
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER GROUP

OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, the Controlling Shareholder Group, including Mr. Xiao, Mr. Chan, Mr. Yuan, APTESS Company Limited, Giant Power Limited, Ms. Loh, Advanced Photoelectronic, Jingyu Investment, Jingling Investment, Jingrui Investment and Jingshi Investment by virtue of the acting-in-concert arrangement among them, was collectively interested in approximately 47.11% of our total share capital. See “History, Development and Corporate Structure — The Concert Party Group” in this prospectus for details. Each of APTESS Company Limited, Giant Power Limited, Advanced Photoelectronic, Jingyu Investment, Jingling Investment, Jingrui Investment and Jingshi Investment is an investment holding entity.

Immediately following the completion of the Global Offering (assuming the Offer Size Adjustment Option is not exercised), the Controlling Shareholder Group will continue to control in aggregate approximately 44.13% of our total share capital. Therefore, they will remain as a group of our Controlling Shareholders.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors consider that we are capable of carrying on our business independently from our Controlling Shareholders and their respective close associates after the Listing, taking into consideration the factors below.

Management Independence

Our Board consists of nine Directors, including one executive Director, four non-executive Directors and four independent non-executive Directors. Mr. Xiao (our executive Director, chairperson and chief strategic officer) and Mr. Chan and Mr. Yuan, both non-executive Directors, are members of the Controlling Shareholder Group. Four of our Directors, namely Mr. Xiao, Mr. Chan, Mr. Yuan and Mr. WU Nan-Yang, are also directors of Advanced Photoelectronic, which is an investment holding company with no substantial business activities. Save as disclosed in this prospectus, none of our Directors or members of our senior management team holds any position in our Controlling Shareholders or their respective close associates.

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Our Directors consider that we are capable of maintaining management independence for the following reasons:

- (a) our daily management and operations are carried out independently by our 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 interests of our Company. For details of the industry experience of our senior management team, please refer to the section headed “Directors, Supervisors and Senior Management” in this prospectus;
- (b) each Director 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 interest of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interests;
- (c) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Company and a Director and/or his/her associate, he/she shall abstain from voting and shall not be counted towards the quorum for the voting. Hence, no Director will be able to influence our Board in making decisions on matters in which he or she is, or may be interested; and
- (d) we have four independent non-executive Directors and certain matters of our Company, including continuing connected transactions, 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 Company and our Controlling Shareholders which would support our independent management. For details, see “— Corporate Governance” in this section.

Based on the above, our Directors believe that our Board as a whole and together with our senior management are able to perform the managerial role in our Company independently from our Controlling Shareholders and their respective close associates after the Listing.

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Operational Independence

We do not rely on our Controlling Shareholders and their respective close associates for our business development, staffing, logistics, administration, finance, internal audit, IT, sales and marketing, or company secretarial functions. We have our own departments specializing in these respective areas which have been in operation and are expected to continue to operate separately and independently from our Controlling Shareholders and their respective close associates. In addition, we have our own headcount of employees for our operations and management for human resources.

We have independent access to suppliers and customers. We are in possession of all relevant licenses, certificates, facilities and IP rights necessary to carry on and operate our principal businesses and we have sufficient operational capacity in terms of capital and employees to operate independently.

Based on the above, our Directors believe that we are able to operate independently of our Controlling Shareholders and their respective close associates.

Financial Independence

We have an independent financial system and make financial decisions according to our Company's own business needs. We have our own internal control and accounting systems and an independent finance department for discharging the treasury function and independent access to third party financing. We do not expect to rely on our Controlling Shareholders and their respective close associates for financing after the Listing as we expect that our working capital will be funded by cash flows generated from operating activities, the cash and cash equivalent on hand and internally generated funds as well as the proceeds from the Global Offering.

In addition, we are capable of obtaining financing from independent third parties without relying on any guarantee or security provided by our Controlling Shareholders or their respective associates. As of the Latest Practicable Date, we did not have any outstanding loans or guarantees provided by or granted to, nor any non-trade balances due to or due from, our Controlling Shareholders or their respective associates.

Based on the above, our Directors believe that we are capable of carrying on our business independently of, and do not place undue reliance on our Controlling Shareholders after the Listing.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDER GROUP

INTERESTS OF OUR CONTROLLING SHAREHOLDERS IN OTHER BUSINESSES

Each of our Controlling Shareholders confirmed that as of the Latest Practicable Date, apart from the business of our Company, it/he/she did not have any interest in other business, 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.

CORPORATE GOVERNANCE

Our Company will comply with the provisions of the Corporate Governance Code in Appendix C1 to the Listing Rules (the “**Corporate Governance Code**”), which sets out principles of good corporate governance.

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 our Controlling Shareholders:

- (a) where a Board meeting is held for the matters in which any Director or his/her associates have a material interest, such Director(s) shall abstain from voting on the relevant resolutions and shall not be counted in the quorum for the voting;
- (b) where a Shareholders’ meeting is to be held for considering proposed transactions in which our Controlling Shareholders or any of their respective associates has a material interest, our Controlling Shareholders or their respective associates will not vote on the resolutions and shall not be counted in the quorum in the voting;
- (c) as part of our preparation for the Global Offering, we have amended our Articles of Association to comply with the Listing Rules which will become effective upon Listing. In particular, our Articles of Association provides that, a Director shall be abstained from voting on any resolution approving any contract, transaction or arrangement in which such Director or any of his/her associates has a material interest nor shall such Director be counted in the quorum present at the Board meeting;
- (d) our Company has established internal control mechanisms to identify connected transactions. Upon the Listing, if our Company enters into connected transactions with our Controlling Shareholders or any of their respective associates, our Company will comply with the applicable Listing Rules;

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- (e) we are committed that our Board shall include a balanced composition of executive Director and non-executive Directors (including independent non-executive Directors). We have appointed four independent non-executive Directors, and we believe our independent non-executive Directors (i) possess sufficient experiences, (ii) are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment, and (iii) will be able to provide an impartial and external opinion to protect the interests of our Shareholders as a whole. For details of the independent non-executive Directors, see “Directors, Supervisors and Senior Management”;
- (f) where our Directors reasonably request the advice of independent professionals, such as financial advisors, the appointment of such independent professionals will be made at our Company’s expenses; and
- (g) we have appointed Maxa Capital Limited as our Compliance Advisor to provide advice and guidance to us in respect of compliance with the Listing Rules, including various requirements relating to corporate governance.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Company and our Controlling Shareholders, and to protect minority Shareholders’ interests after the Listing.