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OVERVIEW

Our Group carries out research and development on, and manufactures and sells ITO film, Smart Light-adjusting Film, Smart Light-adjusting Glass and Smart Light-adjusting Projection System.

Our Group uses ITO film as one of the main materials for the development of downstream products, namely:

- (i) polymer dispersed liquid crystal film (i.e. Smart Light-adjusting Film);
- (ii) electronically switchable glass (i.e. Smart Light-adjusting Glass); and
- (iii) Smart Light-adjusting Projection System.

Our Group is one of the few integrated manufacturers in the PRC which produces and sells ITO film as well as a range of related downstream products.

According to the F&S Report, Singyes Applicable Materials, our key operating subsidiary, achieved the following ranking in the ITO film, Smart Light-adjusting Products and Smart Light-adjusting Projection System markets in the PRC in terms of market share by revenue:

	Year ended 31 December	
	2014 ranking (market share)	2015 ranking (market share)
ITO film	9 (2.4%)	8 (2.1%)
Smart Light-adjusting Products (Smart Light-adjusting Film and Smart Light-adjusting Glass)	2 (20.1%)	1 (20.4%)
Smart Light-adjusting Projection System	N/A (<i>Note</i>)	1 (51.2%)

Note: We did not participate in the Smart Light-adjusting Projection System market in the year ended 31 December 2014.

Our entire production process is carried out at our production base situated at Levels 1 and 2 of Factory Building No. 7 of Zhuhai Xingye New Energy and Industrial Park, 9 Jinzhu Road, Gaoxin district, Zhuhai city, Guangdong province of the PRC. Our production facilities comprise offices and factories and have a gross floor area of approximately 5,740 sq.m..

We primarily sell our products to the domestic PRC market and have commenced exporting our products to overseas markets since 2015. We have built a strong customer base in the PRC that includes (i) mainly touch-screen device manufacturers in respect of ITO film for applications relating to automobile navigation systems, industrial equipment, GPS systems and smart phones; (ii) mainly contractors for developers and construction companies in respect of Smart Light-adjusting Products; and (iii) mainly construction companies and users (such as commercial advertisers and marketing agencies) for commercial purposes in respect of Smart Light-adjusting Projection System.

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We experienced growth during the Track Record Period. Our revenue for the year ended 31 December 2014, 2015 and 2016, was approximately RMB44.8 million, RMB60.5 million and RMB90.9 million respectively, representing an increase of approximately 35.0% from the year ended 31 December 2014 to the year ended 31 December 2015 and an increase of approximately 50.2% from the year ended 31 December 2015 to the year ended 31 December 2016 respectively. Our profit after tax for the years ended 31 December 2014, 2015 and 2016 were approximately RMB389,000, RMB7.7 million and RMB6.4 million respectively. For further information, please refer to the section headed “Financial information — Material adverse change” of this prospectus. For the years ended 31 December 2014, 2015 and 2016, our gross profit margin was 31.9%, 39.5%, and 38.3% respectively.

OUR COMPETITIVE STRENGTHS

Our Group strives to manufacture and supply high quality products to our customers, and our Directors believe that our Group is a reputable supplier of ITO film and related downstream products in the PRC. According to the F&S Report, Singyes Applicable Materials, our key operating subsidiary, was ranked as the leading manufacturer of Smart Light-adjusting Products and Smart Light-adjusting Projection Systems in the PRC in terms of market share by revenue for the year ended 31 December 2015. Our Directors believe that our leading market position and the success of our business are attributable to the following competitive strengths:

We are the only manufacturer of ITO film and related downstream products in the PRC which is fully vertically integrated

Our Group is present in all stages of the industry value chain (from research and development and production of Smart Light-adjusting Products and Smart Light-adjusting Projection Systems to the provision of pre-sales, during sales and after-sales services of our products). Furthermore, according to the F&S Report, our Group is the only manufacturer in the PRC which relies on its own supply of ITO film (a major component used in manufacturing Smart Light-adjusting Products) for the production of downstream products as at the Latest Practicable Date.

This full vertical integration enables our Group to benefit from (i) effective cost control, as we rely on our own supply of ITO film and therefore incur lower procurement cost than sourcing ITO film from suppliers; (ii) operational efficiency, by decreasing logistics and administrative expenses and time spent by personnel sourcing and procuring ITO film which also enables our management to focus on value creation for our Group; (iii) greater ability to exert control over the production of ITO film which is suited for the production of our downstream products; and (iv) enhanced ability to supervise and control the quality of ITO film which is produced in-house, meaning we can react to any deficiencies and/or inadequacies in an efficient manner. Our Directors believe that such vertical integration enhances our competitiveness and market position.

