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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### BUSINESS DEVELOPMENT

#### Overview

We principally engage in the design, manufacture and sales of papermaking felts under the brands of **VANOV** and **Gobear**. According to the Frost & Sullivan Report, we were one of the top five papermaking felts manufacturers in the PRC market, among which, we ranked fourth and were the only papermaking felts manufacturer headquartered in the PRC, with an approximate market share of 5.8% in terms of revenue in 2020. Papermaking felts are fabrics used in the papermaking machines for dewatering, pressing, forming and drying of paper in the papermaking process and are consumables with a replacement cycle of approximately 30 to 180 days. We have around 14 years of experience in the papermaking felts manufacturing industry and we continue to innovate industrial technologies within the papermaking felts manufacturing industry.

Our Company was incorporated in the Cayman Islands under the Companies Act on 5 November 2018 as an exempted company with limited liability. Pursuant to the Reorganisation, as more particularly described in the paragraph headed “Reorganisation” in this section, our Company became the holding company of our Group for the purpose of the [REDACTED].

The following timeline sets forth the business milestones of our Group:

<u>Year</u>	<u>Major Developments and Milestones</u>
2007	— Sichuan Huanlong was established in the PRC on 7 February 2007
2010	— Acquisition of Shanghai Jinxiong between the period from October 2010 to November 2010
2011	— Sichuan Huanlong was awarded the Second-class Science and Technology Progress Award* (科技進步獎二等獎) issued by the People’s Government of Wenjiang District of Chengdu City* (成都市溫江區人民政府) in October 2011
	— Sichuan Huanlong was awarded the Paper Industry Chamber of Commerce’s 5th Anniversary Outstanding Contribution Award* (紙業商會成立五周年傑出貢獻獎) issued by the China Paper and Pulp Industry Chamber of Commerce* (全國工商聯紙業商會) in November 2011

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Year	Major Developments and Milestones
2012	<ul style="list-style-type: none"><li>— Sichuan Huanlong participated in the Asian Paper 2012 (2012亞洲紙業展覽會) exhibition in Thailand in April 2012</li><li>— Sichuan Huanlong participated in the drafting of the “China Textile Industry Standard: Batt-on-mesh Papermaking Felts”* (中華人民共和國紡織行業標準：底網造紙毛毯), which was published by the Ministry of Industry and Information Technology of the People’s Republic of China* (中華人民共和國工業和信息化部) in May 2012</li><li>— Sichuan Huanlong was recognised as Member Entity* (會員單位) by the Specialty Papers Committee of China Technical Association of Paper Industry* (中國造紙學會特種紙專業委員會) in October 2012</li><li>— Sichuan Huanlong was recognised as the Vice Chairman Entity* (副理事長單位) by the Sichuan Province Papermaking Industry Association* (四川省造紙行業協會) and the Sichuan Province Papermaking Association* (四川省造紙學會) in November 2012</li></ul>
2013	<ul style="list-style-type: none"><li>— Shanghai Jinxiong was awarded the “High Pressure-Resistant Bottom Pressing Paper Blanket Certificate”* (高抗壓底網壓榨造紙毛毯證書) issued by the Shanghai High-tech Achievement Transformation Project Certification Office* (上海市高新技術成果轉化項目認定辦公室) in March 2013</li></ul>
2014	<ul style="list-style-type: none"><li>— The “環龍” trademark was identified as a famous trademark in Sichuan Province by the Sichuan Administration for Industry and Commerce* (四川省工商行政管理局) in 2014</li><li>— Sichuan Huanlong was recognised as the Vice Chairman Entity* (副理事長單位) by the China Technical Association of Paper Industry* (中國造紙學會) in May 2014</li><li>— The multiple multi-layer papermaking felts* (多向多層疊網造紙毛毯) of Shanghai Jinxiong was given the title of “Top Ten Innovative Products/Technologies” by the China Nonwovens &amp; Industrial Textiles Association* (中國產業用紡織品行業協會) in October 2014</li><li>— Sichuan Huanlong was awarded the Second-class Science and Technology Progress Award* (科學技術進步獎二等獎) issued by the China National Textile And Apparel Council* (中國紡織工業聯合會) in November 2014</li></ul>

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Year	Major Developments and Milestones
	<ul style="list-style-type: none"><li>— Shanghai Jinxiong was awarded the 2014 Product Development Contribution Award* (2014年度產品開發貢獻獎) issued by China National Textile And Apparel Council* (中國紡織工業聯合會) in December 2014</li></ul>
2015	<ul style="list-style-type: none"><li>— Shanghai Jinxiong was awarded the Second-class Science and Technology Progress Award* (科學技術進步獎二等獎) issued by the China National Textile And Apparel Council* (中國紡織工業聯合會) in October 2015 for its invention of Base Network Multi-axis Superimposed Manufacturing Technology* (基網多軸疊合製造技術)</li></ul>
2016	<ul style="list-style-type: none"><li>— The “Research and Application of Key Technology for Multi-axial Multi-layer Papermaking Felts” project* (多軸向多層造紙毛毯關鍵技術研究與應用) of Sichuan Huanlong was appraised by the Sichuan Science and Technology Department* (四川省科學技術廳) and was registered as Sichuan Science and Technology Achievements* (四川省科學技術成果) in May 2016</li><li>— Sichuan Huanlong was awarded the China Specialty Papers Industry Development Contribution Award* (中國特種紙產業發展貢獻獎) issued by the Specialty Papers Committee of China Technical Association of Paper Industry* (中國造紙學會特種紙專業委員會) in September 2016</li><li>— Sichuan Huanlong was recognised as the Governing Entity* (理事單位) by the China Nonwovens &amp; Industrial Textiles Association* (中國產業用紡織品行業協會) in September 2016</li><li>— Sichuan Huanlong participated in the “2016 China International Paper Technology Exhibition and Conference”* (2016中國國際造紙科技展覽會及會議) and being the sole sponsor of the “2016 China International Paper Innovation and Development Forum”* (2016中國國際造紙創新發展論壇) in October 2016</li><li>— Sichuan Huanlong was awarded the Industry Contribution Award* (行業貢獻獎) issued by the Papermaking Textiles Branch* (造紙用紡織品分會) of the China Nonwovens &amp; Industrial Textiles Association* (中國產業用紡織品行業協會) in October 2016</li></ul>

