
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OVERVIEW

Mr. Wu, our executive Director, chairperson of the Board and general manager, through (i) Xinruilai, which is owned as to approximately 71.76% by Mr. Wu; (ii) Shenzhen Jubang, which is owned as to approximately 0.22% by Mr. Wu as the general executive partner and as to approximately 22.22% by Ms. Wu Jiamin, an executive Director and Mr. Wu’s daughter, as a limited partner; and (iii) Hongxin Micro, Hongxin Chuang, Hongxintai No. 2, Hosintai, Ningbo Zhaohan, Ningbo Zhaoxin and Hangzhou Feisuan, in each of which Mr. Wu serves as the general and executive partner, was entitled to exercise approximately 36.68% of the voting rights at the general meetings of our Company as of the Latest Practicable Date and will be entitled to control approximately [REDACTED]% of the voting rights in our Company immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised and no additional Shares are issued pursuant to the Pre-[REDACTED] Share Option Scheme). Accordingly, Mr. Wu, Ms. Wu Jiamin, Xinruilai, Shenzhen Jubang, Hongxin Micro, Hongxin Chuang, Hongxintai No. 2, Hosintai, Ningbo Zhaohan, Ningbo Zhaoxin and Hangzhou Feisuan will together constitute a group of our Controlling Shareholders under the Listing Rules.

INTEREST IN COMPETING BUSINESS

Each of our Controlling Shareholders confirms that he/she/it had no interest in any business apart from the business of our Group which competes or is likely to compete, either directly or indirectly, with the business of our Group, which would require disclosure under Rule 8.10 of the Listing Rules as of the Latest Practicable Date.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

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

Management Independence

Upon [REDACTED], our Board will comprise nine Directors, including four executive Directors, two non-executive Directors and three independent non-executive Directors. Save that Mr. Wu, our executive Director, the chairperson of our Board and general manager, and Ms. Wu Jiamin, our executive Director, are also our Controlling Shareholders, none of our Directors or members of the senior management is a Controlling Shareholder or holds any directorship or executive position in the respective close associates of our Controlling Shareholders.

Our management and operational decisions are made collectively by our Board and senior management, most of whom have served our Group for a significant period of time and have substantial and extensive relevant industry experience and expertise as set out in the section headed “Directors and Senior Management.”

Our Directors consider that our Board and senior management will function independently of our Controlling Shareholders for the following reasons:

- (i) each Director is aware of his or her fiduciary duties as a Director which require, among other things, that such Director acts for the best interests of our Company and our Shareholders as a whole and does not allow any conflict between his or her duties as a Director and his or her personal interests;

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- (ii) when performing his or her duties as a Director, Mr. Wu and Ms. Wu have been and will continue to be supported by the separate and senior management team of the Group. The balance of power and authority is ensured by the operation of the senior management and our Board. For details, please refer to the section headed “Directors and Senior Management” in this document;
- (iii) our Company has established internal control mechanisms to identify connected transactions to ensure that our Shareholders or Directors with conflicting interests in a proposed transaction will abstain from voting on the relevant resolutions pursuant to the relevant requirements under our Articles of Association and/or the Listing Rules;
- (iv) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Company and our Directors or their respective close associates, 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
- (v) we have appointed three independent non-executive Directors, comprising no less than one third of the total member of our Board, who have sufficient knowledge, experience and competence to provide a balance of the potentially interested Directors and independent Directors with a view to safeguard the interests of our Company and the Shareholders as a whole.

Based on the above, our Directors are of the view that our Board and senior management as a whole are capable to perform their roles in our Company independently and manage our business independently of our Controlling Shareholders and their respective close associates after [REDACTED].

Operational Independence

Our Group operates independently from members of our Controlling Shareholders and their respective close associates.

Our Group has a full-time management team and team of staff to carry out its operation and administration independently from our Controlling Shareholders. We have established our own organizational structure, with each department assigned to specific areas of responsibilities which have been in operation and are expected to continue to operate independently of our Controlling Shareholders and their respective close associates. We have independent access to our suppliers and customers. We are also in possession of relevant assets, licenses, trademarks and other intellectual property and research and development facilities necessary to carry on and operate our business independently, and we can operate independently in terms of capital and employees.

