
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OVERVIEW

As of the Latest Practicable Date, Dr. HU, the Company’s founder, executive Director, chairman of the Board, and chief executive officer, was directly interested in approximately 10.2% of the total issued share capital of our Company. In addition, Dr. HU serves as the general partner of each of the Employee Incentive Platforms and accordingly controls the voting rights of these entities. As of the Latest Practicable Date, Infrawaves Xiliu, Infrawaves Xize, and Infrawaves Xihai held approximately 9.5%, 8.2%, and 10.0% of the Shares, respectively. Accordingly, as of the Latest Practicable Date, Dr. HU was entitled to exercise or control the exercise of voting rights in respect of an aggregate of approximately 37.9% of the total issued Shares of our Company.

Immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised), Dr. HU will be entitled to exercise or control the exercise of voting rights attached to approximately [REDACTED]% of the total issued Shares of our Company (including the Shares held by the Employee Incentive Platforms).

Therefore, Dr. HU, Infrawaves Xiliu, Infrawaves Xize, and Infrawaves Xihai will together constitute a group of Controlling Shareholders of our Company upon [REDACTED].

COMPETITION

As of the Latest Practicable Date, none of the Controlling Shareholders and their respective close associates had any interest in any business that competes or is likely to compete, either directly or indirectly with our Group’s business, which would require disclosure under Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM OUR 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 the Board and senior management. Our Board consists of three executive Directors, one non-executive Director and three independent non-executive Directors. For more information, see “Directors and Senior Management”. Notwithstanding the roles of Dr. HU in our Board, our Directors believe that the Board and senior management of our Company are able to operate our business independently from 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 benefits and in the interests 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;
- (ii) our daily management and operations are carried out by our executive Directors and senior management team. They 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 interests 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 more than one-third of the Board, and do not and will not take up any position with our Controlling

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Shareholders. All of our three independent non-executive Directors are independent from our Controlling Shareholders and have extensive experience in their respective areas of expertise. For details, see “Directors 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 interests arising out of any transaction to be entered into between our Group and a Director or their respective close associate, the interested Director(s) is required to declare the nature of such interests before voting at the relevant Board meetings of our Company in respect of such transactions; and
- (vi) upon the [REDACTED], we will adopt a series of corporate governance measures to manage conflicts of interests, if any, between our Group and our Controlling Shareholders which would support our independent management. For details, see “— Corporate Governance Measures” below.

Based on the above, our Directors believe that our Company has sufficient and effective control mechanisms to ensure that our 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.

Operational Independence

We possess all technologies relevant to our Group’s business and hold all requisite qualifications, licenses and approvals necessary for the conduct of our business operations. 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 we are able to operate independently from our Controlling Shareholders and their respective 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 independently 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 from our Controlling Shareholders and their respective close associates.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, we had outstanding bank borrowings in the aggregate amount of approximately RMB237.6 million guaranteed by Dr. HU, of which (i) approximately RMB35.0 million will mature and the related guarantee will be automatically released prior to the [REDACTED], and (ii) the guarantee in respect of the remaining approximately RMB202.6 million will be released pursuant to agreements with the relevant banks prior to the [REDACTED]. We have obtained confirmations from the banks providing the aforesaid outstanding guaranteed loans that they have agreed to the release of the guarantees provided by Dr. HU prior to the [REDACTED] and to the replacement thereof with a corporate guarantee to be provided by our Company upon [REDACTED].

Save as disclosed above, as of the Latest Practicable Date, there were no outstanding loans, advances or non-trade balances due to or from our Controlling Shareholders and/or their respective close associates, nor were there any other outstanding pledges or guarantees provided by or granted to our Controlling Shareholders and/or their respective 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].

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

CORPORATE GOVERNANCE MEASURES

Upon the [REDACTED], we will comply with the provisions of the Corporate Governance Code in Appendix C1 to the Listing Rules, which sets out principles of good corporate governance.

Our Directors recognize the importance of good corporate governance in protection of our Shareholders’ interests. We would adopt the following measures to safeguard good corporate governance standards and to avoid potential conflict of interests between our Group and the 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 any member of 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 for 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 any member of 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) our independent non-executive Directors will review, on an annual basis, whether there are any conflicts of interests between our Group and our Controlling Shareholders and provide impartial and professional advice to protect the interests of our minority Shareholders;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (vi) our Controlling Shareholders will provide our independent non-executive Directors with all relevant financial, operational and market and any other necessary information as required by the independent non-executive Directors for the purpose of their annual review;
- (vii) our Company shall disclose the decisions of the independent non-executive Directors either in its annual reports or by way of announcements as required by the Listing Rules;
- (viii) we have established the Audit Committee, the Remuneration and Appraisal Committee and the Nomination Committee with written terms of reference in compliance with the Listing Rules and the Corporate Governance Code in Appendix C1 to the Listing Rules;
- (ix) 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 expenses; and
- (x) we have appointed Guotai Junan 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 interests between our Group and our Controlling Shareholders to protect minority Shareholders’ rights after the [REDACTED].