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Year	Major Developments and Milestones
	<ul style="list-style-type: none"><li>— Sichuan Huanlong was awarded the High and New Technology Enterprise Qualification* (高新技術企業證書) jointly issued by Sichuan Science and Technology Department* (四川省科學技術廳), Sichuan Provincial Department of Finance* (四川省財政廳), Sichuan Provincial State Taxation Administration* (四川省國家稅務局) and Sichuan Provincial Local Taxation Administration* (四川省地方稅務局) in December 2016</li></ul>
2017	<ul style="list-style-type: none"><li>— Sichuan Huanlong and Shanghai Jinxiong were both awarded the Second-class Sichuan Province Science and Technology Progress Award* (四川省科學技術進步獎二等獎) issued by the People’s Government of Sichuan Province* (四川省人民政府) in April 2017</li><li>— Sichuan Huanlong was recognised as the Fourth Vice Chairman Entity* (第四屆理事會副會長單位) by the China Nonwovens &amp; Industrial Textiles Association* (中國產業用紡織品行業協會) in May 2017</li><li>— Shanghai Jinxiong was awarded the “Multi-axial Multi-layer Papermaking Blanket Certificate”* (多軸向多層造紙毛毯證書) issued by the Shanghai High-tech Achievement Transformation Project Certification Office* (上海市高新技術成果轉化項目認定辦公室) in August 2017</li><li>— Shanghai Jinxiong was awarded the High and New Technology Enterprise Qualification* (高新技術企業證書) jointly issued by Shanghai Science and Technology Committee * (上海市科學技術委員會), Shanghai Department of Finance* (上海市財政局), Shanghai State Taxation Administration* (上海市國家稅務局) and Shanghai Local Taxation Administration* (上海市地方稅務局) in November 2017</li><li>— Sichuan Huanlong was awarded the Product Development Contribution Award* (產品開發貢獻獎) issued by the China National Textile And Apparel Council* (中國紡織工業聯合會) in December 2017</li></ul>
2018	<ul style="list-style-type: none"><li>— Shanghai Jinxiong was awarded the Third-class of Top 50 Economic Contribution in 2017 Award* (2017年度經濟貢獻50強三等獎) issued by the Fengjing Town Committee of the CPC Fengjing Town People’s Government* (中共楓涇鎮委員會楓涇鎮人民政府) in March 2018</li><li>— Shanghai Jinxiong was recognised as a Little Giant of Technology Enterprises* (科技小巨人企業) by the Shanghai Jinshan District Science and Technology Committee* (上海市金山區科學技術委員會) in August 2018</li></ul>

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Year	Major Developments and Milestones
2019	— Sichuan Huanlong developed and launched the trial version of Huanlong Paper Machine Efficiency Operation System*(環龍紙機效率運營系統) mini programme on a social media platform in August 2019, for certain selected customers of our Group. The said programme provides a convenient and efficient interface between external paper machine operating efficiency information and internal product management information.
2020	— Shanghai Jinxiong was jointly recognised as a Little Giant of Technology Training Enterprises in Shanghai* (上海市科技小巨人培育企業) of 2020 by the Shanghai Science and Technology Committee* (上海市科學技術委員會) and Shanghai Municipal Commission of Economy and Informatisation* (上海市經濟和信息化委員會) in September 2020.  — Sichuan Huanlong was recognised as a Key New Material Enterprise in Chengdu (成都市重點新材料企業) of the years 2020–2021 by Chengdu Municipal Bureau of Economy and Information Technology* (成都市經濟和信息化局) in December 2020.

### OUR OPERATING SUBSIDIARIES

Details of our PRC subsidiaries and their respective corporate history prior to the Reorganisation are set out below:

#### **Sichuan Huanlong**

Sichuan Huanlong, our principal operating subsidiary, was established in the PRC on 7 February 2007 with a registered capital of RMB10,000,000, which was wholly owned by Chengdu Huanlong. The principal business of Sichuan Huanlong is manufacturing and sales of papermaking felts.

#### ***Increase of registered capital***

On 24 May 2011, the registered capital of Sichuan Huanlong was increased from RMB10,000,000 to RMB40,000,000 contributed by Chengdu Huanlong.

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### *Equity transfer between Ms. Shen, Mr. Zhou and Chengdu Huanlong*

On 20 March 2013, each of Ms. Shen and Mr. Zhou entered into equity transfer agreement with Chengdu Huanlong, pursuant to which Chengdu Huanlong transferred its 75% and 25% equity interests in Sichuan Huanlong to Ms. Shen and Mr. Zhou respectively. Upon completion of the above transfer of equity interests, Sichuan Huanlong was owned as to 75% and 25% by Ms. Shen and Mr. Zhou respectively.

### *Equity transfer between Ms. Shen, Mr. Zhou and Chengdu Huanlong*

On 24 December 2016, each of Ms. Shen and Mr. Zhou entered into equity transfer agreement with Chengdu Huanlong, pursuant to which Ms. Shen and Mr. Zhou transferred their respective 75% and 25% equity interests in Sichuan Huanlong to Chengdu Huanlong. Upon completion of the above transfer of equity interests, Sichuan Huanlong was wholly owned by Chengdu Huanlong.

