

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OVERVIEW

Immediately following the completion of the Capitalisation Issue and the [REDACTED] (assuming the [REDACTED] is not exercised), Mr. Sun, indirectly hold [75%] will through his wholly-owned intermediary entity, Ru Yi IT of the issued share capital of our Company. Accordingly, Mr. Sun and Ru Yi IT will be regarded as a group of Controlling Shareholders upon [REDACTED].

INDEPENDENCE OF MANAGEMENT, OPERATION AND FINANCE

Our Directors are satisfied that we are capable of carrying our business independently from our Controlling Shareholders and/or their respective close associates after the [REDACTED], based on the following factors:

Management Independence

Our Board comprises of four executive Directors and three independent non-executive Directors. Decisions of our Board are made collectively. Our management and operational decisions are delegated to a team of four executive Directors and two members of senior management who are not Directors. Most of them have served our Group for a long time and have substantial experience in the industry we operate and will therefore be able to make business decisions that are in the best interests of our Group. The balance of power and authority is ensured by the operation of our Board and senior management. For details of the qualifications and experience of our executive Directors and senior management, please refer to the section headed “Directors and Senior Management” in this document. Except for Mr. Sun himself, all the other members of our Board and our senior management are independent of our Controlling Shareholders.

Each of our Directors is aware of his or her fiduciary duties as a director, which require, among other things, that he or she must act for the benefit and in the best interests of our Company, and must not permit any conflict between his or her duties as a Director and his or her personal interests. Further, we believe our independent non-executive Directors have a depth and breadth of experience which will enable them to bring sound, independent and impartial judgment to the decision-making process of our Board. Our independent non-executive Directors have been appointed in accordance with the requirements of the Listing Rules to ensure there is no actual or potential conflicts of interest with our Controlling Shareholders.

In addition, the Directors shall not vote or be counted in the quorum of any resolution of the Board in respect of any contract, arrangement or proposal in which he or she or any of his or her close associates has a material interest, subject to certain exceptions. As such, if the Board is asked to consider transactions or matters where the counterparty involved is one of our Controlling Shareholders or their respective associates, Mr. Sun will not vote or be counted in the quorum at the relevant Board meetings if any of his interest is material, and there will be sufficient members on our Board (including three independent non-executive Directors) with the requisite qualifications, experience and impartiality to discharge their duties to our Company as Directors. We have also adopted a series of corporate governance measures to manage conflicts of interest, if

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any, between our Group and our Controlling Shareholders which would support our independent management. For details, please refer to the paragraph headed “Relationship with Controlling Shareholders — Other Corporate Governance Measures” of this section.

Moreover, the connected transactions between our Group and our Controlling Shareholders and/or their respective associates are subject to the requirements under the Listing Rules, including the requirements of annual reporting, announcement, circular, annual review and independent Shareholders’ approval (where applicable).

Based on the above, our Directors are satisfied that our Board, together with our senior management team, is able to perform the managerial role in our Group independently.

Operational independence

We operate independently from our Controlling Shareholders and/or their respective close associates. Our Company (through our subsidiaries) holds all relevant licenses and owns all relevant intellectual properties and research and development facilities necessary to carry on our business. We have sufficient capital, facilities, equipment and employees to operate our business independently from our Controlling Shareholders and/or their respective close associates. We also have independent access to our clients and subcontractors and an independent management team to operate our business.

Given that (i) we have established our own organisational structure comprising individual departments and business and administrative units, each with specific areas of responsibilities; and (ii) our Group does not share our operational resources, such as marketing, sale and general administration resources with our Controlling Shareholders and/or their close associates, our Directors consider that our Group can operate independently from our Controlling Shareholders and/or their close associates from an operational perspective.

Financial independence

Our Group has an independent financial reporting system and makes financial decisions according to our Group’s own business needs. We have internal control and accounting systems and an independent finance department for discharging the treasury function. More importantly, we have been and are capable of obtaining equity and debt financing from third parties.

