
RELATIONSHIP WITH OUR SINGLE LARGEST GROUP OF SHAREHOLDERS

OVERVIEW

Our Company was established in the PRC as a limited liability company on November 12, 2010, and converted into a joint stock company with limited liability on November 15, 2021. As of the Latest Practicable Date and immediately following the [REDACTED] (without taking into account any Shares which may be issued pursuant to the exercise of the [REDACTED]), Mr. Li Zhen, Mr. Zhang Guangping and Mr. Li Yi, by virtue of the Concert Party Agreement entered into among them and together with Backward Electronic and Backward Partnership, will hold in aggregate approximately [REDACTED]% and [REDACTED]%, respectively, of our Company’s total share capital. See the section headed “History, Development and Corporate Structure” in this document for details of the concert party arrangement. Accordingly, Mr. Li Zhen, Mr. Zhang Guangping, Mr. Li Yi, Backward Electronic and Backward Partnership constitute a group of our Single Largest Group of Shareholders under the Listing Rules.

Each of Backward Electronic and Backward Partnership is an investment holding entity with no business activity. Details of their respective shareholding structure immediately before and after the [REDACTED] are set forth in the sections headed “History, Development and Corporate Structure” in this document. Mr. Li Zhen is our executive Director and chairman of the Board. Mr. Zhang Guangping is our executive Director and general manager. Mr. Li Yi is our executive Director, deputy general manager and head of the financial department. See the section headed “Directors, Supervisors and Senior Management” in this document for the biographical information of Mr. Li Zhen, Mr. Zhang Guangping and Mr. Li Yi.

INTERESTS OF THE SINGLE LARGEST GROUP OF SHAREHOLDERS AND OUR DIRECTORS IN OTHER BUSINESS

Our Single Largest Group of Shareholders and our Directors confirmed that as of the Latest Practicable Date, they did not have any interest in a business, apart from the business of our Company, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM OUR SINGLE LARGEST GROUP OF SHAREHOLDERS

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

Management Independence

Our Board comprises three executive Directors, two non-executive Directors and four independent non-executive Directors. Save for (i) the three executive Directors, namely Mr. Li Zhen, Mr. Zhang Guangping and Mr. Li Yi, being members of the Single Largest Group of Shareholders, and (ii) Mr. Li Zhen and Mr. Li Yi serving as the supervisor and the executive director, respectively, of Backward Electronic which is an investment holding entity with no business activity, there is no overlap of directors and members of the senior management between our Company and our Single Largest Group of Shareholders and their respective close associates.

RELATIONSHIP WITH OUR SINGLE LARGEST GROUP OF SHAREHOLDERS

Despite the overlapping roles assumed by Mr. Li Zhen, Mr. Zhang Guangping and Mr. Li Yi as mentioned above, when performing their duties in our Company, Mr. Li Zhen, Mr. Zhang Guangping and Mr. Li Yi have been and will continue to be supported by the separate and independent board which comprises six other board members including four independent non-executive Directors. We believe that our Board as a whole is able to perform its roles in our Company independently and that our Company is capable of managing our business independently from the Single Largest Group of 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 duties as a Director and his 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 Company 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. We have also adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Company and the Single Largest Group of Shareholders which would support our independent management. For details, see “– Corporate Governance Measures” in this section.

All of the other Directors are independent of Mr. Li Zhen, Mr. Zhang Guangping and Mr. Li Yi, and decisions of the Board require the approval of a majority vote from the Board.

In addition, our Board comprises nine Directors, including four independent non-executive Directors, which represent more than 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.

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

Operational Independence

We do not rely on the Single Largest Group of Shareholders and their respective close associates for our research and business development, staffing, logistics, administration, finance, internal audit, information technology, sales and marketing, or company secretarial functions.

RELATIONSHIP WITH OUR SINGLE LARGEST GROUP OF SHAREHOLDERS

R&D

We have our own R&D department and personnel which are independent of our Single Largest Group of Shareholders. All members of our in-house R&D team are full-time employees of our Company and do not hold any position in our Single Largest Group of Shareholders or their respective close associates. In addition, our Company owns over 80 registered patents in the PRC and over proprietary 200 layout designs of integrated circuits which are necessary for our R&D and operations. With such independent R&D department, an experienced and independent R&D team, independent supporting manufacturing capabilities and self-owned patents, our Directors believe that we have all the requisite resources to carry on our R&D process independently.

