
RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS OF OUR COMPANY

Ms. Shen and Mr. Zhou, both being our Controlling Shareholders, are married to each other. Each of them has transferred their equity interest in our Group to, respectively, the SGL Trust and the ZJ Trust, two separate irrevocable discretionary trusts with Ms. Shen and Mr. Zhou being the respective beneficiary, while the children of Ms. Shen being beneficiaries of both the SGL Trust and ZJ Trust. Vistra Trust and Ms. Shen act as, respectively, the trustee and the protector for both trusts. On 31 December 2018, Ms. Shen, via Fame Attain, transferred 75% of the then entire issued share capital of our Company to Perfect Angle, a company incorporated in the BVI and wholly owned by Vistra Trust in its capacity as trustee. On even day, Mr. Zhou, via South Source, transferred 25% of the then entire issued share capital of our Company to Wonderful Advisor, a company incorporated in the BVI and wholly owned by Vistra Trust in its capacity as trustee.

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 immediate Controlling Shareholders, Perfect Angle and Wonderful Advisor, will directly hold approximately [REDACTED]% of the issued share capital of our Company.

Accordingly, we consider Ms. Shen, Mr. Zhou, Perfect Angle, and Wonderful Advisor as our Controlling Shareholders for the purpose of the Listing Rules.

OTHER BUSINESSES

As at the Latest Practicable Date, our Group was principally engaged in the manufacturing and sales of papermaking felts business. For further details of our business, please see the section headed “Business” in this document. Apart from our business, Ms. Shen and Mr. Zhou, and the respective corporations controlled by them as set out in the following paragraphs are interested in and operated certain businesses in the papermaking and paper products industry, details of which are more particularly set out below.

Among businesses in the papermaking and paper products industry, Ms. Shen and Mr. Zhou are interested in Sichuan Huanlong New Material Ltd.* (四川環龍新材料有限公司) (“**Huanlong New Material**”), and Sichuan Xilong Biomass Materials Technology Ltd.* (四川省西龍生物質材料科技有限公司) (“**Sichuan Xilong**”) which will not form part of our Group after [REDACTED] (the business of the above companies are collectively referred to as the “**Other Businesses**”).

Our Directors confirm that there is a clear delineation between the Other Businesses and the business engaged by our Group in terms of (i) product categories; and (ii) customer base. Our Directors therefore take the view that the Other Businesses are neither in competition nor likely to compete, directly or indirectly, with our business of manufacturing and sales of papermaking felts.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Particulars of the Other Businesses are set out below:

Huanlong New Material Group

Huanlong New Material is a company established in the PRC with limited liability on 14 January 2011. Huanlong New Material, together with its subsidiaries (which currently are Sichuan Huanlong Daily Products Ltd.* (四川環龍生活用品有限公司) (formerly known as Anxian Paper Ltd.* (安縣紙業有限公司)), Danni Ecological Life Care Products Ltd.* (四川省丹妮生態生活護理用品有限公司) (formerly known as Sichuan Danni Paper Ltd.* (四川省丹妮紙業有限公司)), Chengdu Babo Base Colour E-commerce Ltd.* (成都斑布本色電子商務有限公司), Beijing Babo Base Colour E-commerce Ltd.* (北京斑布本色電子商務有限公司), Sichuan Babo Base Colour E-commerce Ltd.* (四川斑布本色商貿有限公司), Shanghai Huanlong Eco-technology Ltd.* (上海環龍生態科技有限公司) and Sichuan Huanlong Eco-technology Ltd.* (四川環龍生態科技有限公司)), are principally engaged in the production of ecological bamboo paper and personal care paper products and sales of the same to retail customers under the brands of Bamber Inside and 斑布 BABO. As at the Latest Practicable Date, the equity interest of Huanlong New Material was 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 (L.P.) (北京紅杉銘德股權投資中心(有限合夥)), an Independent Third Party, approximately 5.20% by Ningbo Meishan Bonded Zone Sequoia Zhisheng Equity Investment Partnership (L.P.) (寧波梅山保稅港區紅衫智盛股權投資合夥企業(有限合夥)), also an Independent Third Party and the remaining approximately 8.48% by 8 other Independent Third Parties. Ms. Shen is the chairperson and Mr. Zhou is a Supervisor of Huanlong New Material.

Sichuan Xilong

Sichuan Xilong (formerly known as Sichuan Xilong Paper Ltd.* (四川省西龍紙業有限公司)) is a company established in the PRC with limited liability on 29 September 1998. As at the Latest Practicable Date, the equity interest of Sichuan Xilong was wholly owned by Chengdu Huanlong. Ms. Shen is the executive director and general manager of Sichuan Xilong. Sichuan Xilong was principally engaged in the production and sales of personal care paper products. Our Directors confirm that, as at the Latest Practicable Date, Sichuan Xilong has transferred its properties, plants and equipment to Huanlong New Material and has ceased its principal business operation.