### *Equity transfer between Chengdu Huanlong and Yongxing Shikang*

In November 2017, in preparation of the Proposed PRC Listing, Yongxing Shikang, Chengdu Huanlong, Sichuan Huanlong, Ms. Shen and Mr. Zhou entered into an equity transfer agreement dated 24 November 2017, as supplemented by a supplemental agreement (the “**First Yongxing Shikang — Chengdu Huanlong Equity Transfer Agreements**”), pursuant to which Chengdu Huanlong transferred its 6.91% equity interest in Sichuan Huanlong to Yongxing Shikang, at a consideration of RMB38,000,000, which was determined after arm’s length negotiations among the parties on a willing buyer willing seller basis. The First Yongxing Shikang — Chengdu Huanlong Equity Transfer Agreements stipulates, inter alia, that Chengdu Huanlong shall procure an independent third party to acquire equity interest in Sichuan Huanlong for a sum not less than RMB60,000,000 within six months from 29 November 2017, being the settlement date of the equity transfer consideration of RMB38,000,000, failing which Chengdu Huanlong, Ms. Shen and Mr. Zhou are obliged to buy back the 6.91% equity interest in Sichuan Huanlong on demand of Yongxing Shikang at an annualised interest rate of 11%.

Upon completion of the aforesaid transfer and until immediately before the Reorganisation and the [REDACTED] as set out below, Sichuan Huanlong was owned as to 93.09% and 6.91% by Chengdu Huanlong and Yongxing Shikang, respectively.

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Upon completion of the Reorganisation and the [REDACTED], Sichuan Huanlong was owned as to approximately 98.4% and approximately 1.6% by Huanlong Lixin and Marvel Dragon, respectively, and became an indirect non-wholly owned subsidiary of the Company. For details, please refer to the paragraphs headed “Reorganisation” and “[REDACTED]” below in this section.

Our PRC Legal Advisers confirmed that the establishment of Sichuan Huanlong and equity interest transfers as set out above had been approved by relevant competent authorities and were legally valid and effective.

### **Shanghai Jinxiong**

Shanghai Jinxiong was established in the PRC on 31 October 2000 with a registered capital of RMB35,590,000. The principal business of Shanghai Jinxiong is manufacturing and sales of papermaking felts. At the time of establishment, Shanghai Jinxiong was owned as to approximately 68.73%, 29.50% and 1.77% by Shanghai Industrial Felt Factory\* (上海工業用呢廠) (a collective enterprise established in the PRC and an Independent Third Party that has already been dissolved as at the Latest Practicable Date), Shanghai Shenda Company Limited\* (上海申達股份有限公司) (a listed company on the Shanghai Stock Exchange (stock code: 600626) and an Independent Third Party) and nine individual Independent Third Parties, respectively.

After a series of equity interest transfers from December 2000 to July 2007, Shanghai Jinxiong became an entity owned as to approximately 65.92%, 32.31% and 1.77% by Shanghai Textile (Group) Co., Ltd.\* (上海紡織(集團)有限公司) (a limited liability company established in the PRC and an Independent Third Party), Shanghai Shenda Company Limited\* (上海申達股份有限公司) and the nine initial individual Independent Third Parties, respectively.

### ***Equity interest acquisition by Sichuan Huanlong***

On 25 October 2010, Shanghai Textile (Group) Co., Ltd.\* (上海紡織(集團)有限公司) and Shanghai Shenda Company Limited\* (上海申達股份有限公司) as vendors and Sichuan Huanlong as purchaser entered into a Shanghai Assets and Equity Exchange Contract\* (上海市產權交易合同) through the Shanghai United Assets and Equity Exchange\* (上海聯合產權交易所), pursuant to which Shanghai Textile (Group) Co., Ltd.\* and Shanghai Shenda Company Limited\* transferred their respective 65.92% and 32.31% equity interests in Shanghai Jinxiong to Sichuan Huanlong, at the consideration of RMB30,322,004 and RMB14,864,164, respectively, determined with reference to the valuated net asset value of Shanghai Jinxiong as of 31 July 2010.

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On 31 October 2010, the nine initial individual Independent Third Parties (collectively, the "Vendors") entered into an equity transfer agreement with Sichuan Huanlong, pursuant to which the Vendors transferred their respective approximately 0.56%, 0.42%, 0.17%, 0.14%, 0.14%, 0.08%, 0.08%, 0.08% and 0.08% equity interests in Shanghai Jinxiong to Sichuan Huanlong, at the consideration of RMB258,500, RMB193,875, RMB77,550, RMB64,625, RMB64,625, RMB38,775, RMB38,775, RMB38,775 and RMB38,775, respectively, determined after arm's length negotiations between the parties and on a willing buyer willing seller basis.

Upon completion of the aforesaid equity interest transfer, Shanghai Jinxiong became a direct wholly-owned subsidiary of Sichuan Huanlong.

Upon completion of the Reorganisation, Shanghai Jinxiong remained as a direct wholly-owned subsidiary of Sichuan Huanlong and became an indirect non-wholly owned subsidiary of our Company.

Our PRC Legal Advisers confirmed that the establishment of Shanghai Jinxiong and equity interest transfers as set out above had been approved by relevant competent authorities and were legally valid and effective.

### [REDACTED]

On 26 April 2019, a capital increase agreement was entered into between Chengdu Huanlong and Marvel Dragon, pursuant to which the registered capital of Sichuan Huanlong was increased from RMB40,000,000 to RMB40,650,000, and that Marvel Dragon subscribed for registered capital of RMB650,000 (representing approximately 1.6% of the enlarged registered capital of Sichuan Huanlong), which was determined after arm's length negotiation between the parties with reference to the appraised net asset value of Sichuan Huanlong as at 31 December 2018 by an independent valuer and such consideration was settled by Marvel Dragon with its internal financial resources. Upon completion of the aforesaid capital increase, Sichuan Huanlong was held as to approximately 98.4% by Chengdu Huanlong and approximately 1.6% by Marvel Dragon, respectively, and became a sino-foreign joint venture enterprise on 8 May 2019. The aforesaid capital contribution was settled by Marvel Dragon on 11 June 2019. Marvel Dragon was wholly owned by Virtuous Way, a wholly owned subsidiary of High Resource, which was wholly owned by Mr. Leung at that time.

