

RELATIONSHIP WITH OUR SINGLE LARGEST GROUP OF SHAREHOLDERS

OVERVIEW

As of the Latest Practicable Date, (i) Mr. Zhang Guodong was directly interested in approximately 5.38% of the equity interest in our Company; (ii) Mr. Pan Mingdong was directly interested in approximately 3.01% of the equity interest in our Company; (iii) Mr. Liu Yi was directly interested in approximately 1.04% of the equity interest in our Company; (iv) Nanjing Ningtaixin Enterprise Consulting Management Partnership Enterprise (Limited Partnership)* (南京寧泰芯企業諮詢管理合夥企業(有限合夥)) (“**Ningtaixin**”), a limited partnership established under the laws of the PRC on September 9, 2020, was directly interested in approximately 9.49% of the equity interest in our Company; and (v) Ningbo Meishan Bonded Port Area Ningpuxin Enterprise Management Partnership Enterprise (Limited Partnership)* (寧波梅山保稅港區寧浦芯企業管理合夥企業(有限合夥)) (“**Ningpuxin**”), a limited partnership established under the laws of the PRC on October 8, 2022, was directly interested in approximately 6.02% of the equity interest in our Company.

As of the Latest Practicable Date, Mr. Zhang Guodong was the general partner of Ningtaixin and Ningpuxin. As such, Mr. Zhang Guodong is deemed to have *de facto* control in Ningtaixin and Ningpuxin, and hence is the controller of Ningtaixin and Ningpuxin. Accordingly, Mr. Zhang Guodong is deemed to be interested in Shares of our Company held by Ningtaixin and Ningpuxin for the purpose of the SFO.

Pursuant to the concert party agreement dated June 8, 2023 entered into by and between Mr. Zhang Guodong, Mr. Pan Mingdong, Mr. Liu Yi, Ningtaixin and Ningpuxin, the parties acknowledged that (i) they shall consult each other in respect of any decision relating to the business operation and corporate governance of the Company and reach consensus before voting unanimously at the general meetings of the Company, and (ii) where consensus cannot be reached between the parties, parties shall follow the instructions of Mr. Zhang Guodong. It is expected that the concert party agreement will remain effective at [REDACTED] and for a period of five years following our Company’s [REDACTED] on any stock exchange.

Therefore, Mr. Zhang Guodong, Mr. Pan Mingdong, Mr. Liu Yi, Ningtaixin and Ningpuxin held in aggregate approximately [REDACTED]% of the equity interest in our Company, and are considered the single largest group of Shareholders of our Company (our “**Single Largest Group of Shareholders**”) before [REDACTED].

Mr. Zhang Guodong is our executive Director and the chairman of our Board, while Mr. Pan Mingdong and Mr. Liu Yi are executive Directors. For further information on their biographical details, see “Directors, Supervisor and Senior Management — Directors” in this document.

Immediately upon the completion of the [REDACTED] (assuming the [REDACTED] is not exercised and without taking into account any Shares to be issued upon the exercise of any options granted under the [REDACTED] Share Option Scheme), our Single Largest Group of Shareholders will be interested in and control approximately [REDACTED]% of the total issued share capital of our Company and it is expected that they will remain as the single largest group of Shareholders in our Company.

COMPETITION

As of the Latest Practicable Date, each member in our Single Largest Group of Shareholders confirmed that they did not have any interest in any business, other than our business, which 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.

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INDEPENDENCE FROM OUR SINGLE LARGEST GROUP OF SHAREHOLDERS

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

Management independence

Our Company is capable of making our own management decisions independent from Single Largest Group of Shareholders. Our Board currently comprises four executive Directors, two non-executive Directors and three independent non-executive Directors. Although each of Mr. Zhang Guodong, Mr. Pan Mindong and Mr. Liu Yi, being part of our Single Largest Group of Shareholders, are executive Directors, and Mr. Zhang Guodong is the chairman of our Board, our management decisions are made by the Board in a collective manner, such that management independence will not be compromised. Further, three out of nine Directors are independent non-executive Directors and certain matters of our Company must always be referred to the independent non-executive Directors for review and independent judgment.

In addition, our Directors consider that each of our Directors and senior management are 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. Further, our daily management and operations are carried out by a senior management team, all of whom 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 interests of our Group.

In the event that any Director or any of his/her close associates has a material interest in any transaction or arrangement or there is an actual or potential conflict of interest arising out of any transaction or arrangement to be entered into between our Group and any of our Directors or their respective associates, such Director(s) shall fully disclose such matters to our Board and abstain from voting at the relevant meeting of our Board in respect of such transactions and shall not be counted in the quorum.

Our Company has also adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and our Single Largest Group of Shareholders, which would support our independent management. For further information, see “— Corporate Governance Measures” in this section for further details.

Operational independence

Our Company is capable of making our own operational decisions and carrying out our own business operations independently. We are operationally independent from our Single Largest Group of Shareholders and have structured our Company with distinct departments, including but not limited to our Planning Department (企劃處), Business Management Department (企管處), Human Resources Department (人事處), Supply Chain Management Department (供應鏈管理處), Quality Management Department (品質管制處), Finance Department (財務處), Information Technology Department (信息技術處), Engineering Research Institute (工程研究院) and Sales Center (銷售中心) to carry out their respective functions.

We have independent access to our customers and suppliers and are also in possession of all relevant licenses, intellectual properties, R&D facilities and qualifications necessary to carry on and operate our current business. We also have sufficient operational capacity in terms of capital, facilities, technology and employees to operate independently from our Single Largest Group of Shareholders and their respective close associates. Based on the above, our Directors are of the view that we are operationally independent from our Single Largest Group of Shareholders and their respective close associates following the completion of the [REDACTED].

