
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the [REDACTED] and the [REDACTED] (without taking into account any Shares which may be issued upon the exercise of the [REDACTED] and the options that may be granted under the Share Option Scheme), Mr. Chen (through JaiYi Culture) will own approximately [REDACTED] of the issued share capital of our Company.

JaiYi Culture is an investment holding company and is wholly-owned by Mr. Chen. Therefore, Mr. Chen and JaiYi Culture are regarded as our Controlling Shareholders under the Listing Rules.

For details of Mr. Chen, please refer to the section headed “Directors and Senior Management” in this document.

COMPANIES OWNED BY A CONTROLLING SHAREHOLDER BUT NOT INCLUDED IN OUR GROUP

As at the Latest Practicable Date, Mr. Chen, one of our executive Directors and Controlling Shareholders, is interested in (i) 99% equity interests, representing a capital contribution of RMB49,500,000, in Huashi Zhongguang Culture Industry Development (Hubei) Co., Ltd. (華視中廣文化產業發展(湖北)有限公司) (“**Huashi Culture**”); (ii) 60% equity interests, representing a capital contribution of RMB1,200,000, in Hubei Huashi Fucheng Science & Technology Trade Co., Ltd. (湖北華視富承科貿有限公司) (“**Huashi Trade**”); (iii) 70% equity interests, representing a capital contribution of RMB42,000,000, in Hubei Huacheng Property Investment Co., Ltd. (湖北華承置業投資有限公司) (“**Huacheng Property**”); (iv) 51% equity interests, representing a capital contribution of RMB25,500,000, in Huashi Education Industry (Macheng) Co., Ltd. (華視教育產業(麻城)有限公司) (“**Huashi Education**”); and (v) 99% equity interests, representing a capital contribution of RMB99,000,000, in Huashi Qingchuang Culture Tourism Development (Hubei) Co., Ltd. (華視青創文旅發展(湖北)有限公司) (“**Huashi Qingchuang**”), each a company established in the PRC which, as confirmed by Mr. Chen, had no competing interests with our Group as at the Latest Practicable Date.

Delineation of businesses

During the Track Record Period and up to the Latest Practicable Date, our Group had been primarily engaged in the provision of branding, advertising, and marketing services and provision of advertisement placement services in the PRC.

As at the Latest Practicable Date, Huashi Culture is a company primarily engaged in the cultural and artistic consulting services, creation of literary and artistic works and film and television production, Huashi Trade is a company primarily engaged in the wholesale, retail and operation of daily necessities, pre-packaged food, tea and primary agricultural products, Huacheng Property is a company primarily engaged in the development and operation of real estate projects, Huashi Education is a company primarily engaged in the education project investment, consultation of education information and human resources information, and Huashi Qingchuang is a company primarily engaged in the literary and artistic creation and planning and consulting of tourism.

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As confirmed by Mr. Chen, none of the actual businesses of Huashi Culture, Huashi Trade, Huacheng Property, Huashi Education and Huashi Qingchuang involved the provision of branding, advertising, and market services as at the Latest Practicable Date. Therefore, the business focuses of Huashi Culture, Huashi Trade, Huacheng Property, Huashi Education and Huashi Qingchuang are distinctively different from, and are not in direct or indirect competition with, that of our Group.

Based on the foregoing, our Directors are of the view that there is no direct or indirect competition between Huashi Culture, Huashi Trade, Huacheng Property, Huashi Education, and Huashi Qingchuang on the one hand and the Group’s business on the other hand.

As at the Latest Practicable Date, save as disclosed above and in the section headed “Directors and Senior Management” in this document and apart from the business of our Group, none of our Controlling Shareholders, our Directors, and their respective close associates has carried on, or has any interest in, any other business which competes or is likely to compete, directly or indirectly, with our business and would require disclosure under the Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Taking into consideration of the following factors, our Board is satisfied that our Group is capable of carrying out our business independently from our Controlling Shareholders and their respective close associates upon and after the [REDACTED].

Operational Independence

Our Company is capable of making independent decisions and carry on our business operations independently. Although our Controlling Shareholders retain a controlling interest in our Company after the [REDACTED], it does not prevent us from exercising full rights to carry out our own decisions on the business operations. We do not rely on our Controlling Shareholders for our supply, business development, staffing, capital, equipment, intellectual properties or marketing and sales activities upon the [REDACTED]. We have independent access to, and do not share with our Controlling Shareholders, operational resources, such as suppliers, sales networks and customers and an independent management team to handle our day-to-day operations. As at the Latest Practicable Date, we held and enjoyed the benefit of all relevant licences and intellectual properties necessary to carry on our businesses. None of our Controlling Shareholders has any interest in any of our top five customers or top five suppliers during the Track Record Period.

Accordingly, our Directors believe that we are able to maintain operational independence from our Controlling Shareholders and their respective close associates.

