
RELATIONSHIP WITH OUR SINGLE LARGEST SHAREHOLDERS GROUP

OVERVIEW

(i) As of the Latest Practicable Date, Mr. Xiao, our founder and chairman of the Board, directly held 11,599,268 A Shares, representing approximately 2.77% of the voting power at the general meeting of our Company (excluding the 3,079,900 A Shares held by our Company as treasury Shares as of the Latest Practicable Date); and (ii) MegaMax directly held 122,836,704 A Shares, representing approximately 29.28% of the voting power at the general meeting of our Company (excluding the 3,079,900 A Shares held by our Company as treasury Shares as of the Latest Practicable Date), respectively.

MegaMax was 100% controlled by Mr. Xiao. As of the Latest Practicable Date, Mr. Xiao and MegaMax were entitled to exercise in aggregate of approximately 32.05% of the voting power at the general meeting of our Company (excluding the 3,079,900 A Shares held by our Company as treasury Shares as of the Latest Practicable Date). Accordingly, Mr. Xiao and MegaMax constituted a group of single largest shareholders.

Immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised and no other changes are made to the issued share capital of our Company between the Latest Practicable Date and the [REDACTED]), Mr. Xiao and MegaMax will be entitled to exercise approximately [REDACTED] of the voting power at the general meetings of our Company (excluding 3,079,900 A Shares held by our Company as treasury Shares). Accordingly, Mr. Xiao and MegaMax will constitute a group of single largest shareholder.

Share Pledges By Mr. Xiao

As of Latest Practicable Date, (i) Mr. Xiao, our founder and chairman of the Board, directly held 11,599,268 A Shares, representing approximately 2.77% of the voting power at the general meeting of our Company (excluding the 3,079,900 A Shares held by our Company as treasury Shares as of the Latest Practicable Date); and (ii) MegaMax, which is 100% owned by Mr. Xiao, directly held 122,836,704 A Shares, representing approximately 29.28% of the voting power at the general meeting of our Company (excluding the 3,079,900 A Shares held by our Company as treasury Shares as of the Latest Practicable Date), respectively. In order to obtain financing for his personal needs, Mr. Xiao has from time to time pledged the A Shares he owned directly or indirectly through MegaMax to certain PRC financial institutions as collateral. As of the Latest Practicable Date, Mr. Xiao has pledged 53,883,449 A Shares, representing 12.84% of the voting power of our Company (excluding the 3,079,900 A Shares held by our Company as treasury Shares as of the Latest Practicable Date) as security in favor of certain PRC financial institutions regulated by the NAFR and/or the CSRC.

The loan and credit facilities of Mr. Xiao secured by share pledges in respect of the A Shares he holds might be subject to margin call, close-out or loan-to-value ratio requirements that would be triggered by a material variation in value of our A Shares. Nevertheless, Mr. Xiao can opt to repay a portion of the relevant outstanding loans and/or provide additional margin funds in the event such margin call or loan-to-value ratio requirement is triggered to avoid having to pledge additional Shares in respect of such loan or credit facilities. Mr. Xiao will only pledge additional Shares to the extent permissible under the Hong Kong Listing Rules and further announcement(s) will be made by the Company as and when appropriate and required under the Hong Kong Listing Rules.

To the best knowledge of our Directors, there has not been any adverse credit records against Mr. Xiao in respect of any breach of repayment obligations under its indebtedness.

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Potential Impact of the Share Pledges

In the unlikely event that Mr. Xiao defaults on his personal financing arrangements and all the pledged 53,883,449 A Shares are foreclosed by the relevant PRC financial institutions (the “**Potential Foreclosure**”), the potential impact on our Group’s shareholding structure and business operations is set out below:

- **Impact on Shareholding Structure:**
 - *Prior to the [REDACTED]:* As of the Latest Practicable Date, Mr. Xiao and MegaMax (which is wholly-owned by Mr. Xiao) collectively hold 134,435,972 A Shares, representing approximately 32.05% (i.e., 2.77% and 29.28%, respectively) of the voting power of our Company. The pledged A Shares represent approximately 12.84% of the voting power. Assuming the Potential Foreclosure takes place prior to the [REDACTED], the voting power of Mr. Xiao and MegaMax would decrease to approximately 19.21%. Despite such reduction, Mr. Xiao and MegaMax would remain as the Single Largest Shareholder Group of our Company.
 - *Following the [REDACTED]:* Immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised), the aggregate shareholding of Mr. Xiao and MegaMax will be diluted to approximately [REDACTED], and the pledged A Shares will represent approximately [REDACTED] of the enlarged issued share capital of our Company. Assuming the Potential Foreclosure takes place [REDACTED], the remaining shareholding of Mr. Xiao and MegaMax would be approximately [REDACTED]. Under such scenario, Mr. Xiao and MegaMax would still retain a substantial equity interest and remain as the Single Largest Shareholder Group of our Company.
- **Impact on Business Operations:** The personal financing arrangements of Mr. Xiao and the Potential Foreclosure solely involve a change in share ownership at the shareholder level and will not trigger any change in the composition of our Board or the core management team. Mr. Xiao will continue to serve as the chairman of our Board and lead the strategic direction of our Group. As such, the Potential Foreclosure is not expected to cause any disruption to the day-to-day management, operations, or the execution of our Group’s business strategies.

Based on the above analysis, our Directors are of the view that even in the extreme event of a foreclosure of the pledged A Shares, there would be no change in the control of our Company, and such event would not have any material adverse impact on our Group’s shareholding structure and business operations.