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Financial independence

Our Company has a financial system independent from our Single Largest Group of Shareholders and we make financial decisions according to our Group’s own business needs. We have independent internal control and accounting systems and an independent Finance Department (財務處) for discharging treasury, accounting and reporting functions.

We do not expect to rely on our Single Largest Group of Shareholders or 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 as well as the [REDACTED] from the [REDACTED]. In any event, we are capable of obtaining financing from third parties, if necessary, without reliance on our Single Largest Group of Shareholders.

During the Track Record Period and up to the Latest Practicable Date, certain of the Group’s bank loans and finance leases were guaranteed by members of our Single Largest Group of Shareholders through personal guarantees (the “**Guaranteed Loans**”). Our Directors confirm that no consideration was payable or will be payable to the our Single Largest Group of Shareholders for the provision of such Guaranteed Loans. As at the Latest Practicable Date, the aggregate principal amount of the Guaranteed Loans amounted to RMB774,329,986. For details of the Guaranteed Loans, see the section headed “Connected Transactions” in this document. In addition, for details on our other outstanding bank loans and credit facilities, see “Financial Information — Indebtedness” and Note 28 to the Accountants’ Report in Appendix I of this document.

The Directors are of the view that early replacement or discharge of the Guaranteed Loans would be extremely cumbersome and require the renegotiation of the terms with the relevant banks and financial institutions. In addition, the renegotiated terms of the loans without guarantees would generally be less favorable than those offered by the same banks and financial institutions that have the benefit of the Guaranteed Loans, the majority of which are at the low end of the PBOC published base lending rate of 3.0% per annum and 3.5% per annum for loan tenures shorter than one-year and over-five-years, respectively as at the Latest Practicable Date.

Further, to demonstrate that our Company does not rely on the Single Largest Group of Shareholders to obtain financing, our Company has obtained new independent facilities from 13 lenders (including banks and financial institutions) with a total credit limit of approximately RMB579.5 million without any guarantee or credit support from the Single Largest Group of Shareholders or their Connected Persons. In addition, we are negotiating a project loan in an aggregate principal amount of approximately RMB650 million from eight PRC licensed banks, which is expected to be signed in May 2026 and does not require guarantees or credit support from our Single Largest Group of Shareholders or any of their close associate. We expect that the terms of the Alternative Loan will be similar to the terms of the Guaranteed Loans, and formal agreement(s) in respect of the Alternative Loan will be entered into prior to the [REDACTED].

Due to the reasons set out above and the nature of the Guaranteed Loans, of which the majority of its terms are relatively short, we will not prematurely replace or discharge the Guaranteed Loans. Nevertheless, we undertake to release the Guaranteed Loans upon maturity and/or replace the Single Largest Group of Shareholders with corporate guarantees to be provided by members of the Group upon maturity of the Guaranteed Loans, which our Directors believe is in the best interests of the Company and the Shareholders as a whole.

Based on the above, our Directors are of the view that we are financially independent from Single Largest Group of Shareholders and their respective close associates following the completion of the [REDACTED].

RELATIONSHIP WITH OUR SINGLE LARGEST GROUP OF SHAREHOLDERS

CORPORATE GOVERNANCE MEASURES

Our Company and our Directors will comply with the provisions of the Corporate Governance Code set out in Appendix C1 to the Listing Rules, which sets out principles of good corporate governance. We recognize the importance of good corporate governance in the protection of our Shareholders’ interests and are committed to upholding and implementing the highest standards of corporate governance. We have adopted the following measures to safeguard good corporate governance standards and to avoid potential conflict of interests between our Group and our Single Largest Group of Shareholders:

- (i) we are dedicated to maintaining a balanced composition of executive, non-executive and independent non-executive Directors on our Board. In particular, we have appointed three independent non-executive Directors, which we believe possess substantial experience and are free of any business and/or other relationship which could interfere in any material manner with the exercise of their independent judgment. As such, our independent non-executive Directors will be able to provide an impartial and external opinion to protect the interests of our [REDACTED] Shareholders. For more information, see “Directors, Supervisor and Senior Management — Directors”;
- (ii) our Group has established internal control mechanisms to identify connected transactions. Our Company will comply with the requirements in relation to connected transactions under the Articles of Association and the Listing Rules upon [REDACTED] including, where appropriate, the reporting, annual review by the independent non-executive Directors, announcement and independent shareholders’ approval;
- (iii) under the Articles of Association, where a Shareholders’ meeting is to be held for considering proposed transactions in which our Single Largest Group of Shareholders or any of their respective close associates has a material interest, our Single Largest Group of Shareholders will abstain from voting on the resolutions and shall not be counted in the quorum in the voting;
- (iv) our Directors will operate in accordance with the Articles which require the interested Director not to vote (nor be counted in the quorum) on any resolution of our Board approving any contract or arrangement or other proposal in which he/she or any of his/her close associates is materially interested except as permitted by the Articles;
- (v) our Single Largest Group of Shareholders will undertake to provide all information necessary or requested by the independent non-executive Directors for the annual review, including all relevant financial, operational and market information;
- (vi) our Company will disclose decisions (with basis) on matters reviewed by the independent non-executive Directors either in its annual report or by way of announcements as required by the Listing Rules;
- (vii) where our Directors reasonably request the advice of independent professionals, such as financial advisers, the appointment of such independent professionals will be made at our Company’s expenses;
- (viii) we have established our Audit Committee, Remuneration and Evaluation Committee, and Nomination Committee with written terms of reference in compliance with the Listing Rules and the Code of Corporate Governance in Appendix C1 to the Listing Rules; and
- (ix) we have appointed Quam Capital Limited as our compliance advisor, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules, including 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 that may arise between our Group and our Single Largest Group of Shareholders, and to protect our minority Shareholders’ interests after the [REDACTED].