As at 31 December 2020, 2021 and 2022 and 30 June 2023, we had bank borrowings amounting to RMB47.5 million, RMB42.1 million, RMB67.0 million and RMB102.1 million, respectively. All bank borrowings were guaranteed by, *inter alia*, certain Shareholders including our Controlling Shareholders and their close associates. For details on the guarantee provided by certain Shareholders and their close associates, please refer to note 24 to the Accountants’ Report in Appendix I to this document. Such guarantee provided by Shareholders and their close associates had been discharged 26 May 2023.

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Based on the aforesaid, our Directors believe that we have the ability to conduct our business independently from our Controlling Shareholders and/or their respective close associates from a financial perspective and are able to maintain financial independence from our Controlling Shareholders and/or their respective close associates.

SUN UNDERTAKING

Background of the Sun Undertaking

In 2015, Mr. Sun’s sisters, Ms. Sun Xiaoyan (孫曉燕) and Ms. Sun Xiaoti (孫曉悌) contemplated to dispose (the “Disposal”) of the shareholding of Guangdong Litong Network Technology Co., Ltd. (廣東力通網絡科技有限公司) (“Guangdong Litong”) held by them to Company Z (“Company Z”), a company currently listed on the Shenzhen Stock Exchange and principally engaged in the provision of IDC solution services in the PRC. To facilitate the Disposal, on 25 September 2015, Mr. Sun was required to sign an undertaking under which he undertook, in summary, as follows (the “Sun Undertaking”):

- (a) Wuxi Zhida Network Technology Co., Ltd. (無錫市智達網絡科技有限公司) (“Wuxi Zhida”) shall submit a cancellation application for its ICP license and other licenses, if any, required for carrying out any businesses that compete with those of Guangdong Litong and Company Z, to the telecommunications authorities of the PRC before 30 September 2015.
- (b) Wuxi Zhida would no longer engage in any business that may cause competition with those of Guangdong Litong and Company Z with effect from 30 September 2015.
- (c) Mr. Sun would no longer engage in any business that may cause competition with those of Guangdong Litong and Company Z with effect from 30 September 2015. The enterprises under Mr. Sun’s de facto control or his significant influence would no longer apply the necessary licenses to carry out the same or similar business.
- (d) If Guangdong Litong and Company Z develop new data centre business, Mr. Sun and Wuxi Zhida would observe the aforesaid terms and guarantee that there would not be competition with Guangdong Litong and Company Z.
- (e) The letter of undertaking shall remain in force until the second anniversary date after Ms. Sun Xiaoti and her related parties no longer directly or indirectly hold any shares in Company Z and Ms. Sun Xiaoti and her close relatives no longer hold any position in Guangdong Litong and Company Z.

Guangdong Litong

Guangdong Litong was established in April 1998 by Independent Third Parties. Guangdong Litong was principally engaged in providing IDC services to customers. From November 2007 to December 2009, Mr. Sun served as a deputy general manager in Guangdong Litong, where he was mainly responsible for overseeing its overall management and business operation. From February

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2012 to November 2014, Mr. Sun became a passive investor of Guangdong Litong and was not involved in the daily operation and management of Guangdong Litong. Since 2014, he had no longer been involved in the operation and the ownership of Guangdong Litong.

Since December 2011, Ms. Sun Xiaoti and Ms. Sun Xiaoyan had been the major shareholders of Guangdong Litong until it was acquired by Company Z in April 2016.

Wuxi Zhida

Wuxi Zhida was established in April 2006 by Independent Third Parties. Wuxi Zhida was principally engaged in the provision of IDC solution services. Mr. Sun acquired 90% of the shareholding interests in Wuxi Zhida in September 2012. Ms. Sun Xiaoti acquired 49% of the shareholding interests in Wuxi Zhida in July 2014 to expand her business into the Jiangsu Province and exited Wuxi Zhida in October 2014 due to divergent operational perspectives.

