
CONNECTED TRANSACTIONS

OVERVIEW

Immediately following completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares to be issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme), our Controlling Shareholders, Ms. Shen, Mr. Zhou, Perfect Angle, and Wonderful Advisor will directly or indirectly hold approximately 74.99% of the issued share capital of our Company. Pursuant to Chapter 14A of the Listing Rules, our Controlling Shareholders and our Directors, and their respective associates are our connected persons.

Accordingly, our transactions with such connected persons will constitute connected transactions and continuing connected transactions under Chapter 14A of the Listing Rules upon the Listing.

CONNECTED PERSONS

Set out below is the list of connected persons which had transactions with our Group during the Track Record Period and will continue to have transactions with our Company upon the Listing:

- (1) Sichuan Huanlong New Material Ltd.* (四川環龍新材料有限公司) (“**Huanlong New Material**”), a limited liability company established in the PRC on 14 January 2011, the equity interest of which was approximately held as to approximately 36.01% by Chengdu Huanlong, approximately 3.75% by Ms. Shen, approximately 3.37% by Chengdu Yongshuntai Equity Investment Fund Management Centre (Limited Partnership)* (成都涌順泰股權投資基金管理中心(有限合夥)) (which in turn was owned as to approximately 96.96% by Ms. Shen), approximately 13.19% by Beijing Sequoia Mingde Equity Investment Center (Limited Partnership)* (北京紅杉銘德股權投資中心(有限合夥)), an Independent Third Party, and the remaining interest of approximately 43.68% by 9 other Independent Third Parties, respectively, as at the Latest Practicable Date. Hence Huanlong New Material is an associate of our Controlling Shareholders, Ms. Shen and Mr. Zhou, and our connected person. Huanlong New Material is principally engaged in the production of ecological bamboo paper and personal care paper products and sale of the same to retail customers;
- (2) Sichuan Huanlong Daily Products Ltd.* (四川環龍生活用品有限公司) (“**Huanlong Daily Products**”), formerly known as Anxian Paper Ltd.* (安縣紙業有限公司), is a limited liability company established in the PRC on 21 April 1999 and was a wholly-owned subsidiary of Huanlong New Material as at the Latest Practicable Date. Hence, Huanlong Daily Products is an associate of our Controlling Shareholders, Ms.

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Shen and Mr. Zhou, and our connected person. Huanlong Daily Products principally engages in the research and development, the production of bamboo pulp, base paper, personal care paper products and the sale of the same to Huanlong New Material;

(3) Ms. Xie Shuying (謝淑英), sister of Mr. Xie; and

(4) Mr. Chen Wantian (陳萬田), spouse of Ms. Xie Shuying and brother-in-law of Mr. Xie.

FULLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

Master Supply Agreements with Huanlong New Material and Huanlong Daily Products (the “Master Supply Agreements”)

(i) Master Supply Agreement with Huanlong New Material

During the Track Record Period, our Group has been supplying papermaking felts to Huanlong New Material in the ordinary and usual course of our Group’s business.

On 9 December 2021, Sichuan Huanlong (as seller/supplier) and Huanlong New Material (as purchaser) entered into a master supply agreement (the “**Huanlong New Material Master Supply Agreement**”) in order to govern the sale of papermaking felts by our Group to Huanlong New Material upon the Listing. Pursuant to the Huanlong New Material Master Supply Agreement, Sichuan Huanlong may sell papermaking felts to Huanlong New Material on a non-exclusive basis. The selling price, payment time and method, and other specific terms or conditions (if any) shall be fixed by the relevant parties in the purchase order on a case-by-case basis. The term of the Huanlong New Material Master Supply Agreement commenced on the Listing Date and shall expire on 31 December 2023.

(ii) Master Supply Agreement with Huanlong Daily Products

During the Track Record Period, our Group has been supplying papermaking felts to Huanlong Daily Products in the ordinary and usual course of our Group’s business.

On 9 December 2021, Sichuan Huanlong (as seller/supplier) and Huanlong Daily Products (as purchaser) entered into a master supply agreement (the “**Huanlong Daily Products Master Supply Agreement**”) in order to govern the sale of papermaking felts by our Group to Huanlong Daily Products upon the Listing. Pursuant to the Huanlong Daily Products Master Supply Agreement, Sichuan Huanlong may sell papermaking felts to Huanlong Daily Products on a non-exclusive basis. The selling price, payment time and method, and other specific terms or

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conditions (if any) shall be fixed by the relevant parties in the purchase order on a case-by-case basis. The term of the Huanlong Daily Products Master Supply Agreement commenced on the Listing Date and shall expire on 31 December 2023.

The contract periods of the Master Supply Agreements are fixed for around three years since the Company would like to ensure stable sale of products and/or the continuance of the transactions with Huanlong New Material and Huanlong Daily Products.

Pricing Policy of the Master Supply Agreements

The selling prices of the papermaking felts under the Master Supply Agreements are calculated with reference to the prevailing market prices of the same or comparable kind of papermaking felts, or the price to be agreed between the parties after having considered the market price in accordance with the Master Supply Agreements. Such market price shall be determined with reference to (i) the prevailing market price of the same or similar papermaking felts obtained from third-party suppliers in the same or neighbourhood regions based on normal commercial terms and in the ordinary and usual course of business; (ii) if (i) is not applicable, the selling prices of same or similar papermaking felts obtained from third-party suppliers in the PRC based on normal commercial terms and in the ordinary and usual course of business; or (iii) if both (i) and (ii) are not available, the selling prices of the same papermaking felts offered by the seller to its third-party customers based on normal commercial terms and in the ordinary and usual course of business.

