
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OVERVIEW

As of the Latest Practicable Date, Mr. Wang and his spouse, Ms. Dou, together with entities controlled by Mr. Wang and entities jointly controlled or beneficially owned by Mr. Wang and Ms. Dou, namely Shengyuan Group, Shengyuan Holding, Shanshengyuan Enterprise Management, Tianjin Huizhi, Tianjin Jushi, Tianjin Zhiweilai and Tianjin Gongmeihao, held in aggregate 157,496,923 Shares, representing 97.3% of our total issued share capital. Immediately following the completion of the [REDACTED] (assuming that the [REDACTED] is not exercised), Mr. Wang, Ms. Dou, Shengyuan Group, Shengyuan Holding, Shanshengyuan Enterprise Management, Tianjin Huizhi, Tianjin Jushi, Tianjin Zhiweilai and Tianjin Gongmeihao in aggregate will be interested in [REDACTED] Shares, representing [REDACTED] of the total issued share capital of the Company and will be members of the group of Controlling Shareholders upon [REDACTED]. Mr. Zhao Kuanghua and Ms. Zhao Xiaorong, as general partners of Tianjin Jushi and Tianjin Huizhi and who are expected to remain as general partners thereof after the [REDACTED], respectively, are therefore also members of the group of Controlling Shareholders.

Mr. Wang, as a founder of our Group and one of the Controlling Shareholders, has been the key personnel of our Group and has been responsible for the overall strategic planning, critical decisions making, management and operation of the Company since November 2010. Given (i) the business of the Company was on sound track, (ii) Mr. Zhao Kuanghua as the then vice president responsible for the day-to-day management and operations of our Company has accumulated extensive experience and resources in the industry, and (iii) Mr. Wang has been focusing on the strategic and overall planning aspects of the Company, Mr. Wang gradually stepped down and shifted the responsibility of the daily operation and management of our Group to other Directors, including Mr. Zhao Kuanghua, and senior management of the Company since 2018 to devote more time on personal matters, such as spending more time with his family, whilst still involved in the strategic planning of the Group and continued providing professional opinion and advice to the Group. Despite not being involved in the day-to-day operation, Mr. Wang is still involved in the overall strategic planning and key decision-making of the Company and provides guidance for the operation of our Group. For details, please refer to the section headed “Directors, Supervisors and Senior Management — Board of Directors — Non-executive Director” in this document.

Ms. Dou, aged 51, is the spouse of Mr. Wang and a member of the group of Controlling Shareholders by virtue of her spousal relationship with Mr. Wang. Aside from her contribution of equity capital as one of the founding members, Ms. Dou is a passive and minority investor in the Group and has not and does not participate in the operation or management of our Group. She has been the deputy manager of Tianjin Mingxin Electronics Co., Ltd.* (天津市明新電子有限公司) since September 2010 and up to the Latest Practicable Date.

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Mr. Zhao Kuanghua and Ms. Zhao Xiaorong, as general partners of Tianjin Jushi and Tianjin Huizhi, respectively, who are each expected to remain as general partners thereof after the [REDACTED], are controllers of Tianjin Jushi and Tianjin Huizhi and therefore are deemed as members of the group of Controlling Shareholders. For details on Ms. Zhao Xiaorong and Mr. Zhao Kuanghua, please refer to the section headed “Directors, Supervisors and Senior Management — Board of Directors — Executive Director” in this document.

COMPETING INTERESTS

Each of our Directors and Controlling Shareholders has confirmed that none of them nor any of their respective close associates has any interest in any business, apart from the business of our Group, which competes with, or is likely to compete with, our business, whether directly or indirectly, which would otherwise require disclosure under Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

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:

Management Independence

Our management and operational decisions are made by our Board and senior management. Our Board comprises five executive Directors, one non-executive Director and three independent non-executive Directors. Our Directors and members of the senior management possess relevant management and/or industry-related experience to act as Directors or senior management of our Company. For further details, please see the section headed “Directors, Supervisors and Senior Management” in this document.

Although Mr. Wang will maintain a controlling interest in our Company upon completion of the [REDACTED], the day-to-day management and daily operations of our Group will be the responsibility of all our experienced senior management team. Other than Mr. Wang, Mr. Zhao Kuanghua and Ms. Zhao Xiaorong, there are six Directors who do not have any management position in our corporate Controlling Shareholders and our Controlling Shareholders’ respective close associates. We have the capabilities and personnel to perform all essential administrative functions, including financial and accounting, human resources, business operations and management and technical support on a standalone basis.

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 or her duties as a Director and his or her interest to exist. 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) shall abstain from voting at the relevant meeting of the Board in respect of such transaction and shall not be counted in the quorum.

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In view of the above, our Directors are satisfied that our Company has sufficient and effective control mechanisms to ensure that our Directors will perform their duties properly and safeguard the interests of our Company and our Shareholders as a whole.

Operational Independence

Our operations are independent of and not connected with our Controlling Shareholders. Having considered that (i) we have established our own organizational structure comprising individual departments, each with specific areas of responsibilities; (ii) our Group has not shared our operational resources, such as customers, marketing, sale and general administration resources with our Controlling Shareholders and/or their close associates; (iii) our Group has established a set of internal controls to facilitate the effective operation of its business; (iv) as of the Latest Practicable Date, our Controlling Shareholders had no interest in any of our customers, suppliers or other business partners; (v) as of the Latest Practicable Date, our Group had independent access to suppliers or customers of our Group; and (vi) we hold the licenses necessary for the operation of our Group’s business in their own names, our Directors consider that our Group can operate independently from our Controlling Shareholders from the operational perspective.

