
CONNECTED TRANSACTIONS

OVERVIEW

Immediately following completion of the [REDACTED] and the [REDACTED] (without taking into account any Shares to be issued upon the exercise of the [REDACTED] 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 [[REDACTED]]% 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 [REDACTED].

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 [REDACTED]:

- (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 36.01% by Chengdu Huanlong, 3.75% by Ms. Shen, 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 92.53% by Ms. Shen), 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 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.

CONNECTED TRANSACTIONS

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.

NON-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 [•] 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 [REDACTED]. 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 [REDACTED] 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 [•] 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 [REDACTED]. 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

CONNECTED TRANSACTIONS

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 [REDACTED] and shall expire on [31 December 2023].

The contract period 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 help to ensure 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.

CONNECTED TRANSACTIONS

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

Proposed annual caps and basis of caps

The proposed annual caps of the Master Supply Agreements for the three years ending 31 December 2023 are as follows:

	For the year ending 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Supply to Huanlong New Material	600	2,200	3,045
Supply to Huanlong Daily Products.	1,000	1,000	1,000
Total	1,600	3,200	4,045

In arriving at the annual caps of the Master Supply Agreements, our Directors had considered (i) historical sale amounts; and (ii) the expected demand of papermaking felts from Huanlong New Material and Huanlong Daily Products.

The annual caps under the Master Supply Agreements are determined by us after arm’s length negotiation with Huanlong New Material and Huanlong Daily Products. The annual caps are higher than the historical sales amounts based on discussion between our Group with Huanlong New Material and Huanlong Daily Products, because (i) the historical sales amounts to Huanlong New Material and Huanlong Daily Products for the year ending 31 December 2020 was lower than

CONNECTED TRANSACTIONS

normal because the production of Huanlong New Material and Huanlong Daily Products was disrupted by the COVID-19 outbreak and flooding in the southern PRC during the corresponding period; (ii) the historical sales amounts for the supply of papermaking felts to Huanlong New Material for the six months ended 30 June 2020 and 2021 were insignificant because Huanlong New Material usually ordered papermaking felts in the second half of year; and (iii) Huanlong New Material expected its demand for papermaking felts will increase significantly following the commencement of production of three new high-speed papermaking machines in the fourth quarter of 2021. Following the on-going expansion plan of Huanlong New Material, it planned to further introduce more high-speed papermaking machine in 2022 and 2023. Accordingly, our Directors considered that the proposed annual caps for the supply to Huanlong New Material and Huanlong Daily Products for the three years ending 31 December 2023 are consistent with the expected production plan of Huanlong New Material and Huanlong Daily Products during the period from 2021 to 2023.

At the same time, our Group is continuously diversifying product portfolio, hence it is expected that our sales and procurement will continue to diversify. Our Directors consider that proposed annual caps for the supplies to Huanlong New Material and Huanlong Daily Products for the years ending 31 December 2021, 2022 and 2023 is in line with the trend as discussed above coupled with our strategies of diversification.

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.

Since one or more of the applicable percentage ratios (other than the profit ratio) for the Master Supply Agreements, in aggregate, is more than 0.1% but less than 5%, the Master Supply Agreements will be subject to the reporting, annual review and announcement requirements but exempt from the circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules upon the [REDACTED].

APPLICATION FOR WAIVER

We [have applied] for, and the Stock Exchange [has granted] us, waivers pursuant to Rule 14A.105 of the Listing Rules to exempt the transactions contemplated under the Master Supply Agreements from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

Apart from the waiver which has been granted by the Stock Exchange, our Company will comply with the provisions under Chapter 14A of the Listing Rules governing continuing connected transactions and the proposed annual caps from time to time as required.

CONFIRMATION FROM THE DIRECTORS

Our Directors (including all independent non-executive Directors) are of the view that the non-exempt continuing connected transactions as set out above have been and will be entered into in the ordinary and usual course of our business on normal commercial terms or better, and the terms of the agreements under the non-exempt continuing connected transactions are fair and reasonable and in the interest of our Company and our Shareholders as a whole, and that the proposed annual caps for the non-exempt continuing connected transactions are fair and reasonable and in the interest of our Company and the Shareholders as a whole.

CONFIRMATION FROM THE SOLE SPONSOR

The Sole Sponsor is of the view that the non-exempt continuing connected transactions as set out above will be entered into in the ordinary and usual course of our business on normal commercial terms or better, and the terms of the agreements under the non-exempt continuing connected transactions are fair and reasonable and in the interest of the Company and the Shareholders as a whole, and that the proposed annual caps for the non-exempt continuing connected transaction are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

FULLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

(i) 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 [REDACTED]. Our Directors estimate that the annual salary payable to Ms. Xie shall not exceed RMB[40,000] 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, RMB22,000, RMB23,300 and RMB16,500, respectively.

CONNECTED TRANSACTIONS

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 (other than the profit ratio) 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 [REDACTED].

(ii) 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 [REDACTED]. Our Directors estimate that the annual salary payable to Mr. Chen shall not exceed RMB[70,000] 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 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, RMB54,000, RMB46,200 and RMB28,600, 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 (other than the profit ratio) 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 [REDACTED].