As part of the Reorganisation, on 13 August 2019, a share transfer agreement was entered into among our Company, High Resource and Mr. Leung, pursuant to which High Resource transferred the then entire issued share capital of Virtuous Way to our Company, at the consideration of 192 Shares issued by our Company to High Resource. For details, please refer to



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the paragraph headed “Reorganisation — (6) Share swap between our Company and [REDACTED]” in this section below. Upon completion of the share transfer, our Company was owned as to 73.8%, 24.6% and 1.6% by Perfect Angle, Wonderful Advisor and High Resource, respectively.

Key details of the [REDACTED] are summarised in the table below:

Name of investor:	Mr. Leung (through Marvel Dragon)
Date of agreements:	26 April 2019
Amount of consideration paid:	RMB1,940,000 (equivalent to HK\$2,210,000 based on the approximate exchange rate at RMB1: HK\$1.14)
Basis of consideration:	determined after arm’s length negotiation between the parties with reference to the appraised net asset value of Sichuan Huanlong as at 31 December 2018 by an independent valuer and taking into account of (i) the Group’s competitive strengths, proven track record, reputation as well as the Group’s future prospect, which the appraised net asset value had not taken into account; and (ii) the uncertainty in relation to the outcome of our proposed [REDACTED] exercise, the operation and financial performance of our Group in the future, and the outcome of the implementation of our Group’s business strategies.
Payment date of the consideration:	11 June 2019
Effective cost per Share paid:	approximately HK\$[REDACTED]
Discount to the [REDACTED]:	approximately [REDACTED]% (with reference to the mid-point [REDACTED] at HK\$[REDACTED] per Share)
Shareholding upon [REDACTED]:	[REDACTED] Shares representing [REDACTED]% of the issued share capital of our Company upon [REDACTED] (without taking into consideration of Shares which may be issued and allotted under the [REDACTED])
Use of proceeds:	As general working capital and such proceeds have been fully utilised

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Strategic benefits to our Group: Our Directors are of the view that in addition to providing general working capital to the Group, Mr. Leung, with his knowledge in engineering and information technology, will bring strategic benefits to the Group by providing general advices and recommendations to the Group on information technology, e.g. cyber security, and internal operation and management system, based on Mr. Leung’s previous working experience, and the investments demonstrate his confidence in our operation and serve as an endorsement of our performance, strength and prospects

Other special rights: Nil

Lock-up: N/A

The principal business activity of High Resource is investment holding. Mr. Leung is a resident of Hong Kong, and the shareholder and director of High Resource. He worked in MTR Corporation Limited from November 1994 to May 2015 with the last position as systems manager of information technology services department. Save for the [REDACTED] and acting as a director of Virtuous Way and Marvel Dragon until 14 April 2021, Mr. Leung has confirmed that (i) he has never been involved in any dealing or transaction with our Directors, our Controlling Shareholders, any member of our Group and any of their respective associates; (ii) he did not acquire interests in our Company with finance provided directly or indirectly by our connected person(s); (iii) he does not take instructions from our connected person(s) in relation to the acquisition, disposal, voting or other disposal of our Shares registered in his name; and (iv) he has no relationship with our Group or any connected persons of our Company.

As neither Mr. Leung nor High Resource is our core connected person (as defined in Listing Rules), the Shares held by High Resource will form part of the public float for the purposes of Rule 8.08 of the Listing Rules accordingly.

Ms. Shen met Mr. Leung back in 2015 during a social gathering in Hong Kong. We acquainted with Mr. Leung when he, via Ms. Shen, expressed interest in an investment in Sichuan Huanlong in or around early 2018. To the best knowledge and belief of our Directors, Mr. Leung decided to invest in our Group in view of the prospects of our business growth.

Our PRC Legal Advisers advised that the [REDACTED] was conducted in compliance with all applicable laws and regulations in the PRC.

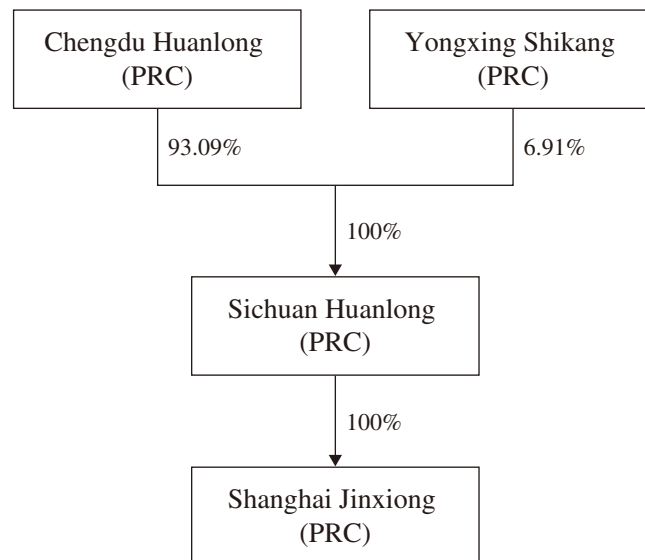
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The Sole Sponsor has reviewed the relevant information and documentation in relation to the [REDACTED] and is of the view that the [REDACTED] is in compliance with the Interim Guidance on [REDACTED] (i.e. Guidance Letter HKEX-GL29-12), and Guidance Letter HKEX-GL43-12 issued by the Stock Exchange, whereas the Guidance Letter HKEX-GL44-12 is not applicable to the [REDACTED].

Based on the due diligence performed by the Sole Sponsor, the Sole Sponsor is of the view that (i) Mr. Leung and the valuer who performed the valuation of the appraised net asset value of Sichuan Huanlong as a reference for determining the consideration of the [REDACTED] were Independent Third Parties; (ii) the basis of the valuation of the Company and the amount of cash consideration of paid for the [REDACTED] were after arm’s length negotiation between the parties.