Save for Chengdu Huanlong being interested in our paper felt making business by virtue of its equity holding in Huanlong Lixin, none of the Other Businesses is engaged in or interested in the manufacturing and sales of papermaking felts. As at the Latest Practicable Date, our Controlling Shareholders confirmed that they have no current plan to inject the Other Businesses into our Group.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Apart from the business operated by members of our Group, our Controlling Shareholders confirm that they and their respective close associates do not hold or conduct any business which competes, or is likely to compete, either directly or indirectly, with the business of our Group that would require disclosure under Rule 8.10 of the Listing Rules.

Each of Ms. Shen and Mr. Zhou, has executed the Deed of Non-competition in favour of the Group, details of which are set out in paragraph headed “Non-competition Undertakings” in this section below.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors believe that our Group is capable of carrying on our Group’s business after the [REDACTED] independently from our Controlling Shareholders and their respective close associates and/or companies controlled by them:

(i) Financial independence

Our Group has an independent financial system and makes financial decisions according to our own business needs. Our Group has sufficient capital to operate its business independently, and has adequate internal resources and independent access to third-party financing to support its daily operations.

During the Track Record Period, our Group had certain amounts due to and/or from related parties including our Controlling Shareholders, Ms. Shen and Mr. Zhou, and had received guarantees from Ms. Shen and Mr. Zhou. All loans and advances from our Controlling Shareholders and their respective close associates and all loans and advances to our Controlling Shareholders are expected to be fully settled upon [REDACTED]. Our Directors confirm that all guarantees provided by our Controlling Shareholders and their respective close associates on our Group’s financing are expected to be fully released on or around [REDACTED]. For details, please refer to notes 22 and 29 to the Accountants’ Report set out in Appendix I to this document.

Our Directors are of the view that there has been sufficient cash flow to support the operation of our Group’s business. For the three years ended 31 December 2020 and the six months ended 30 June 2021, our Group has relied principally on cash generated from operations and bank borrowings to carry on our businesses and this is expected to continue after the [REDACTED]. Our Directors also believe that our Group is capable of obtaining financing from Independent Third Parties, if necessary, without reliance on our Controlling Shareholders after the [REDACTED]. Therefore, the Group will be financially independent from our Controlling Shareholders after the [REDACTED].

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

(ii) Operational independence

Our Group has established our own organisational structure made of individual departments, each with specific areas of responsibilities. Our Directors confirm that our Group did not share our operational resources, such as contractors, customers, marketing, sales and general administration resources with our Controlling Shareholders and/or their close associates during the Track Record Period. Our Group has also established a set of internal controls to facilitate the effective operation of its business. To the best knowledge of our Directors, our Group's customers and suppliers are all independent from our Controlling Shareholders and we do not rely on our Controlling Shareholders or their close associates and have independent access to our customers and suppliers. Our Directors are of the view that our Group is able to operate independently from our Controlling Shareholders after the [REDACTED].

(iii) Management independence

Our Company aims at establishing and maintaining a strong and independent Board to oversee our Group's business. The main function of the Board includes the approval of our overall business plans and strategies, monitoring the implementation of these policies and strategies and the management of our Company. We have an independent management team, which is led by a team of senior management with substantial experience and expertise in our business, to implement our Group's policies and strategies.

Our Board consists of seven Directors, comprising four executive Directors and three independent non-executive Directors. Notwithstanding this, our management and operational decisions are made by our executive Directors and senior management, most of whom have served our Group for a long time and have substantial experience in the industry in which we are engaged. The balance of power and authority is ensured by the operation of the senior management and our Board.

Each of our Directors is aware of his/her fiduciary duties as a Director which require, among other things, that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant meetings of the Board in respect of such transactions and shall not be counted in the quorum. In addition, the senior management team of our Group is independent from our Controlling Shareholders. The three independent non-executive Directors will also bring independent judgement to the decision-making process of the Board. We have also adopted certain corporate governance measures for conflict situation. Please refer to the paragraph "Corporate governance measures" in this section below for further details.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Most members of the senior management of our Group have, for all or substantially all of the Track Record Period, undertaken senior management supervisory responsibilities in the business of our Group. The responsibilities of the senior management team of our Group include dealing with operational and financial matters, making general capital expenditure decisions and the daily implementation of the business strategy of our Group. This ensures the independence of the daily management and operations of our Group. Further details of our senior management are set out in the section headed “Directors and Senior Management” in this document.

Based on the above, our Directors are satisfied that our Board as a whole together with our senior management team are able to perform the managerial role independently.

(iv) Independence of major suppliers

To the best of our Directors’ knowledge, information and belief, none of our Controlling Shareholders, our Directors and their respective close associates have any relationship with the top five suppliers of our Group (other than the business contacts in the ordinary and usual course of business of our Group) during the Track Record Period.

