
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OVERVIEW

As of the Latest Practicable Date, our Company was held as to approximately 48.06% by Luxvisions Limited, a company owned as to approximately 56.34% by Mr. Wang Laixi and approximately 43.66% by Luxsan Limited, which in turn is owned as to 34% by Ms. Wang Laichun (an elder sister of Mr. Wang Laixi), 33% by Mr. Wang Laisheng (an elder brother of Mr. Wang Laixi) and 33% by Ms. Wang Laijiao (an elder sister of Mr. Wang Laixi). Pursuant to the confirmation entered into among Mr. Wang Laixi, Ms. Wang Laichun, Mr. Wang Laisheng and Ms. Wang Laijiao, each of them confirmed, among others, that since the date when Ms. Wang Laichun, Mr. Wang Laisheng and Ms. Wang Laijiao invested in Luxvisions Limited through Luxsan Limited, they have been and would continue to be parties acting in concert and would consult with each other and reach a unanimous consensus among themselves before exercising their voting rights at the Board and Shareholders’ meetings. Immediately upon completion of the [REDACTED] and without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED], Luxvisions Limited will directly hold approximately [REDACTED]% of the total issued share capital of our Company. Accordingly, Mr. Wang Laixi, Ms. Wang Laichun, Mr. Wang Laisheng, Ms. Wang Laijiao, Luxsan Limited and Luxvisions Limited constitute a group of our Controlling Shareholders under the Listing Rules.

DELINEATION OF BUSINESS

Our Group is principally engaged in the provision of precision optical solutions, focusing on the mid- to-high-end optical module and system integration markets for global consumer electronics, automotive electronics, smart office applications, and emerging sectors and others.

Apart from the business of our Group, Ms. Wang Laichun, Mr. Wang Laisheng and Ms. Wang Laijiao also control companies, including Luxshare Precision, Luxshare Limited and Hsin Hong and their subsidiaries, which primarily engage in (i) provision of cross-sector, vertically integrated development and intelligent manufacturing solutions — from components and modules to systems — for global clients; (ii) designing, developing and manufacturing advanced interface solutions for vehicle interiors; (iii) providing original equipment manufacturer services for mobile phone assembly; and (iv) developing and manufacturing soft goods and providing solutions in the field of soft material applications (the “**Other Businesses**”). Given that the Other Businesses are not involved in the provision of optical solutions to realize optical functions, they are distinctive and separate from the business of our Group based on their business nature, product types and functions as well as technologies applied. Our Directors are of the view that there is a clear business delineation between our Group and the Other Businesses, which will not and is unlikely to compete with the business of our Group.

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

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS AND THEIR CLOSE ASSOCIATES

We believe that we are capable of carrying on our business independently of our Controlling Shareholders and their respective close associates (other than our Group) after the [REDACTED] for the following reasons:

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Management Independence

Our business is managed and conducted by our Board and senior management. Each of our Directors and members of our senior management possesses relevant management, financial or industry-related experience to contribute to the management of our business. For further information on the qualifications and experience of our Directors and senior management, see “Directors and Senior Management” in this document.

Our Board comprises two executive Directors, four non-executive Directors and three independent non-executive Directors. Save for two of our non-executive Directors, namely Ms. Wang Laichun, one of our Controlling Shareholders who is currently serving as (i) the chairlady of the board of directors, an executive director and general manager of Luxshare Precision; and (ii) the chairlady of the board of directors and a non-executive director of Time Interconnect, and Ms. Chen Cuilian, who is currently serving as the general manager of the marketing center of Luxshare Precision, none of our Directors or senior management holds any position in our Controlling Shareholders or their close associates.

Despite the overlapping roles, Ms. Wang Laichun and Ms. Chen Cuilian as our non-executive Director are not involved in the day-to-day management and operations of our businesses. Our executive Directors and senior management team carry out the business operations of our Group independently from our Controlling Shareholders and their respective close associates.

Each of our Directors is aware of his/her fiduciary duties as a Director, which require, among other things, that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interests. In the event that there is an actual or potential conflict of interest arising out of any transaction to be entered into between our Group and any of the Directors or their respective close associates, the interested Director(s) 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.

Our Board comprises nine Directors, including three independent non-executive Directors, which represent one-third of the members of our Board. Our independent non-executive Directors have extensive experience in corporate management and governance, and they are appointed to ensure that our Board will only make decisions after due consideration of independent and impartial opinions. Certain matters of our Company must always be referred to the independent non-executive Directors for review.

We have adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and our Controlling Shareholders that would support our independent management. See “Corporate Governance Measures” in this section.