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Management Independence

Our management and operational decisions are made by our Board and senior management. Our Board comprises four executive Directors and four independent non-executive Directors. Mr. Chen, one of our Controlling Shareholders, is our chairman of the Board, chief executive officer and an executive Director.

Our Group has established an (i) audit committee; (ii) remuneration committee; and (iii) nomination committee. Each committee includes independent non-executive Directors so as to monitor the decision-making and operation of our Group. Further, we believe that our independent non-executive Directors will be able to exercise their independent judgement and will be able to provide impartial opinion and professional advice in the decision-making process of our Board to protect the interests of our Shareholders.

Each Director understands that, he/she owes primary duties to our Company and is aware of his/her fiduciary duties as a Director which requires, among others, that he/she must act for the benefit of and in the best interests of our Company and shall avoid any conflict between his/her personal interests and those of our Company. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) and their respective close associate(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 of the relevant board meetings. In addition, our senior management team is independent from our Controlling Shareholders.

Our Company has also established internal control mechanism 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.

Since our executive Directors have substantial experience in their respective expertise areas and/or in the industry in which our Group is engaged, we believe that they will be able to make business decisions that are in the best interest of our Group. Please refer to the section headed “Directors and Senior Management” in this document for the background of our Directors. Further, our Board acts collectively by majority decisions in accordance with the Articles and applicable laws, and no single Director is supposed to have any decision-making power unless otherwise authorised by the Board.

Having considered the above factors, our Directors are satisfied that our Board as a whole, together with our senior management team, are able to make independent managerial decisions in the best interest of our Company having regard to their own knowledge of the corporation and their experience and skills without unduly requiring the support of our Controlling Shareholders.

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Financial Independence

Our Company is empowered to make independent decisions in respect of business and financial matters according to our business needs. Our Group has our own internal control, accounting and financial management system, accounting and finance department, independent treasury functions for cash receipts and payment and the ability to operate independently of our Controlling Shareholders from financial perspective.

Balances between our Group and related parties

As at the Latest Practicable Date, all amounts due from a non-controlling interests shareholders were settled and the amount due from our Shareholders were RMB0.3 million, which will be settled prior to [REDACTED].

Bank borrowings

As at 30 April 2023 and 31 August 2023, our Group had bank borrowings of approximately RMB36.0 million and RMB26.8 million, respectively. Among such bank borrowings, approximately RMB8.0 million and nil, respectively, was (i) secured by approximately 95.5% equity interest of Huashi Media and the properties owned by our Controlling Shareholder and two related parties; and (ii) guaranteed by our Controlling Shareholder, Huashi HK and Huashi Brand Management. Such personal securities and guarantees in relation to our Controlling Shareholder and two related parties will be released prior to [REDACTED].

Further, among our guaranteed and unsecured bank borrowings of approximately RMB28.0 million and RMB26.8 million as at 30 April 2023 and 31 August 2023, respectively, (i) RMB2.0 million and RMB1.8 million, respectively, of such bank borrowings was guaranteed by our Controlling Shareholder and Guarantee Company B, an Independent Third Party who charged us a fee of RMB20,000; (ii) RMB3.0 million and RMB3.0 million, respectively, of such bank borrowings was guaranteed by our Controlling Shareholder and Guarantee Company B, an Independent Third Party; (iii) RMB5.0 million and nil, respectively, of such bank borrowings was guaranteed by Guarantee Company A, another Independent Third Party who charged us a fee of RMB50,000; (iv) RMB13.0 million and RMB17.0 million, respectively, of such bank borrowings was guaranteed by our Controlling Shareholder; and (v) RMB5.0 million and RMB5.0 million, respectively, of such bank borrowings was guaranteed by our Controlling Shareholder and Huashi Media. All of these guarantees provided by our Controlling Shareholder will be released prior to [REDACTED]. For the abovementioned bank borrowing of RMB3.0 million and RMB3.0 million as at 30 April 2023 and 31 August 2023, respectively, the guarantee provided by Guarantee Company B was in turn personally guaranteed by our Controlling Shareholder, pursuant to the request of the lending bank. This personal guarantee by our Controlling Shareholder will be released prior to [REDACTED]. For the abovementioned bank borrowing of RMB5.0 million and nil as at 30 April 2023 and 31 August 2023, respectively, the guarantee provided by Guarantee Company A was in turn personally guaranteed by our Controlling Shareholder and Huashi Media, pursuant to the request of the lending bank. The guarantees by our Controlling Shareholder will be released prior to [REDACTED].

Taking into account of our Group’s internal resources and the estimated [REDACTED] from the [REDACTED], our Directors are of the view that we have sufficient capital to operate our business independently and have a strong credit profile to support our daily operations. Further, our Directors believe that, after [REDACTED], our Group is capable of obtaining financing from third parties without the support of our Controlling Shareholders. Therefore, our Directors believe that we are able to maintain financial independence from our Controlling Shareholders and their respective close associates.