Reasons for entering into the Master Supply Agreements

The papermaking felts to be supplied by our Group under the Master Supply Agreements are mainly used by Huanlong New Material and Huanlong Daily Products in their manufacturing process as a raw material for the production of various paper related products. Since supply of papermaking felts is in the ordinary and usual course of business of our Group, the transactions under the Master Supply Agreements will provide a steady income of our Group. Our Directors consider that transactions contemplated under the Master Supply Agreements are fair and reasonable, on normal commercial terms and in the interest of our Company and the Shareholders as a whole.

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Historical Amounts

The historical transaction amounts for supply of papermaking felts by our Group to Huanlong New Material and Huanlong Daily Products during the Track Record Period are approximately as follows:

	For the year ended 31 December			For the six months ended 30	
				June	
	2018	2019	2020	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Supply to Huanlong					
New Material	604	500	371	68	8
Supply to Huanlong					
Daily Products	488	1,333	617	84	353
Total	1,092	1,833	988	152	361

Listing Rules Implications

Since the terms and nature of the Master Supply Agreements are substantially the same, and the counterparties and/or the ultimate beneficial owner of the counterparties under both Master Supply Agreements are connected person of each other, the transactions contemplated under both Master Supply Agreements should be aggregated pursuant to the Listing Rules.

Based on the historical sales amounts between our Group and Huanlong New Material and Huanlong Daily Products, and the expected demand from Huanlong New Material and Huanlong Daily Products for our products, it is currently estimated that the aggregate sales to Huanlong New Material and Huanlong Daily Products under the Master Supply Agreements for each of the three years ending 31 December 2023 will be less than HK\$3,000,000 per year. Pursuant to the Master Supply Agreements, in the event that the total amount of the transactions contemplated under the Master Supply Agreements shall exceed HK\$3,000,000 per year, our Group shall forthwith cease to supply any further products to Huanlong New Material and Huanlong Daily Products. Based on the foregoing, as the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of the sale of products contemplated under the Master Supply Agreements are below 5% and the total annual transaction amount payable by Huanlong New Material and Huanlong Daily Products to our Group under the Master Supply Agreements shall be less than HK\$3,000,000 per year, such transactions contemplated under the Master Supply Agreements constitute de minimis continuing connected transactions under Rule 14A.76(1)(c) of the Listing Rules, and are exempt

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from reporting, annual review, announcement and independent shareholders' approval requirements. No annual cap is therefore set for such transactions contemplated under the Master Supply Agreements.

(iii) Employment Agreement with Ms. Xie Shuying

Ms. Xie Shuying is the sister of Mr. Xie, our executive Director, hence Ms. Xie is a connected person of our Company under Rule 14A.12(2)(a) of the Listing Rules. On 17 December 2019, Ms. Xie entered into a new written employment agreement (the “**Employment Agreement with Ms. Xie**”) with Sichuan Huanlong as a worker for a term ending on 16 December 2022. We expect Ms. Xie shall continue to be employed by our Group in the same position upon and following the Listing. Our Directors estimate that the annual salary payable to Ms. Xie shall not exceed RMB40,000 for each of the three years ending 31 December 2023, as determined by our Directors with reference to the contractual amount payable under the Employment Agreement with Ms. Xie. For the years ended 31 December 2018, 2019, 2020 and the six months ended 30 June 2021, the aggregate salary paid by our Group to Ms. Xie were approximately nil, RMB24,000, RMB23,800 and RMB12,000, respectively.

Our Directors consider that entering into the Employment Agreement with Ms. Xie is in our ordinary and usual course of business and the terms therein are on normal commercial terms and are fair and reasonable and in the interest of our Company and our Shareholders as a whole.

Listing Rules implications

Since all of the applicable percentage ratios for the Employment Agreement with Ms. Xie is less than 5% and the total consideration is less than HK\$3,000,000, the Employment Agreement with Ms. Xie will be fully exempt under Chapter 14A of the Listing Rules upon the Listing.

(iv) Employment Agreement with Mr. Chen Wantian

Mr. Chen Wantian is the spouse of Ms. Xie and brother-in-law of Mr. Xie, our executive Director, hence Mr. Chen is a deemed connected person of our Company under Rule 14A.21(1)(a) of the Listing Rules. On 7 June 2018, Mr. Chen entered into a new written employment agreement (the “**Employment Agreement with Mr. Chen**”) with Sichuan Huanlong as a worker for a term ending on 28 June 2021. We expect Mr. Chen shall continue to be employed by our Group in the same position upon and following the Listing. Our Directors estimate that the annual salary payable to Mr. Chen shall not exceed RMB70,000 for each of the three years ending 31 December 2023, as determined by our Directors with reference to the contractual amount payable under the Employment Agreement with Mr. Chen, and the expected increase in his salary during the

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contractual period. For the years ended 31 December 2018, 2019, 2020 and the six months ended 30 June 2021, the aggregate salary paid by our Group to Mr. Chen were approximately RMB61,800, RMB61,400, RMB62,900 and RMB32,400, respectively.

Our Directors consider that entering into the Employment Agreement with Mr. Chen is in our ordinary and usual course of business and the terms therein are on normal commercial terms and are fair and reasonable and in the interest of our Company and our Shareholders as a whole.

Listing Rules implications

Since all of the applicable percentage ratios for the Employment Agreement with Mr. Chen is less than 5% and the total consideration is less than HK\$3,000,000, the Employment Agreement with Mr. Chen will be fully exempt under Chapter 14A of the Listing Rules upon the Listing.