(v) Independence of major customers

To the best of our Directors’ knowledge, information and belief, none of our Controlling Shareholders, our Directors and their respective close associates have any relationship with the top five customers of our Group (other than the business contacts in the ordinary and usual course of business of our Group) during the Track Record Period. Hence, our Directors are of the view that our Group does not unduly rely on our Controlling Shareholders and/or their respective close associates.

NON-COMPETITION UNDERTAKINGS

In order to avoid any possible future competition among our Group, Ms. Shen and Mr. Zhou entered into the Deed of Non-competition on 9 December 2021 in favour of our Company (for itself and for the benefit of each other member of our Group). Pursuant to the Deed of Non-competition, during the period that the Deed of Non-competition remains effective, Ms. Shen and Mr. Zhou irrevocably and unconditionally undertakes to our Company (for itself and for the benefit of each other member of our Group) that he/she shall not, and shall procure his/her close associates (other than members of our Group) not to, directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of any member of our Group or any business activity to be conducted by any member of our Group from time to time after the [REDACTED], save for the holding of not more than 5% shareholding interests (individually or with his/her close associates) in any company listed on a recognised stock

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

exchange and at any time the relevant listed company shall have at least one shareholder (individually or with his/her close associates, if applicable) whose shareholding interests in the relevant listed company is higher than that of the relevant Controlling Shareholders (individually or with his/her close associates).

Ms. Shen and Mr. Zhou further undertakes that if he/she or his/her close associates (other than any member of our Group) is offered or becomes aware of any business opportunity which may compete with the existing business activity of any member of our Group or any business activity to be conducted by any member of our Group from time to time after the [REDACTED], he/she shall (and he/she shall procure his/her close associates to) notify our Group in writing and our Group shall have a right of first refusal to take up such business opportunity. Our Group shall, within 30 days after receipt of the written notice (or such longer period if our Group is required to complete any approval procedures as set out under the Listing Rules from time to time), notify Ms. Shen and/or Mr. Zhou whether our Group will exercise the right of first refusal.

Our Group shall only exercise the right of first refusal upon the approval of all our independent non-executive Directors (who do not have any interest in such opportunities). Each of the Controlling Shareholders and the other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of our Board where there is a conflict of interest or potential conflict of interest including but not limited to the relevant meeting of our independent non-executive Directors for considering whether or not to exercise the right of first refusal.

The Deed of Non-competition is conditional upon the Listing Committee granting the approval for the [REDACTED] of, and permission to deal in, our Shares; and the conditions precedent under the [REDACTED] having been fulfilled (or where applicable waived) and the [REDACTED] not being terminated in accordance with their respective terms.

If any of such conditions is not fulfilled on or before the date agreed between the [REDACTED] and our Company or the [REDACTED] and our Company have agreed to terminate the [REDACTED] thereafter, the Deed of Non-competition shall become null and void and cease to have any effect whatsoever and no party shall have any claim against the other under the Deed of Non-competition.

The Deed of Non-competition shall terminate when (i) Ms. Shen and/or Mr. Zhou, whether individually or taken together with his or her close associates, ceases to be interested in 30% (or such other amount as may from time to time be specified in the Listing Rules as being the threshold for determining a controlling shareholder of a company) or more of the entire issued share capital of our Company; or (ii) our Shares shall cease to be listed and traded on the Stock Exchange (except for temporary suspension of trading of our Shares on the Stock Exchange due to any reason).

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CORPORATE GOVERNANCE MEASURES

In order to safeguard the interests of our Shareholders and to strengthen its corporate governance practice, our Group will implement the following measures:

- (i) Ms. Shen and Mr. Zhou, will make an annual confirmation as to compliance with his/her undertaking under the Deed of Non-competition for inclusion in the annual report of our Company;
- (ii) our Board is committed to the view that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors) so that there is a strong independent element on our Board which can effectively exercise independent judgement. Our Company has appointed three independent non-executive Directors. Our Directors believe that our independent non-executive Directors are of sufficient calibre, are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgement and will be able to provide impartial and professional advice to protect the interests of the minority Shareholders. Details of our independent non-executive Directors are set out in the section headed “Directors and Senior Management” in this document;
- (iii) our Company has appointed CMBC International Capital Limited as the compliance adviser, which will provide advice and guidance to our Company in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors’ duties and internal controls. Please refer to the paragraph headed “Directors and Senior Management — Compliance adviser” in this document for further details in relation to the appointment of the compliance adviser;
- (iv) Ms. Shen and Mr. Zhou undertake to provide all information requested by our Group which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-competition; and
- (v) our independent non-executive Directors will, based on the information available to them, review on an annual basis the compliance with the Deed of Non-competition and all the decisions taken in relation to whether to pursue the new opportunity under the Deed of Non-competition.