Based on the above, our Directors are satisfied that we will be able to operate independently of our Controlling Shareholders and their respective close associates after [REDACTED].

Financial Independence

We have the ability to operate independently of our Controlling Shareholders and their respective close associates from a financial perspective. We have an independent financial system and make financial decisions according to our own business needs. We have our independent financial department with a team of independent financial staff responsible for discharging the treasury function, and an audit committee comprising a majority of independent non-executive Directors to oversee our accounting and financial reporting processes. We make tax registration and pay tax independently with our own funds. As such, our financial functions, such as cash and accounting management, invoices and bills, operate independently of our Controlling Shareholders and their respective close associates.

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In our ordinary course of business, we have obtained credit facilities and loans from commercial banks to finance our operation and support our daily working capital requirements from commercial banks, and Mr. Wu was required by such banks to provide guarantee to such credit facilities and loans (the “**Guarantee**”). As of the Latest Practicable Date, the outstanding amount of the credit facilities and loans subject to the Guarantee was approximately RMB5.1 billion, and commercial banks providing such credit facilities and loans subject to the Guarantee had confirmed in writing to us that the Guarantee will be released prior to or upon the [REDACTED].

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

We do not rely on our Controlling Shareholders or their respective close associates to provide financial assistance to our Group. We have independent access to third party financing and, if necessary, we are capable of obtaining financing from external sources without reliance on our Controlling Shareholders or their respective close associates.

Based on the above, our Directors are satisfied that we will be able to maintain financial independence from our Controlling Shareholders and their respective close associates after [REDACTED].

CORPORATE GOVERNANCE MEASURES

Our Company will comply with all the code provisions of the Corporate Governance Code as set out in Appendix C1 to the Listing Rules, which sets our principles of good corporate governance, save for code provision C.2.1 of the Corporate Governance Code. For more details, please refer to the paragraphs headed “Directors and Senior Management — Management and Corporate Governance — Corporate Governance” in this document.

In order to further safeguard the interests of our Shareholders, we will adopt the following corporate governance measures to manage any potential conflicts of interest with our Controlling Shareholders and their respective close associates:

- (i) as part of our preparation for the [REDACTED], we have amended our Articles of Association to comply with the Listing Rules which will become effective upon [REDACTED]. In particular, our Articles of Association provides that, unless otherwise provided, a Director shall abstain from voting on any resolution approving any contract, transaction or arrangement in which such Director or any of his/her close associates has a material interest, nor shall such Director be counted in the quorum present at the Board meeting;
- (ii) where a transaction or arrangement of our Company is subject to Shareholders’ approval under the provisions of the Listing Rules, any Controlling Shareholder that has a material interest in the transaction or arrangement shall abstain from voting on the resolution(s) approving the transaction or arrangement at the general meeting;
- (iii) our Company has established internal control mechanisms to identify connected transactions. Upon [REDACTED], if our Company enters into connected transactions with our Controlling Shareholders or any of their associates, our Company will comply with the applicable requirements under the Listing Rules;
- (iv) we are committed that our Board shall include a balanced composition of executive Directors, non-executive Directors and independent non-executive Directors. We have appointed three independent non-executive Directors, and specifically, (a) our independent non-executive Directors are not associated with the members of our Controlling Shareholders or their respective associates; (b) our independent non-executive Directors account for no

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less than one-third of the Board; and (c) we believe our independent non-executive Directors possess sufficient experiences and are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide an impartial, external opinion to protect the interests of our Shareholders as a whole. For details of our independent non-executive Directors, please refer to the paragraphs headed “Directors and Senior Management — Directors — Independent Non-Executive Directors” in this document; and

- (v) where our Directors reasonably request for the advice of independent professionals, such as financial advisors, the appointment of such independent professionals will be made at our Company’s expenses.

We have appointed Altus 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 corporate governance.