### REORGANISATION

The corporate structure of our Group immediately before the Reorganisation is set out below:



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In preparation for the [REDACTED], we underwent the Reorganisation which involve the following steps:

### **(1) Incorporation of our Company, Lion Courage and Vanov Tianhe**

#### *Our Company*

On 5 November 2018, our Company was incorporated in the Cayman Islands with an authorised share capital of HK\$380,000 divided into 38,000,000 ordinary Shares with a par value of HK\$0.01 per Share. On 5 November 2018, one fully-paid Share was allotted and issued to the initial subscriber, which was then transferred to South Source, followed by an addition of 2,499 Shares and 7,500 Shares being allotted and issued to South Source and Fame Attain respectively on the same date. On 31 December 2018, South Source and Fame Attain transferred their respective 2,500 Shares and 7,500 Shares of our Company to Wonderful Advisor and Perfect Angle respectively, each at a nominal consideration of HK\$1.00, with Wonderful Advisor and Perfect Angle both being entities incorporated in the BVI and held by Vistra Trust, the trustee of both the SGL Trust and ZJ Trust, for the respective benefit of Ms. Shen and Mr. Zhou while the children of Ms. Shen being the beneficiaries of both SGL Trust and ZJ Trust, for details, please refer to the section headed “Relationship with Controlling Shareholders” in this document. On 26 June 2019, an additional 452 Shares and 1,356 Shares were allotted and issued to Wonderful Advisor and Perfect Angle respectively. The principal business of our Company is investment holding.

As part of the Reorganisation, on 13 August 2019, a share transfer agreement was entered into among our Company and High Resource and Mr. Leung, pursuant to which High Resource transferred the entire issued share capital of Virtuous Way to our Company, at the consideration of 192 Shares issued by our Company to High Resource. For details, please refer to the paragraph headed “Reorganisation — (6) Share swap between our Company and [REDACTED]” in this section below.

After the aforesaid transactions, Perfect Angle, Wonderful Advisor and High Resource held 8,856, 2,952 and 192 fully-paid Shares, respectively, representing 73.8%, 24.6% and 1.6% of the then total issued share capital of our Company.

#### *Lion Courage*

On 23 October 2018, Lion Courage was incorporated in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On 13 November 2018, 100 fully paid ordinary shares of Lion Courage, representing its entire issued share capital, was issued and allotted at par to our Company. The principal business of Lion Courage is investment holding.

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### *Vanov Tianhe*

On 30 November 2018, Vanov Tianhe was incorporated in Hong Kong. 10,000 fully paid ordinary shares of Vanov Tianhe, representing its entire issued share capital, was issued and allotted at HK\$1.00 each to Lion Courage. The principal business of Vanov Tianhe is investment holding.

### **(2) Equity transfer between Chengdu Huanlong and Yongxing Shikang**

According to our Directors, Sichuan Huanlong decided to abort the Proposed PRC Listing in or around May 2018, having considered that a [REDACTED] of our Shares on the Stock Exchange can provide a more competitive financing platform to raise capital for our business development and diversify our capital structure. Accordingly, Chengdu Huanlong ceased to look for investor to acquire equity interest in Sichuan Huanlong. As the buy-back obligation under the First Yongxing Shikang — Chengdu Huanlong Equity Transfer Agreements was triggered, the parties, namely Yongxing Shikang, Chengdu Huanlong, Sichuan Huanlong, Ms. Shen and Mr. Zhou, entered into a second supplemental agreement (the “**Yongxing Shikang — Chengdu Huanlong Second Supplemental Agreement**”) in May 2018, pursuant to which Chengdu Huanlong bought back the 6.91% equity interest in Sichuan Huanlong from Yongxing Shikang, at a consideration of RMB41,976,726.03, determined with reference to the calculation mechanism as set out in the First Yongxing Shikang — Chengdu Huanlong Equity Transfer Agreements further supplemented by the Yongxing Shikang — Chengdu Huanlong Second Supplemental Agreement. The above consideration of RMB41,976,726.03 was fully settled on 24 December 2018 and transfer of equity interest in Sichuan Huanlong was duly registered with the PRC government on 17 March 2019. Upon completion of the above equity transfer, Sichuan Huanlong became a direct wholly-owned subsidiary of Chengdu Huanlong.

### **(3) [REDACTED]**

On 26 April 2019, a capital increase agreement was entered into between Chengdu Huanlong and Marvel Dragon. For details, please refer to the paragraph headed “[REDACTED]” above in this section.

Upon completion of the above capital increase, Sichuan Huanlong was held as to approximately 98.4% by Chengdu Huanlong and approximately 1.6% by Marvel Dragon, respectively.

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### **(4) Incorporation of Huanlong Funeng and Huanlong Lixin**

#### *Huanlong Funeng*

On 28 February 2019, Huanlong Funeng was established in the PRC as a wholly foreign-owned enterprise with a registered capital of RMB1,000,000. Huanlong Funeng is a wholly-owned subsidiary of Vanov Tianhe and an indirect wholly-owned subsidiary of our Company. Huanlong Funeng is principally engaged in technical research and development related to textiles, materials and paper.

#### *Huanlong Lixin*

On 27 March 2019, Huanlong Lixin was established in the PRC as a limited liability company. At the time of establishment, it was a wholly-owned subsidiary of Huanlong Funeng and with a registered capital of RMB990,000. Huanlong Lixin is principally engaged in technical research and development related to textiles, materials and paper.

### **(5) Capital Increase of Huanlong Lixin and transfer of equity interest of Sichuan Huanlong to Huanlong Lixin by Chengdu Huanlong**

Pursuant to the capital increase agreement entered into among Huanlong Lixin, Huanlong Funeng and Chengdu Huanlong dated 31 May 2019, the registered capital of Huanlong Lixin was increased from RMB990,000 to RMB1,000,000 by way of Chengdu Huanlong subscribing for 1% equity interest of Huanlong Lixin, in consideration for Chengdu Huanlong transferring its 98.4% equity interest in Sichuan Huanlong to Huanlong Lixin. The increase of registered capital of Huanlong Lixin was duly registered with the PRC Government on 6 June 2019 and the transfer of equity interest in Sichuan Huanlong was completed on 10 June 2019.