Pursuant to the Sun Undertaking, Wuxi Zhida filed an application with the New District Branch of Wuxi Administration for Industry and Commerce (the “**Wuxi AIC**”) to remove the business scope of “engagement in Internet service provider business under the second type of value-added telecommunications business” (the “**Competition Businesses**”) in Jiangsu Province from its articles of association and business licence. On 25 September 2015, Wuxi AIC approved Wuxi Zhida’s application for the aforementioned changes and issued the updated business licence to Wuxi Zhida. On 19 November 2015, Wuxi Zhida’s application for cancellation of its ICP Licence was approved by Jiangsu Communications Administration. Since the changes of its business scope in its articles of association filed with Wuxi AIC and the cancellation of its ICP Licence, Wuxi Zhida had not been engaged in the Competition Businesses.

Pursuant to the Sun Undertaking and the agreement for the acquisition of Guangdong Litong by Company Z in April 2016, Wuxi Zhida shall transfer its IDC business contracts to Guangdong Litong. Mr. Sun was not compensated in any form under the Disposal and Mr. Sun only agreed to provide the undertaking in the capacity of the controlling shareholder and legal representative of Wuxi Zhida and with the contemplation that (i) Mr. Sun was required to provide the undertaking because he was the controlling shareholder of Wuxi Zhida at that time, and it was Mr. Sun’s understanding that the undertaking would only bind the entity that he held when making the undertaking (which was Wuxi Zhida) and it would not affect his new investments in any new entities to carry out IDC solution service; and (ii) as confirmed by Mr. Sun, the Sun Undertaking was given to facilitate his sisters’ business transaction and it was not the intention to affect Mr. Sun’s future businesses.

Thereafter, Wuxi Zhida still generated some revenue from the provision of ICT services. Since ICT services do not constitute any type of value-added telecommunications business, they do not fall within the scope of the Competition Business. Despite the above, Mr. Sun considered that it was in the interest of the Group to fade out his role in Wuxi Zhida mainly because (i) Wuxi Zhida had ceased to be an ICP Licence holder, (ii) the future business of Wuxi Zhida would be limited due to the cancellation of its ICP Licence, (iii) Wuxi Zhida was not profitable; and (iv) it was not Mr. Sun’s plan to include the minority shareholder who was holding the remaining 5.1%

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shareholding interests in Wuxi Zhida (who is an Independent Third Party) into any of his business. Mr. Sun then gradually transferred the ICT services from Wuxi Zhida to Cloud Factory and deregistered it in December 2020. The historical financial performance of Wuxi Zhida in 2020 prior to its deregistration was as follows:

<u>Revenue</u>	<u>Cost of sales</u>	<u>Gross profit</u>	<u>Net profit</u>
RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)
—	—	—	(3)

Specific PRC Legal Adviser's Opinion

In respect of the Sun Undertaking, the Specific PRC Legal Adviser was engaged to advise the Company on the related matters. The Specific PRC Legal Adviser was founded in 1992 with more than 8,000 lawyers in over 40 offices across the PRC. It has represented both foreign and domestic clients in tackling civil, commercial, administrative and international matters across multiple major industries in the PRC.

According to the legal opinion (the “**Specific Legal Opinion**”) of the Specific PRC Legal Adviser:

- (a) the entities invested by Mr. Sun and their business scope and ICP Licences were public information and could be easily found out via online search on the official website of the National Enterprise Credit Information Publicity System (國家企業信用信息公示系統) and the telecommunications services business market integrated management information system of MIIT government service platform (工業和信息化部政務服務平台電信業務市場綜合管理信息系統). Furthermore, based on the fact that, as confirmed by our Directors, Cloud Factory and Guangdong Litong (already a wholly-owned subsidiary of Company Z at that time) entered into a business cooperation contract in August 2018 according to which Company Z should have known Cloud Factory was engaged in IDC related business at that time;
- (b) since Company Z knew or should have known that Mr. Sun had been engaging in our Group's businesses and Company Z had repeatedly stated in its published annual report of 2018 and its interim report of 2019, that there was no breach of the undertakings which were continuously observed, prior to its transfer of listing from NEEQ to Shenzhen Stock Exchange in 2020, Company Z had by its act confirmed that the entities invested by Mr. Sun are permitted to engage in carry out IDC related businesses;
- (c) during the interviews conducted with a director, who was also a deputy general manager and board secretary of Company Z and duly authorised to conduct the interviews on 20 April 2022 and 10 October 2023 respectively, it was confirmed that:

