
CONNECTED TRANSACTIONS

OVERVIEW

We have entered into certain agreements in our ordinary and usual course of business with our connected persons. Following the [REDACTED], the transactions contemplated under such agreements will constitute our continuing connected transactions under Chapter 14A of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Contractual Arrangements

Background

As disclosed in the section headed “Contractual Arrangements” in this document, due to regulatory restrictions on foreign ownership in the PRC, we entered into the Contractual Arrangements whereby Deqing WFOE has acquired effective control over the Consolidated Affiliated Entities, and become entitled to all the economic benefits derived from the Consolidated Affiliated Entities.

The Contractual Arrangements currently in effect mainly comprise the following agreements, namely (i) the exclusive business cooperation agreement; (ii) the exclusive option agreement; and (iii) the equity pledge agreements, which were entered into between or amongst Deqing WFOE, the Consolidated Affiliated Entities and the Registered Shareholders, and the irrevocable power of attorney executed by the Registered Shareholders. For details, please refer to the section headed “Contractual Arrangements” in this document.

Listing Rules Implications

For the purposes of Chapter 14A of the Listing Rules, our Consolidated Affiliated Entities will be treated as our subsidiaries, and their directors, chief executives or substantial shareholders (as defined in the Listing Rules) and their respective associates will be treated as our connected persons. Therefore, the transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under chapter 14A of the Listing Rules upon [REDACTED].

Our Directors, including the independent non-executive Directors, and the Sole Sponsor are of the view that the Contractual Arrangements and the transactions contemplated thereunder are fundamental to our Group’s legal structure and business operation and it is justifiable and normal business practice for agreements under the Contractual Arrangements to have a term of longer than three years to ensure that (i) the financial and operational policies of the Consolidated Affiliated Entities can be effectively controlled by Deqing WFOE; (ii) Deqing WFOE can obtain the economic benefits derived from the Consolidated Affiliated Entities; and (iii) any possible leakage of assets and values of the Consolidated Affiliated Entities can be prevented on an uninterrupted basis. Such transactions have been entered into on normal commercial terms and are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of our Company and our Shareholders as a whole.

Our Directors also believe that our Group’s structure, whereby the financial results of the Consolidated Affiliated Entities are consolidated into our Group’s financial statements as subsidiaries and the flow of economic benefits of their business to our Group, places our Group in a special position in relation to relevant rules concerning connected transactions under the Listing Rules. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing agreements to be entered into between the Consolidated Affiliated Entities and any member of our Group (“**New Intergroup Agreements**”) technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our

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Directors consider that it is unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if the Contractual Arrangements are subject to the requirements set out under Chapter 14A of the Listing Rules.

WAIVER APPLICATIONS

The Contractual Arrangements

(a) No change without independent non-executive Directors’ approval

No change to the Contractual Arrangements will be made without the approval of the independent non-executive Directors.

(b) No change without independent Shareholders’ approval

Save as described in paragraph (d) below, no change to the agreements governing the Contractual Arrangements will be made without the approval of our Company’s independent Shareholders. Once independent Shareholders’ approval of any change has been obtained, no further announcement to or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (e) below) will however continue to be applicable.

(c) Economic benefits flexibility

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the Consolidated Affiliated Entities through (i) our Group’s option, to the extent permitted under PRC laws and regulations, to acquire, all or part of the equity interest in the Consolidated Affiliated Entities at the minimum purchase price permitted under PRC laws and regulations, (ii) the business structure under which the profit generated by the Consolidated Affiliated Entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to Deqing WFOE by the Consolidated Affiliated Entities under the exclusive business cooperation agreement, and (iii) our Group’s right to control the management and operation of, as well as, in substance, all of the voting rights of the Consolidated Affiliated Entities.

(d) Renewal and reproduction

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding, on the one hand, and the Consolidated Affiliated Entities, on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the approval of our Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements. The directors, chief executive or substantial shareholders of any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and, or reproduction of the Contractual Arrangements, however be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.

