

CONNECTED TRANSACTIONS

OVERVIEW

Prior to the Listing, our Group has entered into certain transactions with parties who will, upon the Listing, become connected persons (as defined in the Listing Rules) of our Company. Details of the continuing connected transactions of our Company following the Listing are set out below.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The following transactions are made in the ordinary and usual course of business and on normal commercial terms or better which will be regarded as non-exempt continuing connected transactions of our Company under Chapter 14A of the Listing Rules.

Master Purchase Framework Agreement

(a) Description of the transactions

Daoming Company is a company which engages in wholesale and retail trading of a variety of daily chemical raw materials, which mainly comprise surfactant and additive.

Since the establishment of Blue Moon Industrial (an indirect wholly owned subsidiary of our Company) in 2001, Blue Moon Industrial had purchased surfactant and additive from Daoming Company in order to manufacture products of our Group. The raw materials supplied by Daoming Company include products manufactured by its non-wholly owned subsidiary, and both domestic and imported chemical raw materials. From time to time during the Track Record Period, Daoming Company has also been supplying, and will continue to supply a variety of daily chemical raw materials to Blue Moon Industrial and other indirect wholly owned subsidiaries of our Company. The relevant chemical raw materials purchased by our Group during the Track Record Period were used as one of the raw materials required for producing household cleaning solutions and other products in the ordinary course of our business.

On 23 November 2020, our Company entered into a master purchase agreement with Daoming Company (the “**Master Purchase Framework Agreement**”), pursuant to which Daoming Company agreed to supply to us, and we agreed to purchase, chemical raw materials (including surfactant and additive) from Daoming Company with a term commencing from the date of signing to 31 December 2022, which can be renewed subject to the negotiation between the parties to the Master Purchase Framework Agreement and compliance with the requirements of the Listing Rules.

(b) Reasons for the transactions

The main objective of our Group’s sourcing strategy is to avoid relying heavily on any single supplier to ensure stable supply and cost competitiveness. Our Group generally selects its suppliers based on various criteria including the reliability of delivery time, pricing of the materials and location of the suppliers’ facilities. Daoming Company is not the sole and exclusive supplier for the chemical raw materials required by our Group for its business, and our Group also sources chemical raw materials from selected suppliers which are Independent Third Parties. As we have been procuring chemical raw materials from Daoming Company during the Track Record Period and given (i) our pricing policy below and (ii) the quality of the products supplied by Daoming Company, our Directors consider that it is in the interest of our Company

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and our Shareholders for our Group to continue to purchase the required raw materials from Daoming Company going forward provided that the prices offered by Daoming Company are fair and reasonable as compared to market rates.

(c) Pricing Policy

The purchase price payable by us to Daoming Company under the Master Purchase Framework Agreement will be determined through a bidding process according to the internal rules and procedures of our Company. Our centralised procurement centre will send bidding documents to suppliers on our relevant approved supplier list and the procurement personnel of our Group will compare the purchase price offered by Daoming Company and other Independent Third Parties as well as accessing our business needs, the relevant qualifications/experience of the bidders in providing such chemical raw materials, and the quality of the chemical raw materials offered. The bidding process is monitored by our centralised procurement centre. The winning bidder and the purchase price for the transactions under the Master Purchase Framework Agreement will be approved by our centralised procurement centre and be valid for no more than one quarter.

Where Daoming Company submits a bid but no other suppliers who are Independent Third Parties submit a bid in response to the bidding documents, our centralised procurement centre would compare the purchase price offered by Daoming Company to us and customers who are not connected to Daoming Company and, to the extent available, the prevailing market price of the relevant materials required by our Group. Our centralised procurement centre would then enter into arm's length negotiations with Daoming Company based on the above information, historical purchase price for the materials under procurement, the types of the materials under procurement, and other factors which the centralised procurement centre considers appropriate. Any final price agreed with Daoming Company will be approved by our centralised procurement centre and be valid for no more than one quarter.

The pricing terms under the Master Purchase Framework Agreement will be no less favourable to our Company than the terms offered by Independent Third Parties or the terms offered by Daoming Company to customers who are not connected thereto (as the case may be), and the purchase price will be in line with or lower than market rates and is in the best interests of our Company and our Shareholders as a whole.

(d) Historical Transaction Amounts

The aggregate purchase price paid by our Group to Daoming Company for the three financial years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 were approximately HK\$9,170,000, HK\$11,919,000, HK\$6,568,000 and HK\$1,129,000, respectively. The fluctuations in historical transaction amounts are mainly due to the fact that (i) our Group made certain purchases from suppliers who are Independent Third Parties and who offered prices lower than Daoming Company and (ii) our Group discontinued the purchase of certain types of chemical raw materials from Daoming Company after our Group has started to purchase some new types of chemical raw materials (which are not produced by Daoming Company) from suppliers who are Independent Third Parties since June 2018 as a result of upgrading of the formula of some of our products. We have continued to purchase such other types of chemical raw materials from Daoming Company to the extent that they are still used in our products and Daoming Company was selected after the process set out above.