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- (i) the details of our Group’s business segments, including the IDC Solution Services, the Edge Computing Services and the ICT Services and Other Services were sent by our Group to Company Z and Company Z had been aware of Cloud Factory and its affiliated entities (directly or indirectly controlled by Mr. Sun) as well as the businesses that they had been carrying out and Company Z and Mr. Sun had not had any dispute on that;
- (ii) the directors of Company Z had been aware of the matter and the content of the interviews; and
- (d) at the time when the Sun Undertaking was signed, (i) Mr. Sun did not hold any equity interest in Guangdong Litong and was not in any way connected with Guangdong Litong except his relationship with Ms. Sun Xiaoti and Ms. Sun Xiaoyan, (ii) Mr. Sun had never received any benefit and/or financial assistances from any party from the acquisition of Guangdong Litong by Company Z and/or the provision of the Sun Undertaking; (iii) as the Sun Undertaking was a unilateral undertaking which only imposed obligations but not granted any rights and economic benefits to him, according to the principle of fairness of civil law in the PRC, the Sun Undertaking shall be deemed as a unilateral civil juristic act instead of a contractual act of both parties. Therefore, the undertakings contained in the Sun Undertaking shall be interpreted by Mr. Sun instead of Company Z. Based on Mr. Sun’s understanding, the Sun Undertaking shall be intended to only bind the entity that he held when signing the understanding (which was Wuxi Zhida) and shall not affect Mr. Sun’s new investments in any new entities to carry out IDC solution service, and Company Z shall not pursue legal proceedings against Mr. Sun’s investments in new entities that carry our IDC solution service; and (iv) the Sun Undertaking did not stipulate any consequence for any breach of the undertaking.

Based on the above, our Directors, the Sole Sponsor and the Specific PRC Legal Adviser are of the view that (i) Mr. Sun’s investment in and operation of our IDC Solution Services will not be considered as a breach of the Sun Undertaking; and (ii) should Company Z file a claim alleging Mr. Sun’s breach of the Sun Undertaking, the risk of a successful claim initiated by Company Z against Mr. Sun is remote.

According to the Specific Legal Opinion, since our Group is not a party to the Sun Undertaking, the Sun Undertaking should only bind Mr. Sun but not our Group. The risk that our Group being subject to any alleged claim for breaching the Sun Undertaking is remote. In addition, given the Sun Undertaking did not stipulate any consequence in case of a breach, it would be onerous and difficult for Company Z to prove causation between damages it has suffered and the alleged breach. Based on the above, our Directors and the Sole Sponsor are of the view that there will be no material adverse impact on the operation, development and expansion of our Group’s businesses and Mr. Sun in the unlikely event that a breach is alleged.

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In addition, on the bases that:

- (1) according to the publicly available information from the National Enterprise Credit Information Publicity System, Mr. Sun indirectly held 76.1% of the equity interests of Cloud Factory through his one-member company, Jiangsu Hanju Investment Co., Ltd, since 5 December 2018, which means that Company Z could have known that Cloud Factory was controlled by Mr. Sun since December 2018;
- (2) from 2018 to 2019, Cloud Factory had business transactions related to IDC business with a subsidiary of Company Z. The transaction agreement signed in March 2019 clearly indicated that Mr. Sun was the legal representative of Cloud Factory. And according to the publicly available information from the National Enterprise Credit Information Publicity System, Mr. Sun has been registered as the legal representative of Cloud Factory since December 2018. Therefore, Company Z was well aware of Cloud Factory’s main businesses and the fact that it was controlled by Mr. Sun;
- (3) Company Z disclosed the performance of the Sun Undertaking in its 2018 annual report and 2019 semi-annual report. The reports stated that “the commitment party has fulfilled and will continue to fulfil his commitment, and there is no violation of the commitment”;
- (4) as confirmed by Mr. Sun, it had been Mr. Sun’s real intention that the Sun Undertaking would only bind the entity that he held when making the undertaking (which was Wuxi Zhida) and it would not affect his investments in any new entities to carry out IDC solution services. Given the fact that Company Z was well aware of Cloud Factory’s business and had not had any dispute with Mr. Sun on that as mentioned in above (1) (2) (3) and (5) below, it was believed that there was a meeting of the minds between Mr. Sun and Company Z on the real intention of Mr. Sun. Under the principle of Civil Code, the true intention of the parties is the key to the interpretation of an expression of intent; and
- (5) the secretary of the board of directors of Company Z was interviewed on 20 April 2022 and 10 October 2023, respectively. During these interviews, it was confirmed that Company Z had been aware of Cloud Factory and its affiliated entities (directly or indirectly controlled by Mr. Sun) as well as the businesses that they had been carrying out and Company Z and Mr. Sun had not had any dispute on that,