Upon completion of the capital increase on 6 June 2019 and the transfer of equity interest in Sichuan Huanlong on 10 June 2019, Huanlong Lixin was owned as to 99% and 1% by Huanlong Funeng (which is indirectly wholly-owned by the Company) and Chengdu Huanlong, respectively, while Sichuan Huanlong was owned as to approximately 98.4% and approximately 1.6% by Huanlong Lixin and Marvel Dragon. Huanlong Lixin and Sichuan Huanlong became indirect non-wholly owned subsidiaries of the Company.

As advised by our PRC Legal Advisers, the subscription of the increased registered capital in Huanlong Lixin (representing 1% equity interest of Huanlong Lixin) by Chengdu Huanlong would result in the remaining small amount of equity interest in Huanlong Lixin to continuously being

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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held by Ms. Shen and Mr. Zhou. The reason for the said subscription is to allow such step to be taken without having the need for offshore funding. As advised by our PRC Legal Advisers, the said subscription was in full compliance with the applicable PRC laws and regulations.

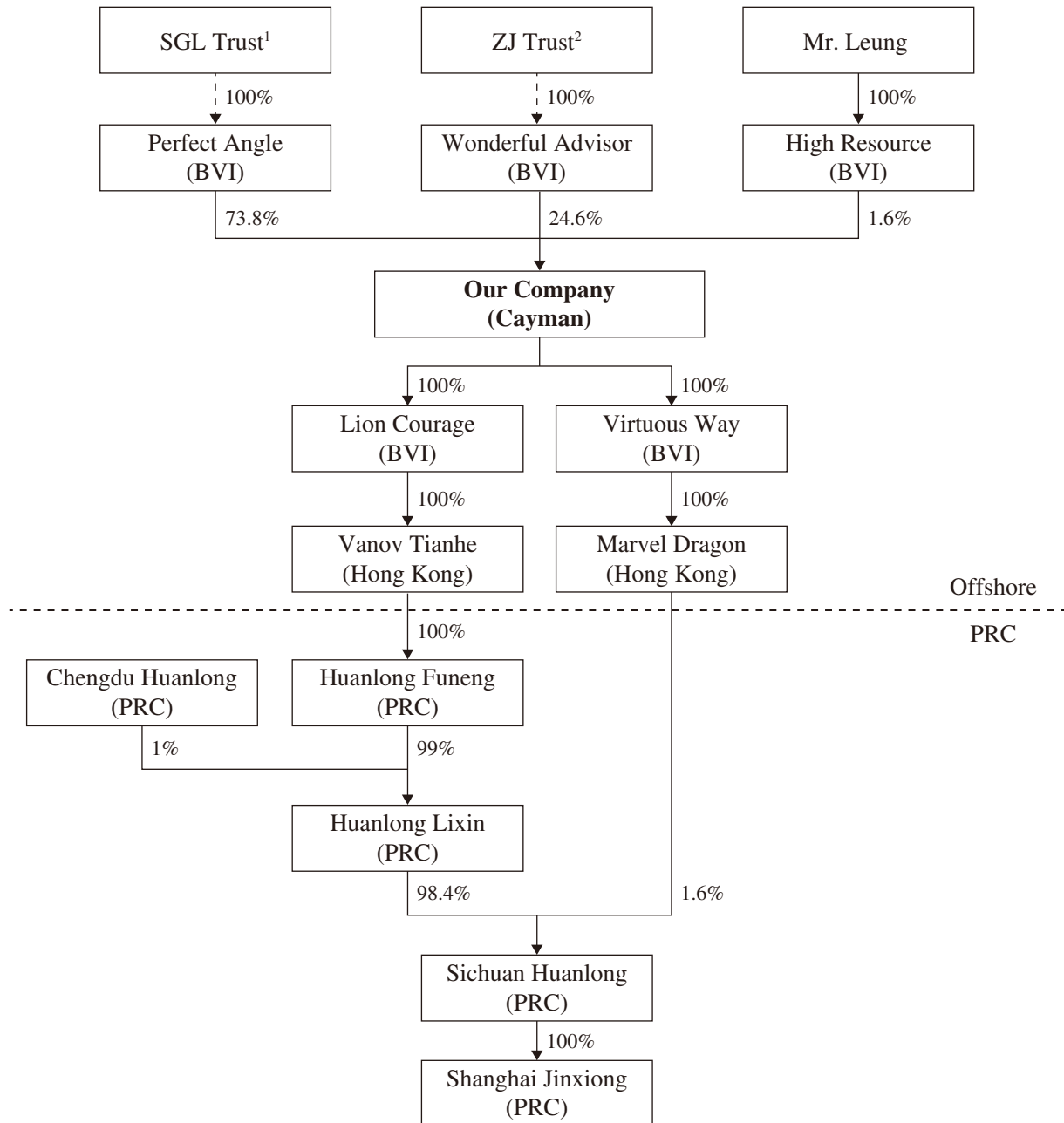
### **(6) Share swap between our Company and [REDACTED]**

On 13 August 2019, a share transfer agreement was entered into among our Company, High Resource and Mr. Leung, pursuant to which High Resource transferred the entire issued share capital of Virtuous Way to our Company, at the consideration of 192 Shares issued by our Company to High Resource. Upon completion of the share swap, (i) Virtuous Way became our wholly and directly owned subsidiary, and (ii) Perfect Angle, Wonderful Advisor and High Resource held 8,856, 2,952 and 192 fully-paid Shares, respectively, representing 73.8%, 24.6% and 1.6% of the then total issued share capital of our Company.