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(e) Annual Caps

The maximum aggregate annual purchase price payable by our Group to Daoming Company for the three financial years ending 31 December 2020, 2021 and 2022 will not exceed HK\$4,042,600, HK\$4,756,000 and HK\$5,350,500, respectively.

The annual caps set out above were calculated by reference to (i) the historical transaction amounts (including the fluctuations in transaction amounts during the Track Record Period and the discontinued purchase of certain types of chemical raw materials from Daoming Company since June 2018 as a result of upgrading of the formula of some of our products), (ii) the expected increase in the cost of production of chemical raw materials by Daoming Company and the resulting expected increase in the purchase price charged by Daoming Company for supplying the chemical raw materials to our Group (including taking into account the expected annual inflation in the PRC of approximately 2%), (iii) the expected increase in demand for chemical raw materials from 2020 to 2022 at a rate of up to 15% per year (taking into account the historical growth of our Group's sales and the projected growth of our Group's operations, production and sales of household cleaning solutions products), (iv) potential new types of chemical raw materials which may be purchased from Daoming Company, (v) the potential 30% to 50% decrease in the amount of purchase of existing chemical raw materials from Daoming Company per year due to the availability of new suppliers of such materials who are Independent Third Parties, (vi) the unaudited purchase price paid by our Group to Daoming Company in the amount of approximately HK\$2,334,000 in the nine months ended 30 September 2020, and (vii) the seasonality of our Group's production.

(f) Listing Rules Implications

Daoming Company is owned as to 70% by Mr. Fu Xiangdong, the brother of Mr. Luo (an executive Director of our Company) and as to 30% by Mr. Luo Wenming, the uncle of Mr. Luo. As such, Daoming Company is a connected person of our Company by virtue of being a majority-controlled company held by Mr. Fu Xiangdong (the brother of Mr. Luo) and thereby an associate of Mr. Luo pursuant to Rule 14A.12(2)(a) of the Listing Rules, who is himself a connected person of our Company.

As our Directors currently expect that the highest applicable percentage ratio in respect of the transactions in relation to the supply of daily chemical raw materials pursuant to the Master Purchase Framework Agreement will, on an annual basis, be more than 0.1% but less than 5%, such transactions will, pursuant to Rule 14A.76(2)(a) of the Listing Rules, be subject to the announcement, reporting and annual review requirements under Chapter 14A of the Listing Rules but will be exempted from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

WAIVER FROM THE STOCK EXCHANGE

As the material terms of the non-exempt continuing connected transactions are disclosed in this prospectus and potential investors will participate in the Global Offering on the basis of the disclosures, our Directors consider that strict compliance with the announcement requirement under Chapter 14A of the Listing Rules would be unduly burdensome and, in particular, would induce unnecessary administrative costs to our Company.

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As a result, our Company has applied to the Stock Exchange for, and has been granted, subject to the condition that the maximum aggregate annual transactions value shall not exceed the estimated annual caps as stated above, a waiver under Rule 14A.105 of the Listing Rules to exempt transactions set out in the subsection headed “Non-Exempt Continuing Connected Transactions” in this section from strict compliance with the announcement requirement under Rule 14A.35 of the Listing Rules for the term ending 31 December 2022.

Our independent non-executive Directors and auditors of our Company will review whether the above continuing connected transactions have been entered into pursuant to the principal terms and pricing policies under the relevant framework agreement as disclosed in this section. The confirmation from our independent non-executive Directors and our auditors will be disclosed annually in accordance with the requirements of the Listing Rules.

If any material terms of the transactions contemplated under the Master Purchase Framework Agreement are altered, if any of the proposed annual caps set out above is exceeded, or if our Company enters into any new agreement with any of the connected persons of our Company in the future, we will fully comply with the relevant requirements under Chapter 14A of the Listing Rules unless (a) such new transaction is a fully exempt connected transaction under Chapter 14A of the Listing Rules or (b) we apply for and obtain a separate waiver from the Stock Exchange in respect of such new transaction.

CONFIRMATION FROM OUR DIRECTORS

Our Directors, including our independent non-executive Directors, are of the view that:

- (a) the non-exempt continuing connected transactions described above for which waiver is sought are entered into and will be carried out in the ordinary and usual course of business of our Group and all such transactions will be conducted on normal commercial terms or better, are fair and reasonable and in the interests of our Company and our Shareholders as a whole; and
- (b) the proposed annual caps of such non-exempt continuing connected transactions set out above are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

CONFIRMATION FROM THE JOINT SPONSORS

The Joint Sponsors have reviewed the relevant information and historical figures prepared and provided by our Company relating to the non-exempt continuing connected transactions described above and have obtained confirmations from our Company. Based on the Joint Sponsors’ due diligence, the Joint Sponsors are of the view that:

- (a) the non-exempt continuing connected transactions described above for which waiver is sought have been entered into in the ordinary and usual course of business of our Group and are on normal commercial terms or better, are fair and reasonable and in the interests of our Company and our Shareholders as a whole; and
- (b) the proposed annual caps of such non-exempt continuing connected transactions set out above are fair and reasonable and in the interests of our Company and our Shareholders as a whole.