Based on the reasons above, our Directors are of the view that our Group is capable of managing our business independently from our Controlling Shareholders and their respective close associates after the [REDACTED].

Operational Independence

We have full rights to make all decisions on, and carry out, our own business operations independently from our Controlling Shareholders and their respective close associates and will continue to do so after the [REDACTED].

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We hold and enjoy the benefit of all relevant licenses and permits material to the operation of our business. We also have independent access to our customers and suppliers as well as our business partners. Our administration and operation are carried out by a full-time independent management team and staff which carried out all key administrative functions without reliance on our Controlling Shareholders and their respective close associates.

We have our own manufacturing bases in China and overseas, including Guangzhou, Dongguan, Shenzhen, Shangrao, Shanghai and Vietnam. We have our own production team dedicated to our production and operating process and the production bases have been and will be operated by our own production team. All the properties, facilities and equipment necessary to our business operations are independent from our Controlling Shareholders and their respective associates.

The section headed “Connected Transactions” in this document sets out the continuing connected transactions between our Group and our Controlling Shareholders or their respective associates which will continue after [REDACTED]. The terms of all such transactions are determined after arm’s length negotiations and on normal commercial terms. Accordingly, such continuing connected transactions are not expected to affect our operational independence as a whole.

Based on the reasons above, our Directors are of the view that we have full rights to make all decisions on, and to carry out, our own business operations independently from our Controlling Shareholders and their respective close associates and will continue to do so after the [REDACTED].

Financial Independence

We have an independent financial system and make financial decisions according to our own business needs. We also have our own internal control and accounting systems, accounting and finance department for discharging the treasury function, which all are independent from our Controlling Shareholders and their respective close associates. Moreover, our Board has established the Audit Committee comprising solely of independent non-executive Directors to provide independent oversight to, among others, our accounting and financial reporting processes.

As of the Latest Practicable Date, our Group did not have any loans, advances or balances due to or from our Controlling Shareholders or their respective close associates which were not arising from the ordinary course of business. All guarantee provided by our Controlling Shareholders or their respective close associates on the borrowings of our Group had been released as of the Latest Practicable Date. We are capable of obtaining financing from Independent Third Parties without reliance on our Controlling Shareholders or their respective close associates in view of our Group’s strong financial position, steady cash flow generation and level of liquid assets as well as our ability to raise funds on a standalone basis.

Based on the above, our Directors believe that we are able to conduct our business independently from our Controlling Shareholders and their close associates from a financial perspective and are able to maintain financial independence and would not place undue reliance on our Controlling Shareholders or their close associates.

DEED OF NON-COMPETITION

Each of our Controlling Shareholders [has entered] into a Deed of Non-competition in favor of our Company, pursuant to which each of them [has unconditionally and irrevocably undertaken] to our Company that it will not, and will procure its close associates (save for members of our Group) not to directly or indirectly be involved in, interested in or undertake any business that directly or indirectly

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competes, or may compete, with our business which principally includes the provision of precision optical solutions, focusing on the mid- to-high-end optical module and system integration markets for global consumer electronics, automotive electronics, smart office applications, and emerging sectors and others (collectively referred to as the “**Restricted Businesses**”), or directly or indirectly hold shares or interest in any company or business that competes or may compete directly or indirectly with the business engaged by us from time to time, or conduct any Restricted Businesses, except where our Controlling Shareholders and their close associates hold less than 30% of interest of any company, which is engaged in any business that is or may be in competition with any business engaged by any member of our Group and they do not possess the right to control the board of directors of such company. The above restrictions also do not apply when our Group engages in a new business that is not a Restricted Business and at the time of commencement of such new business, any of our Controlling Shareholders had already been conducting or has been involved in, or otherwise been interested in, the relevant business.

Further, each of our Controlling Shareholders [has undertaken] that if any new business investment/other business opportunity relating to the Restricted Businesses (the “**Competing Business Opportunity**”) is identified by or made available to he/she/it or any of its close associates, it shall, and shall procure that his/her/its close associates shall, refer such Competing Business Opportunity to our Company on a timely basis by giving written notice (the “**Offer Notice**”) within 30 business days of identifying the target company (if relevant), the nature of the Competing Business Opportunity, the investment or acquisition costs and all other details reasonably necessary for our Company to consider whether to pursue such Competing Business Opportunity.