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DEED OF NON-COMPETITION

To protect our Group from any potential competition, our Controlling Shareholders have entered into the Deed of Non-competition in favour of our Company (for itself and as trustee for each of its subsidiaries), pursuant to which each of our Controlling Shareholders has, among other matters, irrevocably and unconditionally undertaken to us on a joint and several basis that at any time during the Relevant Period (as defined below), each of our Controlling Shareholders shall, and shall procure that their respective associates (other than our Group):

- (i) not, directly or indirectly, either on its own account or in conjunction with or on behalf of any person, firm or company, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, director, partner, agent, employee or otherwise, and whether for profit, reward or otherwise) any activity or business which competes or is likely to compete, directly or indirectly, with the business of our Group referred to in this document and any other business from time to time conducted, carried on or contemplated to be carried on by any member of our Group (the “**Restricted Activity**”);
- (ii) to provide all information requested by our Company which is necessary for an annual review by our independent non-executive Directors of its compliance with the Deed of Non-competition and the enforcement of the Deed of Non-competition; and
- (iii) to make an annual declaration on compliance with its undertaking under the Deed of Non-competition in the annual reports of our Company as our independent non-executive Directors think fit and/or as required by the relevant requirements under the Listing Rules.

Each of our Controlling Shareholders has unconditionally and irrevocably undertaken to us that in the event that it/he or its/his close associate(s) (other than any member of our Group) (the “**Offeror**”) is given or offered or has identified any business investment or commercial opportunity which directly or indirectly competes, or may lead to competition with the Restricted Activity (the “**New Opportunities**”), it/he will and will procure its/his close associate(s) (other than members of our Group) to refer the New Opportunities to us as soon as practicable in the following manner:

- (i) each of our Controlling Shareholders is required to, and shall procure its/his close associates (other than members of our Group) to, refer, or to procure the referral of, the New Opportunities to us, and shall give written notice to us of any New Opportunities containing all information reasonably necessary for us to consider whether (a) such New Opportunities would constitute competition with the Restricted Activity; and (b) it is in the interest of our Group to pursue such New Opportunities, including but not limited to the nature of the New Opportunities and the details of the investment or acquisition costs (the “**Offer Notice**”) within 10 business days from their receipt or referral of the New Opportunities; and

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- (ii) the Offeror will be entitled to pursue the New Opportunities only if (a) the Offeror has received a notice from us declining the New Opportunities; or (b) the Offeror has not received such notice from us within 30 business days from our receipt of the Offer Notice. If there is a material change in the terms and conditions of the New Opportunities pursued by the Offeror, the Offeror will refer the New Opportunities as so revised to us in the manner as set out above. Upon receipt of the Offer Notice, we will form an independent board committee (the “**Independent Board Committee**”) which comprises all our independent non-executive Directors without the attendance by any Director with beneficial or conflicting interest in such project or business opportunities and seek opinions and decisions from our Independent Board Committee in the manner as to whether (a) such New Opportunities would constitute competition with the Restricted Activity; and (b) it is in the interest of our Company and our Shareholders as a whole to pursue the New Opportunities.

For the above purpose, the “Relevant Period” means the period commencing from the [REDACTED] and shall expire on the earlier of:

- (i) the date on which our Controlling Shareholders and their associates, individually or taken as a whole, cease to be our Controlling Shareholders for the purpose of the Listing Rules; and
- (ii) the date on which our Shares cease to be listed on the Stock Exchange or (if applicable) other stock exchange.

The Deed of Non-competition is subject to and conditional upon the [REDACTED].

CORPORATE GOVERNANCE MEASURES TO AVOID CONFLICT OF INTEREST

Our Directors recognise the importance of incorporating elements of good corporate governance in management conducive to the protection of the interests of our Shareholders. In particular, the following corporate governance measures in relation to managing potential conflict of interests arising from potential competing business between our Controlling Shareholders and Directors on the one hand and our Group on the other hand will be taken:

- 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 provides 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 close associates has a material interest nor shall such Director be counted in the quorum present at the board meeting;

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- a Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with our interest and absent himself/herself from the board meetings on matters in which such Director or any of his/her close associates have a material interest, unless the attendance or participation of such Director at such meeting of the Board is specifically requested by a majority of the independent non-executive Directors;
- our Company has also established internal control mechanism 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 our Company will comply with the applicable Listing Rules;
- our independent non-executive Directors shall review on an annual basis, the compliance and enforcement of the terms of the Deed of Non-competition by our Controlling Shareholders;
- we will disclose in the corporate governance report of the annual report on how the terms of the Deed of Non-competition have been complied with and enforced;
- our independent non-executive Directors may engage external legal adviser(s) in appropriate circumstances at the cost of our Company;
- our audit committee shall be responsible for overseeing the implementation of the above measures; and
- we have appointed Rainbow Capital (HK) Limited as our compliance advisor, which will, upon our consultation, provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules, including various Listing Rules requirements relating to directors’ duties and corporate governance.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between our Controlling Shareholders and our Group and to protect the interests of our Shareholders, in particular, our minority Shareholders.