Licenses, permits and approvals

As of the Latest Practicable Date, as advised by our PRC Legal Advisors, we had obtained all material licenses and permits required for our business operations (i.e. business license) in the PRC and such business license had remained in full effect.

Access to customers, suppliers and business partners

We have independent access to our customers, our suppliers as well as our business partners. Our customers and suppliers bases are unrelated to our Single Largest Group of Shareholders and/or their respective close associates.

Operational facilities and administration

We have independent R&D department, office and other operational facilities in Suzhou and Shanghai which are under leases between our Company and independent third parties and are unrelated to our Single Largest Group of Shareholders.

In addition, we have a full-time management team and staff to carry out our own administration and operation independently from our Single Largest Group of Shareholders and their respective close associates. All key administrative functions have been and will be carried out by our own without reliance or the support of our Single Largest Group of Shareholders and their respective close associates.

Employees

As of the Latest Practicable Date, all of our full-time employees were recruited independently from our Single Largest Group of Shareholders and their respective close associates and primarily through both internal referrals and external sources such as campus recruitment, recruiting websites and third-party recruiters.

RELATIONSHIP WITH OUR SINGLE LARGEST GROUP OF SHAREHOLDERS

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 Single Largest Group of 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 Company’s own business needs. We have internal control and accounting systems and an independent accounting and finance department for discharging the treasury function. 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, bank loans as well as the [REDACTED] from the [REDACTED].

In addition, we are capable of obtaining financing from independent third parties without relying on any guarantee or security provided by our Single Largest Group of Shareholders or their respective associates. As of the Latest Practicable Date, our Company did not have any outstanding loans, advances or balances due to or from our Single Largest Group of Shareholders or their respective close associates or financial assistance arrangement with our Single Largest Group of Shareholders or their respective close associates, and our Company had not provided any guarantee in respect of any loans of our Single Largest Group of Shareholders and their respective close associates and vice versa. During the Track Record Period and as of the Latest Practicable Date, we had received a series of Pre-[REDACTED] Investments from third party investors independently. For details of the Pre-[REDACTED] Investments, see the section headed “History, Development and Corporate Structure” in this document.

Based on the above, our Directors believe that we are able to maintain financial independence and would not place undue reliance on our Single Largest Group of Shareholders and their close associates.

DEED OF NON-COMPETITION

Each of our Single Largest Group of 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 Company and its subsidiaries) not to directly or indirectly be involved in, interested in or undertake any business that directly or indirectly competes, or may compete, with our business which includes the provision of Analog IC Patterned Wafers (referred to as the “**Restricted Businesses**”), or 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 Single Largest Group of 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 Company and its subsidiaries and they do not possess the right to control the board of directors of such company.

RELATIONSHIP WITH OUR SINGLE LARGEST GROUP OF SHAREHOLDERS

The Deed of Non-Competition will lapse automatically if our Single Largest Group of Shareholders together ceases to control, whether directly or indirectly, 20% or above of our Shares with voting rights or our H Shares cease to be [REDACTED] on the Stock Exchange.

CORPORATE GOVERNANCE MEASURES

Our Company expects to comply with the provisions of the Corporate Governance Code (“CG Code”) as set out in Appendix 14 to the Listing Rules, which sets out principles of good corporate governance.

Each of our Single Largest Group of Shareholders has confirmed that it fully comprehends its obligations to act in our Shareholders’ best interests as a whole. Our Directors recognize the importance of good corporate governance in protection of our Shareholders’ interests. We would adopt the following measures to safeguard good corporate governance standards and to avoid potential conflict of interests between our Company and the Single Largest Group of 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;
- (b) a Director with material interests shall make full disclosure in respect of matters that may have conflict or potentially conflict with any of our interest and abstain from the board meetings on matters in which such Director or his/her associates have a material interest, unless the attendance or participation of such Director at such meeting of the Board is permitted under the Listing Rules;
- (c) 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] four 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 provide an impartial, external opinion to protect the interests of our public Shareholders. For details of our independent non-executive Directors, see “Directors, Supervisors and Senior Management – Board of Directors – Independent non-executive Directors” in this Document;

RELATIONSHIP WITH OUR SINGLE LARGEST GROUP OF SHAREHOLDERS

- (d) we have appointed Somerley Capital 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;
- (e) 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 Single Largest Group of Shareholders or any of their associates, our Company will comply with the applicable Listing Rules; and
- (f) as required by the Listing Rules, our independent non-executive Directors shall review any continuing connected transactions 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.

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