Upon receiving the Offer Notice, we shall seek approval from a board committee who does not have an interest in the Competing Business Opportunity (the “**Independent Board**”) as to whether to pursue or decline the Competing Business Opportunity. Any Director who has actual or potential interest in the Competing Business Opportunity shall abstain from attending (unless their attendance is specifically requested by the Independent Board) and voting at, and shall not be counted in the quorum for, any meeting convened to consider such Competing Business Opportunity. The Independent Board shall consider the financial impact of pursuing the Competing Business Opportunity offered, whether the nature of the Competing Business Opportunity is consistent with our strategies and development plans and the general market conditions of our business. If appropriate, the Independent Board may appoint independent financial advisors and legal advisors to assist in the decision making process in relation to such Competing Business Opportunity. The Independent Board shall, within 30 business days of receipt of the Offer Notice, inform our Controlling Shareholders in writing, on behalf of us, its decision whether to pursue or decline the Competing Business Opportunity.

The relevant Controlling Shareholders shall be entitled but not obliged to pursue such Competing Business Opportunity if he/she/it has received a notice from the Independent Board declining such Competing Business Opportunity or if the Independent Board failed to respond within such 30 business days’ period mentioned above. If there is any material change in the nature, terms or conditions of such Competing Business Opportunity pursued by the relevant Controlling Shareholders, he/she/it shall refer such revised Competing Business Opportunity to us as if it were a new Competing Business Opportunity.

The Deed of Non-Competition will lapse automatically if our Controlling Shareholders together ceases to control, whether directly or indirectly, 30% or above of our Shares with voting rights or our H Shares cease to be [REDACTED] on the Stock Exchange.

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Each of our Controlling Shareholders has further undertaken to us that it will provide and procure its close associates to provide on best endeavor basis, all information necessary for the annual review by our independent non-executive Directors for the enforcement of the Deed of Non-Competition. It will make an annual declaration in our annual report on the compliance with the Deed of Non-Competition in accordance with the principle of voluntary disclosure in the corporate governance report.

In order to promote good corporate governance practices and to improve transparency, the Deed of Non-Competition includes the following provisions:

- our independent non-executive Directors shall review, at least on an annual basis, the compliance with the Deed of Non-competition by our Controlling Shareholders;
- we will disclose the decisions on matters reviewed by our independent non-executive Directors (including the reasons for not taking up the Competing Business Opportunity referred to our Company) and the review by our independent non-executive Directors on the compliance with, and the enforcement of, the Deed of Non-competition in our annual report or by way of announcement to the public in compliance with the requirements of the Listing Rules; and
- in the event that any of our Directors and/or their respective close associates has material interests in any matter to be deliberated by our Board in relation to the compliance and enforcement of the Deed of Non-competition, he/she may not vote on the resolutions of our Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Articles of Association.

CORPORATE GOVERNANCE MEASURES

Our Directors recognize the importance of good corporate governance in protecting 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 our Controlling Shareholders:

- (a) as part of our preparation for the [REDACTED], we have amended our Articles of Association to comply with the Listing Rules. In particular, our Articles of Association provided that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his/her associates have a material interest nor shall such Director be counted in the quorum present at the meeting in respect of the resolution considering the approval of such contract or arrangement or proposal. In addition, where a general meeting of our Shareholders is to be held for considering proposed transactions in which any of our Controlling Shareholders or their respective close associates has a material interest, the relevant Controlling Shareholders shall abstain from voting on the relevant resolutions;
- (b) we are committed that our Board should include a balanced composition with 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. We have appointed three independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they 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

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provide an impartial, external opinion to protect the interests of our public Shareholders. For details of our independent non-executive Directors, please refer to “Directors and Senior Management — Board of Directors — Independent non-executive Directors” in this document;

- (c) we have appointed UOB Kay Hian (Hong Kong) Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules, 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;
- (d) our Company has established internal control mechanisms to identify connected transactions. Upon and after the [REDACTED], if our Company enters into connected transactions with our Controlling Shareholders or any of their associates, our Company will comply with the applicable Listing Rules;
- (e) as required by the Listing Rules, our independent non-executive Directors shall review any continuing connected transaction annually and confirm in our annual report that such transactions have been entered into in our ordinary and usual course of business, are either on normal commercial terms or on terms no less favorable to us than those available to or from independent third parties and on terms that are fair and reasonable and in the interests of our Shareholders as a whole; and
- (f) on an annual basis, our independent non-executive Directors will review the non-compete undertakings provided by our Controlling Shareholders and their compliance with such undertakings.

Based on the above, our Directors believe that there are sufficient and adequate corporate governance measures in place to manage existing and potential conflicts of interest that may arise between our Group and our Controlling Shareholders, and to protect minority Shareholders’ interests after the [REDACTED].