Our PRC Legal Advisers confirmed that our Group has obtained all necessary approvals, consent, licences and permits in the PRC and has effected all necessary filings and recordation under the relevant PRC laws and regulations in connection with the Reorganisation.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The corporate structure of our Group immediately after completion of the Reorganisation but before the [REDACTED] and [REDACTED] is set out below:



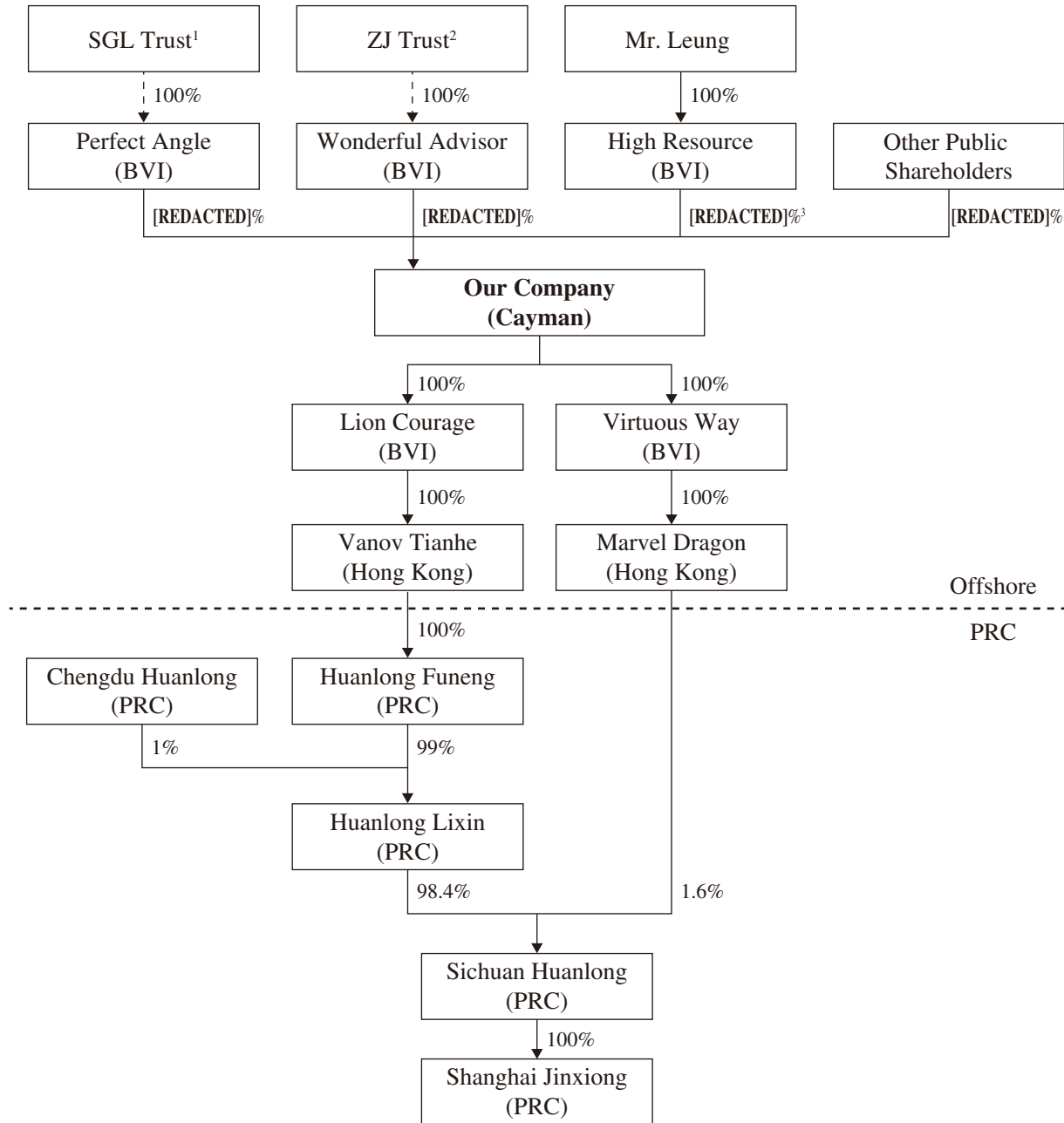
*Notes:*

- (1) The SGL Trust is an irrevocable discretionary trust established by Fame Attain as the settlor and Ms. Shen as the protector of the trust, with Vistra Trust as the trustee, for the benefit of Ms. Shen and the children of Ms. Shen.
- (2) The ZJ Trust is an irrevocable discretionary trust established by South Source as the settlor and Ms. Shen as the protector of the trust, with Vistra Trust as the trustee, for the benefit of Mr. Zhou and the children of Ms. Shen.



## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The corporate structure of our Group after completion of the Reorganisation and immediately upon completion of the [REDACTED] and the [REDACTED] (without taking into account any Shares which may be issued upon the exercise of the [REDACTED] and any options that may be granted under the Share Option Scheme) is set out below:



*Notes:*

- (1) The SGL Trust is an irrevocable discretionary trust established by Fame Attain as the settlor and Ms. Shen as the protector of the trust, with Vistra Trust as the trustee, for the benefit of Ms. Shen and the children of Ms. Shen.
- (2) The ZJ Trust is an irrevocable discretionary trust established by South Source as the settlor and Ms. Shen as the protector of the trust, with Vistra Trust as the trustee, for the benefit of Mr. Zhou and the children of Ms. Shen.
- (3) As neither Mr. Leung nor High Resource is our core connected person (as defined in Listing Rules), the Shares held by High Resource will form part of the public float for the purposes of Rule 8.08 of the Listing Rules accordingly.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

### PRC REGULATORY ISSUES RELATING TO THE REORGANISATION

#### Proposed PRC Listing

As disclosed in the section of Industry Overview in this document, our Group’s major competitors were listed companies in other stock exchanges. Our Directors are of the view that our Group will have to obtain funding for further expansion in order to maintain its competitiveness and by listing on ChiNext of the Shenzhen Stock Exchange can provide a financing platform to raise capital for our business development and diversify our capital structure.