the Company’s PRC Legal Adviser and the Sole Sponsor’s PRC Legal Adviser concur with the Specific Legal Opinion that should Company Z file a claim alleging Mr. Sun’s breach of the Sun Undertaking, the possibility of the court ruling in favour of Company Z is low and the risk that our Group being subject to any alleged claim for breaching the Sun Undertaking is remote.

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COMPETITION ISSUE UNDER RULE 8.10 OF THE LISTING RULES

Save and except for the interests of our Controlling Shareholders in our Company and its subsidiaries, our Controlling Shareholders and Directors confirm that none of them has any interest in a business, apart from the business of our Group, 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.

OTHER CORPORATE GOVERNANCE MEASURES

In accordance with the Listing Rules, our Board will consist of not less than three independent non-executive Directors, comprising at least one-third of our Board, to ensure that our Board is able to effectively exercise independent judgment in its decision-making process. For details about our independent non-executive Directors, please refer to the paragraph headed “Directors and Senior Management — Board of Directors — Independent non-executive Directors” in this document. We believe our independent non-executive Directors are of sufficient caliber, knowledge and experience and will be able to provide impartial and independent advice to our Shareholders.

We would adopt the following measures to safeguard good corporate governance standards and to avoid potential conflicts of interest between our Group and the Controlling Shareholders:

- (a) our Articles of Association provide that a Director who is in any way materially interested in an actual or proposed contract or arrangement with the Company shall declare the nature of his or her interest at the earliest meeting of the Board at which he or she may practically do so;
- (b) our Articles of Association also provide that, subject to certain exceptions, a Director shall not vote (nor be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or proposal in which such Director or any of his or her close associates has a material interest, and if such Director does so, his or her vote shall not be counted, nor shall such Director be counted in the quorum for that resolution;
- (c) our Company has established internal control mechanisms to identify connected transactions. Upon the [REDACTED], if our Company enters into connected transactions with a Controlling Shareholder or any of his or her close associates, our Company will comply with the applicable Listing Rules;
- (d) if the independent non-executive Directors are requested to review any conflict of interest circumstances between the Group on the one hand and our Controlling Shareholders and/or the Directors on the other hand, our Controlling Shareholders and/or the Directors shall provide the independent non-executive Directors with all necessary information, and the Company shall disclose the decisions of the independent non-executive Directors either through its annual report or by way of announcements;

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- (e) where our Directors reasonably request the advice of independent professionals, such as financial advisers, the appointment of such independent professionals will be made at our Company’s expenses;
- (f) we have established an Audit Committee, a Remuneration Committee and a Nomination Committee to assess and control, and ensure our Board is appropriately advised, as to matters relating to, among other things, our relationships with our external auditors and internal audit, the remuneration of our Directors and our senior management, and the composition of our Board. Our Audit Committee comprises independent non-executive Directors. In addition, the chairman of each of our audit and Remuneration Committees is an independent non-executive Director. For details of our committees and their composition, please refer to the paragraph headed “Directors and Senior Management — Board committees” in this document; and
- (g) we have appointed SPDB International Capital Limited as our Compliance Adviser, which will provide advice and guidance to us in respect of compliance with the applicable laws and Listing Rules including various requirements relating to directors’ duties and corporate governance.

Based on the above, our Directors are satisfied that there are sufficient and effective measures to manage conflicts of interests and that we are able to operate independently from our Controlling Shareholders.