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(e) Ongoing reporting and approvals

Our Group will disclose details relating to the Contractual Arrangements on an ongoing basis as follows:

- the Contractual Arrangements in place during each financial period will be disclosed in our Company’s annual report and accounts in accordance with relevant provisions of the Listing Rules;
- our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company’s annual report and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements, and that the profit generated by the Consolidated Affiliated Entities has been substantially retained by Deqing WFOE, (ii) no dividends or other distributions have been made by the Consolidated Affiliated Entities or any non-wholly owned subsidiary of our Group to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group, and (iii) any new contracts entered into, renewed or reproduced between our Group and the Consolidated Affiliated Entities during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of our Shareholders as a whole;
- Our Company’s auditor will carry out review procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by the Consolidated Affiliated Entities or any non-wholly owned subsidiary of our Group to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group;
- For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of “connected person”, the Consolidated Affiliated Entities and each of its subsidiaries will be treated as our Company’s subsidiaries, but at the same time, the directors, chief executives or substantial shareholders of the Consolidated Affiliated Entities, its subsidiaries and their associates will be treated as connected persons of our Company (excluding for this purpose, the Consolidated Affiliated Entities), and transactions between these connected persons and our Group (including for this purpose, the Consolidated Affiliated Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules; and
- The Consolidated Affiliated Entities will undertake that, for so long as the Shares are [REDACTED] on the Stock Exchange, the Consolidated Affiliated Entities will provide our Group’s management and our Company’s auditor with full access to their relevant records, and (where applicable) relevant records of their subsidiaries, for the purpose of our Company’s auditor’s review of the connected transactions.

In addition, we have also applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver pursuant to Rule 14A.102 of the Listing Rules from strict compliance with (i) the announcement, circular and independent shareholders’ approval requirements under Rule 14A.105 of the Listing Rules in respect of the transactions contemplated under any New Intergroup Agreement, (ii) the requirement of setting an annual cap for the fees payable by/to any member of our Group to/from the

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Consolidated Affiliated Entities under any New Intergroup Agreements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of any New Intergroup Agreement to three years or less under Rule 14A.52 of the Listing Rules, for so long as Shares are [REDACTED] on the Stock Exchange subject however to the condition that the Contractual Arrangements subsist and that the Consolidated Affiliated Entities will continue to be treated as our Company’s subsidiaries, but at the same time, the directors, chief executives or substantial shareholders of the Consolidated Affiliated Entities and their associates will be treated as connected persons of our Company (excluding for this purpose, the Consolidated Affiliated Entities), and transactions between these connected persons and our Group (including for this purpose, the Consolidated Affiliated Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.

We will comply with the applicable requirements under the Listing Rules, and will immediately inform the Stock Exchange if there are any changes to these continuing connected transactions.

SOLE SPONSOR’S AND DIRECTORS’ VIEWS

Our Directors (including our independent non-executive Directors) are of the view that the continuing connected transactions set out above (i) have been entered into in the ordinary and usual course of business of our Company, and on normal commercial terms or better; and (ii) are fair and reasonable and in the interests of our Company and our Shareholders as a whole, and with respect to the term of the Contractual Arrangements Agreements which is of a duration of longer than three years, taking into consideration the reasons for entering into the Contractual Arrangements with details set out in this section above, it is reasonable for these agreements to be for a duration of more than three years and it is normal business practice for agreements of this type to be of such duration. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, the Directors consider that, given that our Group is placed in a special situation in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules..

The Sole Sponsor has reviewed the relevant documents and information provided by our Group, have participated in the due diligence and discussions with our management and our PRC Legal Advisor, and has obtained necessary representations and confirmations from our Company and our Directors. The Sole Sponsor is of the view that the continuing connected transactions set out above (i) have been entered into in the ordinary and usual course of business of our Company, and on normal commercial terms or better; (ii) are fair and reasonable and in the interests of our Company and our Shareholders as a whole and (iii) the Contractual Arrangements and the transactions contemplated thereunder are fundamental to our Group’s legal structure and business operation and it is justifiable and normal business practice for agreements under the Contractual Arrangements to have a term of longer than three years.