Financial Independence

We have established our own internal control and financial system and make financial decisions according to our own business needs. Our own accounting department is capable of discharging the treasury functions for cash receipts and payments, accounting, reporting and internal control independently of our Controlling Shareholders and their respective close associates.

All the amounts due to or from our Controlling Shareholders and their associates were fully settled as of the Latest Practicable Date. During the Track Record Period and up to the Latest Practicable Date, we financed our operations through a combination of bank borrowings or financing, internally generated funds and an advance from one of our Controlling Shareholders. As of the Latest Practicable Date, there were no outstanding loans or guarantees provided by our Group to any member of our Controlling Shareholders or their close associates, or vice versa. We expect that, upon completion of the [REDACTED], our operations will be financed mainly by the [REDACTED] from the [REDACTED], internally generated funds and borrowings or financing from financial institutions.

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Taking into account the above factors, our Directors believe that the financial assistance provided by our Controlling Shareholders during the Track Record Period did not affect our financial independence from our Controlling Shareholders, and going forward, our Company will continue to be capable of obtaining financial assistance from independent external sources for our business operations on normal commercial terms without reliance on our Controlling Shareholders and their respective close associates.

DEED OF NON-COMPETITION

Our Controlling Shareholders have entered into the Deed of Non-Competition in favor of our Company, pursuant to which they have unconditionally and irrevocably undertaken to our Company that they will not, and will procure their 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 competes, or may compete, with our business (collectively 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 Controlling Shareholders and their close associates hold less than 10% of interest of such 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.

Our Controlling Shareholders have also undertaken in the Deed of Non-Competition that if they or any of their associates (save for members of our Group) become aware of any business opportunity to own, invest in, participate in, develop, operate or engage in any **Restricted Business** (the “**Business Opportunity**”), they shall, and shall procure their associates (save for members of our Group) to first refer the **Business Opportunity** to our Company in writing immediately upon becoming aware of it by identifying the target company or business, the nature of the **Business Opportunity**, the investment or acquisition costs and all other details reasonably necessary for our Company to consider whether to pursue such **Business Opportunity**. Any decision on whether to take up the **Business Opportunity** shall be decided by our independent non-executive Directors. Our Controlling Shareholders or any of their associates (save for members of our Group) may only take up the **Business Opportunity** after our Company has issued a written confirmation signed by the independent non-executive Directors confirming that our Company has decided not to take up the **Business Opportunity** or our Company fails to respond within 20 business days.

If there is any material change in the nature, terms or conditions of such **Business Opportunity** pursued by our Controlling Shareholders or their associates, they shall, and shall procure their associates to, refer such **Business Opportunity** as so revised to our Company as if it were a new **Business Opportunity**.

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Our Controlling Shareholders have undertaken in the Deed of Non-Competition that if they, or any of their associates (save for members of our Group) intend to transfer, sell, lease or license royalties to a third party, any Restricted Business (collectively, the “Disposals”), they shall, and shall procure their associates (save for members of our Group) to offer our Group the right of first refusal in terms of such businesses and interest with the equal terms subject to relevant laws and regulations or contractual arrangements with third parties.

Our Controlling Shareholders have undertaken in the Deed of Non-Competition that provided that no applicable laws or regulations are breached and agreements with third parties are complied with, our Group is entitled to acquire any businesses operated by our Controlling Shareholders or any of their associates (save for members of our Group) which fall within the Restricted Businesses or any businesses or interests which are gained through the aforementioned Business Opportunities (the “Option for Purchase”). Our Group is entitled to exercise the Option for Purchase at any time, and our Controlling Shareholders or any of their associates (save for members of our Group) shall offer the Option for Purchase to our Group based on the conditions as follows: the commercial terms of the acquisition shall be formed solely by the committee consisting of our independent non-executive Directors after consulting the views of independent experts and such commercial terms shall be based on negotiation between the parties in line with normal commercial practice of our Group which is fair, reasonable and in the interests of our Group as a whole, as in accordance with the negotiations with our Controlling Shareholders and their associates. However, if a third party has the right of first refusal in accordance with applicable laws and regulations and/or a prior legally binding document (including, but not limited to, articles of association and shareholders’ agreements), the Option for Purchase of our Group shall be subject to such third-party rights. In such a case, our Controlling Shareholders shall use, and shall procure that their associates (save for members of our Group) will use, its/their best efforts to persuade the third party to waive its right of first refusal.

CORPORATE GOVERNANCE MEASURES

Our Directors believe that there are adequate corporate governance measures in place to manage existing and potential conflicts of interest. In order to further avoid potential conflicts of interest, we have implemented the following measures:

- (i) our Directors shall comply with the Articles of Association which require our interested Director(s) not to vote (nor be counted in the quorum) on any resolutions of our Board approving any contracts or arrangements or other proposals in which he/she or any of his/her close associates is materially interested;

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- (ii) any 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;
- (iii) our Company has appointed China Everbright Capital Limited as the compliance adviser who shall provide us with professional advice and guidance, in respect of compliance with the Listing Rules and applicable laws;
- (iv) any transaction (if any) between (or proposed to be entered into between) our Group and our connected persons will be required to comply with the relevant provisions under Chapter 14A of the Listing Rules including, where applicable, the announcement, reporting, annual review and independent Shareholders’ approval requirements and with those conditions imposed by the Hong Kong Stock Exchange for the granting of waiver from strict compliance with the relevant requirements under the Listing Rules;
- (v) our independent non-executive Directors will review, on an annual basis, whether there is any conflict of interest between our Group and our Controlling Shareholders and provide impartial and professional advice to protect the interests of our minority Shareholders; and
- (vi) our Directors may reasonably request the advice of independent professionals, such as financial advisers, the engagement of which will be made at our Company’s expenses.

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, the minority Shareholders.