In 2017 and 2018, Sichuan Huanlong had engaged several professional parties as its financial adviser, auditors and legal advisers, to preliminarily assess whether Sichuan Huanlong was suitable for listing on the ChiNext of the Shenzhen Stock Exchange. In connection with the Proposed PRC Listing, Sichuan Huanlong had paid the professional parties with details as set out below:

<b>Professional parties</b>	<b>Remuneration paid in FY2017</b>	<b>Remuneration paid in FY2018</b>
	<i>(RMB’000)</i>	<i>(RMB’000)</i>
Financial adviser . . . . .	—	500
Legal advisers . . . . .	—	300
Auditors . . . . .	192	248
Total . . . . .	<u>192</u>	<u>1,048</u>

According to our Directors, during the preparation process, it was necessary to convert Sichuan Huanlong to joint stock limited company prior to any application for the Proposed PRC Listing and the directors of Sichuan Huanlong noted that CSRC had a significant backlog of applications for listing on the A-share market and expected the vetting and approval processes for the listing in the PRC to be lengthy. As a result, there was no application for listing made with ChiNext of the Shenzhen Stock Exchange in respect of the Proposed PRC Listing. According to our Directors, Sichuan Huanlong decided to abort the Proposed PRC Listing in or around May 2018. Since then, Sichuan Huanlong has been actively exploring the possibility of listing in other stock exchanges.

Our Directors are of the view that, compared with listing on ChiNext of the Shenzhen Stock Exchange, the [REDACTED] of our Shares on the Stock Exchange would be more beneficial to our Group in terms of developing international market and recruiting international talents. Also as disclosed in the section of Industry Overview in this document, the Group’s major competitors were based overseas, our Directors took the view that the Group will have to further expand into international market in the future if the Group is to maintain its competitiveness.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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Our Directors confirmed that, (i) save for a draft due diligence report produced by the legal advisers, no other reports have been prepared in connection with the Proposed PRC Listing; and (ii) save for the aforesaid appointments, no other professional parties were appointed in connection with the Proposed PRC Listing. The Sole Sponsor has conducted independent interviews with the aforementioned professional parties involved in the Proposed PRC Listing, and confirmed that (i) save for a draft due diligence report produced by the legal advisers, no material preparation work had been conducted and no other reports had been prepared in connection with the Proposed PRC Listing; and (ii) no material issues were noted by the professional parties that would have affected the Proposed PRC Listing of Sichuan Huanlong.

Based on the aforesaid and having considered that (i) the material issues noted in the draft due diligence report produced by the legal advisers were disclosed in the paragraph headed “Business — Legal proceedings and compliance — Non-compliances” in this document; (ii) no material issues were noted by the professional parties that would have affected the Proposed PRC Listing of Sichuan Huanlong; and (iii) save for a draft due diligence report produced by the legal advisers, no material preparation work had been conducted and no other reports had been prepared in connection with the Proposed PRC Listing, our Directors take the view and the Sole Sponsor concurs that there is no material issue regarding the Proposed PRC Listing which should be brought to the attention of the regulators, shareholders and potential investors.

### **SAFE Registration**

Pursuant to the Circular of the SAFE on Foreign Exchange Administration of Overseas Investment, Financing and Round-trip Investments Conducted by Domestic Residents through Special Purpose Vehicles\* (關於境內居民通過特殊目的公司境外融資及返程投資外匯管理有關問題的通知) (the “SAFE Circular No. 37”), promulgated by SAFE and which became effective on 4 July 2014, (a) a PRC resident must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (the “Overseas SPV”) that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing, and (b) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any major change, in respect of the Overseas SPV, including a change of Overseas SPV’s PRC resident shareholder(s), the name of the Overseas SPV, terms of operation, or any increase or reduction of the Overseas SPV’s capital, share transfer or swap, and merger or division. Pursuant to SAFE Circular No. 37, failure to comply with these registration procedures may result in penalties.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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Pursuant to the Circular of the SAFE on Further Simplification and Improvement in Foreign Exchange Administration on Director Investment\* (關於進一步簡化和改進直接投資外匯管理政策的通知) (the “SAFE Circular No. 13”), promulgated by SAFE and which became effective on 1 June 2015, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interest in the domestic entity was located.

As advised by our PRC Legal Advisers, each of Ms. Shen and Mr. Zhou has completed the registration under the SAFE Circular No. 13 and SAFE Circular No. 37 on 21 December 2018.

### THE M&A RULES

Six PRC regulatory authorities, including the MOFCOM, the State Assets Supervision and Administration Commission, the State Administration of Taxation, SAIC, CSRC and SAFE, jointly issued the Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors\* (關於外國投資者併購境內企業的規定) (the “M&A Rules”), which became effective on 8 September 2006, and was amended on 22 June 2009. Pursuant to the M&A Rules, a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic non-foreign invested enterprise thereby converting it into a foreign-invested enterprise, or subscribes for new equity in a domestic enterprise through an increase of registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign-invested enterprise.

On 10 June 2019, Chengdu Huanlong transferred its 98.4% equity interest in Sichuan Huanlong to Huanlong Lixin as consideration for capital increase of Huanlong Lixin and obtained 1% of the equity interest of Huanlong Lixin. Huanlong Lixin since then held 98.4% equity interest in Sichuan Huanlong. As advised by our PRC Legal Advisers, given that Sichuan Huanlong was a sino-foreign joint venture enterprise prior to the aforementioned capital increase, hence M&A Rules is not applicable to the said capital increase and approval by MOFCOM or CSRC is not required.

Our PRC Legal Advisers have also confirmed that we have in all material aspects complied with all applicable PRC rules and regulations and have obtained all relevant approvals from the relevant competent governmental authorities for the Reorganisation and that the Group is not required to obtain approvals from CSRC or other relevant authorities for the Reorganisation and the [REDACTED].