
CONNECTED TRANSACTIONS

OVERVIEW

Prior to [REDACTED], our Group has obtained banking facilities from a commercial bank in the PRC, in respect of which each of Dahedong and Baiheng has provided corporate guarantees and each of Mr. Zhou Shufeng, the chairman of the board of Yantai Zhongjia and general manager of Yantai Zhongjia and Ms. Xu Shaoying (徐少英), the spouse of Mr. Zhou Shufeng has provided personal guarantees in favour of such bank. These financial assistance transactions involving Dahedong, Baiheng, Mr. Zhou Shufeng and Ms. Xu Shaoying, who will become our connected persons will continue after the [REDACTED] and hence will constitute our continuing connected transactions under Chapter 14A of the Listing Rules upon [REDACTED].

CONNECTED PERSONS

Dahedong is and will, after the [REDACTED], hold 25% of the entire equity interest in Yantai Zhongjia, thus it is and will remain a substantial shareholder of Yantai Zhongjia after the [REDACTED].

As at the Latest Practicable Date:

- (i) Dahedong was owned as to 50% by Mr. Kong Fanbo, a director of our subsidiary, Yantai Zhongjia, with the remaining equity interests held in equal share of approximately 16.67% by each of Mr. Kong Fanzhong, Mr. Wang Lei (王磊) and SDZJ. Mr. Kong Fanbo and Mr. Kong Fanzhong are brothers and Mr. Wang Lei is their brother-in-law, and SDZJ is a connected person of our Company by virtue of the aggregate interests of approximately 77% held directly and indirectly by Mr. Kong Fanbo and his family member, namely, Mr. Kong Fanzhong as at the Latest Practicable Date;
- (ii) Baiheng was a wholly-owned subsidiary of SDZJ;
- (iii) Mr. Zhou Shufeng is the chairman of the board of Yantai Zhongjia and general manager of Yantai Zhongjia; and
- (iv) Ms. Xu Shaoying is the spouse of Mr. Zhou Shufeng.

As such, each of Dahedong, Baiheng, Mr. Zhou Shufeng and Ms. Xu Shaoying, will become a connected person of the Company upon [REDACTED].

CONNECTED TRANSACTIONS

FULLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

Guarantees provided by Dahedong, Baiheng, Mr. Zhou Shufeng and Ms. Xu Shaoying

Dahedong and Baiheng have provided corporate guarantees and Mr. Zhou Shufeng and Ms. Xu Shaoying have provided personal guarantees in favour of a commercial bank in the PRC in respect of banking facilities granted to Yantai Zhongjia, our principal subsidiary. Details of the banking facilities are set out below:

<u>Borrower</u>	<u>Lending bank</u>	<u>Corporate/personal guarantors</u>	<u>Annual interest rate</u>	<u>Maturity date</u>	<u>Outstanding principal balance as at the Latest Practicable Date</u> <i>(RMB)</i>
Yantai Zhongjia	Huaxia Bank Co., Ltd. Yantai Branch	Dahedong, Baiheng, Mr. Zhou Shufeng and Ms. Xu Shaoying	3.77%	5 September 2024	30,000,000

Dahedong, Baiheng, Mr. Zhou Shufeng and Ms. Xu Shaoying provided the above corporate or personal guarantees to enable Yantai Zhongjia to obtain the above banking facilities. Dahedong, Baiheng, Mr. Zhou Shufeng and Ms. Xu Shaoying did not receive any form of consideration from our Group for the provision such corporate guarantees. Such banking facilities were adopted by our Group as a reserve of our working capital and also to maintain business relationship with the bank for any instance of additional funding needs during the Track Record Period and up to the Latest Practicable Date.

As at the Latest Practicable Date, our Group was unable to obtain the consent of the lending bank to early release the corporate or personal guarantees provided by Dahedong, Baiheng, Mr. Zhou Shufeng and Ms. Xu Shaoying or replace them with corporate guarantees to be given by our Company and/or other subsidiaries of our Group prior to or upon [REDACTED]. As such, the corporate or personal guarantees provided by Dahedong, Baiheng, Mr. Zhou Shufeng and Ms. Xu Shaoying will be financial assistance received by our Group which will constitute continuing connected transactions under Chapter 14A of the Listing Rules upon [REDACTED]. As such guarantees were provided by our connected persons for the benefit of our Group on normal commercial terms or better to our Group and were not secured by the assets of our Group, by virtue of Rule 14A.90 of the Listing Rules, the financial assistance contemplated thereunder will be considered as fully exempt continuing connected transactions upon [REDACTED] and are not subject to any reporting, announcement, annual review and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Our Group will comply with the relevant requirements under Chapter 14A of the Listing Rules should there be any material change to the terms thereof or if our Group enters into any other connection transactions in relation thereto after [REDACTED].

CONNECTED TRANSACTIONS

DIRECTORS’ VIEW

Our Directors (including our independent non-executive Directors) consider that the continuing connected transactions have been entered into by our Group during the ordinary and usual course of our business, on normal commercial terms or better, are fair and reasonable and in the interests of our Group and our Shareholders as a whole.

Additionally, our Directors and the Sole Sponsor believe that the impact of the guarantees provided by Dahedong, Baiheng, Mr. Zhou Shufeng and Ms. Xu Shaoying on our Group’s financial independence from its connected persons is not significant due to the following reasons:

- (a) our Group’s working capital needs are supported by profit and positive cash flows generated from operation of our principal subsidiary, namely Yantai Zhongjia, not bank loans. We had generated profits or positive cash flows from our operations during the Track Record Period, being approximately RMB114.4 million, RMB58.7 million, RMB121.0 million and RMB52.8 million in FY2020, FY2021, FY2022 and 6M2023, respectively; and
- (b) the outstanding principal balance which the corporate/personal guarantees provided by Dahedong, Baiheng, Mr. Zhou Shufeng and Ms. Xu Shaoying relate to is only RMB30 million in total, which is insignificant as compared to the balance of cash and cash equivalents of our Group of approximately RMB350.0 million as at 30 June 2023.