective close associates.

NON-COMPETITION UNDERTAKING

On [●], our Controlling Shareholders entered into the deed of non-competition in favor of our Company, pursuant to which our Controlling Shareholders have each undertaken to our Company that they will not and will use their best reasonable efforts to procure their close associates (except any member of our Group) not to commence, engage in, participate in or acquire any business (“Restricted Business”) which competes with our Core Business, subject to certain limited exceptions as set forth below.

New Business Opportunities

The Controlling Shareholders have each further undertaken that during the Restricted Period (as defined below), they should and will procure their close associates (except any member of our Group) (the Controlling Shareholders and their close associates together, “Offeror”) to offer new business opportunities to us first in the following manner when any business, investment or other business opportunities (“New Business Opportunities”) that are the Restricted Business become available to the Offerors:

- (1) the Offerors will refer New Business Opportunities to us, and will inform us in writing (“Offer Notice”) about all necessary and reasonably required information in respect of any New Business Opportunities (including but not limited to details of the nature and investment or acquisition cost of the New Business Opportunities) for us to consider (i) whether the relevant New Business Opportunities will compete with our business, and (ii) whether pursuit of the New Business Opportunities is in the interest of our Group;
- (2) upon receipt of the Offer Notice, the independent non-executive Directors will consider whether to pursue the New Business Opportunities taking into account whether the relevant New Business Opportunities would be able to achieve a sustainable profitability level, whether they are in line with the prevailing development strategies of our Group, and whether they are in the best interest of our Group and our Shareholders. Our Company must inform the Offeror in writing within 20 days after receipt of the Offer Notice about its decision on whether the New Business Opportunities will be pursued; and

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- (3) only when (i) the Offerors have received our notice to reject the New Business Opportunities; or (ii) the Offerors have not received the relevant notice from our Company within the period as stated above in paragraph (2) after the Offer Notice has been received by us; or (iii) we have failed to transact the New Business Opportunities within three months, then the Offerors are entitled to pursue the New Business Opportunities on terms and conditions not more favorable than those specified in the Offer Notice issued to us.

The undertakings under the deed of non-competition are not applicable in the following circumstances:

- (1) the Controlling Shareholders and/or their respective close associates engage in the Restricted Business directly or indirectly through the ownership of equity interest in any member of our Group;
- (2) the Controlling Shareholder's existing interests in its investment portfolio companies; or
- (3) the Controlling Shareholders and/or their respective close associates engage in the Restricted Business directly or indirectly through the ownership of equity interest in [REDACTED] companies other than our Group, with the following conditions being satisfied:
 - (i) The Restricted Business (and relevant assets) conducted or carried out by such company represents less than 10% of the revenue or total assets of such company according to the latest audited accounts of such company; and
 - (ii) the Controlling Shareholders and/or their respective close associates (except any member of our Group) hold in aggregate not more than 10% of the issued share capital of relevant class of shares of such company, and the Controlling Shareholders and/or their respective close associates (except any member of our Group) have no right to appoint the majority of directors of such company or participate in the management of such company.

Pursuant to the deed of non-competition, the Restricted Period refers to the period which commences from the [REDACTED] and ends on the following dates (whichever is earlier):

- (1) the date when the Shares cease to be [REDACTED] on the [REDACTED]; and
- (2) the date when the Controlling Shareholders cease to be controlling shareholders of our Company.

CORPORATE GOVERNANCE MEASURES

Our Directors recognize the importance of good corporate governance in protecting our Shareholders' interests. We have put in place sufficient corporate governance measures to manage the conflict of interest and potential competition from our Controlling Shareholders and safeguard the interest of the Shareholders, including:

- (1) our independent non-executive Directors will review, at least on an annual basis, whether there is any conflict of interest between our Group and our Controlling Shareholders and provide impartial and professional advice to protect the interests of our minority Shareholders;
- (2) our independent non-executive Directors will review the compliance with the undertakings under the deed of non-competition by our Controlling Shareholders on an annual basis;

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- (3) our Controlling Shareholders will provide reasonable and necessary information for the annual review by our independent non-executive Directors;
- (4) our Company will disclose decisions on matters (if any) reviewed by our independent non-executive Directors (including our independent non-executive Directors' views and decisions (with basis) for accepting or declining any New Business Opportunities) and will confirm whether the Controlling Shareholders have fulfilled the Non-Competition Undertaking in the annual reports of our Company or in the announcement under the Listing Rules;
- (5) where a Shareholders' meeting is to be held for considering proposed transactions in which our Controlling Shareholders or any of his close associates has a material interest, our Controlling Shareholders will not vote on the resolutions and shall not be counted in the quorum in the voting;
- (6) our Company has established internal control mechanism to identify connected transactions. After the [REDACTED], our Company will comply with the requirements in connection with connected transactions under the Listing Rules;
- (7) where our Directors reasonably request the advice of independent professionals, such as independent financial advisors, the appointment of such independent professional will be made at our Company's expense;
- (8) we have appointed Somerley Capital Limited as our compliance advisor 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
- (9) we will establish the audit committee, remuneration committee and nomination committee prior to the [REDACTED] with written terms of reference in compliance with the Listing Rules and the Corporate Governance Code.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between our Controlling Shareholders and their respective close associates and our Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.