COMPETITION

Our Single Largest Shareholders Group confirm that, as of the Latest Practicable Date, none of our Single Largest Shareholders and their respective close associates had any interest in any business, apart from the business of our Company, which competes or is likely to compete, directly or indirectly, with our business that would require disclosure under Rule 8.10(1) of the Listing Rules.

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INDEPENDENCE FROM OUR LARGEST SHAREHOLDERS GROUP

Our Directors consider that we are capable of carrying on our business independently of our Single Largest Shareholders Group and their respective close associates upon [REDACTED], based on the following factors:

Management Independence

Our management and operational decisions are made collectively by our Board of Directors and our senior management, with our Board having an overall supervision of our management. Upon [REDACTED], our Board will comprise seven Directors, including two executive Directors, two non-executive Directors and three independent non-executive Directors.

Other than Mr. Xiao, our chairman of the Board and an executive Director, none of the Directors or members of the senior management of our Company holds any directorships and/or other senior management roles in the Single Largest Shareholders group or any companies owned or controlled by our Single Largest Shareholders and their respective close associates.

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

- each of our Directors is aware of his/her fiduciary duties as a Director which requires, among other things, that he/she acts for the benefit and in the best interests of our Company and our Shareholders as a whole and does not allow any conflict between his/her duties as a director and his/her personal interest.
- 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 interest of our Group. For details of the industry experience of our senior management team, please refer to the section headed “Directors and Senior Management”;
- our Board has a balanced composition of executive Directors, non-executive Directors and independent non-executive Directors. Our independent non-executive Directors are not associated with our Single Largest Shareholders Group or their respective close associates, which ensures that decisions of our Board are made only after due consideration of independent and impartial opinions;
- our independent non-executive Directors individually and collectively possess the requisite knowledge, experience and competence to provide a balance of potentially interested Directors with a view to promote the interests of our Company and our Shareholders as a whole;
- 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; and
- 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 Single Largest Shareholders Group or its associates, the interested Director(s), if any, 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, in accordance with the Articles of Association and the Listing Rules.

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Operation Independence

Our Company holds all the relevant material intellectual property rights, licenses, qualifications and permits required for conducting our Company’s business. Our Company has sufficient capital, facilities and employees to operate our business independently from our Single Largest Shareholders Group and its close associates in areas such as business development, staffing, sales, and marketing. We have our own accounting and financial departments, human resources and administration departments, and procurement, production and sales departments, and we expect to continue operating these departments separately and independently from our Single Largest Shareholders Group and its close associates.

We have independent access to our customers and suppliers. We have set up an independent management team to handle our daily business operations. We have established a set of internal control procedures and adopted corporate governance practices to facilitate the effective operation of our business. As of the Latest Practicable Date, none of the members of our Single Largest Shareholders Group or their close associates had any interest in any of our top five customers or suppliers for each year/period.

Based on the above, our directors are of the view that we can operate independently of our Single Largest Shareholders Group and their close associates after [REDACTED].

Financial Independence

Our Company has independent financial, internal control, and accounting systems. We make financial decisions and determine our use of funds according to our own business needs. We have opened accounts with banks independently and do not share any bank accounts with our Single Largest Shareholders Group or their respective close associates pursuant to applicable laws and regulations. We have established an independent finance department as well as implemented sound and independent audit, accounting and financial management systems. We do not expect to rely on our Single Largest Shareholders Group or their respective close associates for financing after the [REDACTED] as we expect that our working capital will be funded by our daily operations as well as the [REDACTED] from the [REDACTED].

As of the Latest Practicable Date, there were no subsisting loans, guarantees or pledges provided by our Single Largest Shareholders Group or their respective close associates to our Group.

Based on the above, our directors believe that we can obtain external financing on market terms without reliance on the creditworthiness of our Single Largest Shareholders Group and there is no financial dependence on our Single Largest Shareholders Group and their close associates.

Based on the above, our directors believe that our Company will be able to maintain financial independence from our Single Largest Shareholders Group and their respective close associates after the [REDACTED].

CORPORATE GOVERNANCE MEASURES

Our directors recognize the importance of good corporate governance to protect the interests of our Shareholders. We have put in place sufficient corporate governance measures to maintain good corporate governance standards and to avoid potential conflict of interests between our Group and our Single Largest Shareholders Group and their respective close associates:

- a) our Company has established an internal control mechanism to identify connected transactions. Upon [REDACTED], if our Group enters into connected transactions with our Single Largest Shareholders Group or their respective close associates, our Company will comply with the applicable requirements under the Listing Rules;

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- b) where a Shareholders’ meeting is to be held to consider proposed transactions in which our Single Largest Shareholders Group or their respective close associates have any material interests, our Single Largest Shareholders Group and their respective close associates (as applicable) will not vote on the relevant resolutions;
- c) our Board has a balanced composition of executive Directors, non-executive Directors and independent non-executive Directors. Our independent non-executive Directors represent more than one third of our Board, which ensures 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, experience, and competence to perform their duties. They will review whether there is any conflict of interests between our Group and our Single Largest Shareholders Group or their respective close associates and provide impartial and professional advice to protect the interests of our minority Shareholders;
- d) where the advice from an independent professional, such as a financial or legal advisor, is reasonably requested by our Directors (including independent non-executive Directors), the appointment of such independent professional will be made at our Company’s expenses; and
- e) we have appointed Guotai Junan Capital Limited as our compliance advisor who 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 matters.

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 Company and our Single Largest Shareholders Group, and to protect our minority Shareholders’ interests after the [REDACTED].