We are a pioneer in the ITO film production market in the PRC

As at 6 September 2016, we were the only manufacturer in the PRC with the ability to continuously manufacture ITO film and Smart Light-adjusting Film with a roll width of 2,100mm. Our Directors believe that our ability to produce large size ITO films gives us a strong competitive advantage over our competitors as our ITO films have broader applications than those produced by our competitors. In particular, our ITO film gives our customers more flexibility when manufacturing products to cater for their end-customer’s needs, therefore enhancing product performance and popularity as well as cost-efficiency.

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With cutting-edge roll-to-roll automated ITO film production equipment capable of producing larger size films as well as other machinery for lamination, solidification and laser-cutting purposes, we are able to produce ITO films tailored to the needs of our customers. Our Directors believe that our distinct ITO film production capability leads to increased product differentiation compared to those produced by our competitors, and results in demand for our ITO film.

We have strong research and development capabilities

We believe that we have strong research and product development capabilities. To differentiate our products from those of our competitors in the Smart Light-adjusting Products and Smart Light-adjusting Projection System markets, we devote resources and effort to continually optimise and enhance the design and functions of our products as well as explore the possibility of introducing new applications to existing products.

As at 31 December 2016, our research and development team comprised 14 designated engineers and technicians (all of whom have tertiary or above qualification in engineering, material science, automation and other related areas) who work full-time at our applied materials research centre as well as collaborate with other professional staff for the development of new products as well as enhancement of existing products.

Our continuous research and development efforts (which include cooperation with research institutes and universities in the PRC and abroad) have led to:

- (i) the successful development of technologies which have improved the performance of our products in terms of functionality and application, quality, environmental-friendliness and energy efficiency. Some of the technology we have successfully developed have been patented in the PRC and/or published in industry-related periodicals;
- (ii) the recognition of our key PRC operating subsidiary, Singyes Applicable Materials, as a high-tech enterprise by PRC government authorities; and
- (iii) Singyes Applicable Materials becoming a leading drafting party of national and regional industry standards in the PRC for Smart Light-adjusting Products.

Our Directors believe that our research capability and expertise is particularly important to our business as a market participant of the high-tech sector where target customers are constantly in search of the most technologically advanced and quality products and are conscious of keeping up with the market trend.

For further information regarding our research capability, patents, technological achievements and industry recognition, please refer to the paragraphs headed “Awards, accreditations and memberships” and “Research and Development” in this section of the prospectus.

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We have a professional and experienced senior management team

We have a devoted and professional senior management team comprising members who have obtained qualifications relevant to, and experience in, product development and application as well as glass manufacturing. Our team is led by Mr. Sun, one of our executive Directors and our chief executive officer of our Company, who is responsible for overseeing the operations of our Group while Mr. Liu, our Chairman and non-executive Director, is responsible for formulating and executing our Group's overall business strategies and policies. Both Mr. Sun and Mr. Liu are certified engineers with over a decade of experience in product development. Our senior management has a proven track record and execution capability which have led to successful implementation of plans and strategies leading to our current dominant market position in terms of revenue in the Smart Light-adjusting Products and Smart Light-adjusting Projection System markets in the PRC. We believe that under their leadership, we are well positioned to effectively compete in our markets and accomplish our long-term goals.

The other members of our Board and senior management team are also qualified engineers and professionals who are able to identify market opportunities and execute and implement the plans and strategies of our Group. Our Directors believe that the financial results of our Group over the Track Record Period and our success are attributable to the competence and experience of our senior management team and that, under their leadership, our Group will be able to sustain and/or consolidate its market position in the PRC as well as accomplish our long-term goals.

Please refer to the section headed "Directors, senior management and employees" of this prospectus for further details of our Directors and senior management.

We have adopted stringent quality control mechanisms to control the quality of our products

We place emphasis on our product quality. We have adopted a management system to ensure strict quality control of our products at various stages of our manufacturing process which involves carrying out procedures during procurement of raw materials, inspection of incoming raw materials, inspection during the manufacturing process, inspection of finished products and product packaging as well as testing and inspection following on-site installation.

We have been awarded "ISO9001:2008 Quality Management System" certification in relation to our quality control management system. We believe our stringent quality control over our whole manufacturing process reduces occurrence of product defects and raises our customers' confidence in our products.

Our Directors believe that our commitment to deliver quality products to our customers is key to maintaining our reputation as a reliable supplier of our products in the PRC. This has (i) enabled us to maintain a strong and growing customer base (which includes major touch-screen device manufacturers, sub-contractors of building or renovation projects of reputable domestic and international hotel brands and chains, commercial advertisers and marketing agencies as well as PRC government authorities); and (ii) resulted in a growth in revenues over the Track Record Period.

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OUR BUSINESS STRATEGIES

Improving our production efficiency and product quality in order to continue to maintain our market position in the PRC

Our management team works closely with our engineers and different departments (including the technical department, production department and research and development department) on an ongoing basis with a view to improving production efficiency as well as product quality. In particular, assessments, reviews and testing are carried out at various stages of our production process as well as on different materials used in the production of our products in order to identify areas for potential enhancement and improvement. Our production, technical and research and development departments also provide feedback on product and/or production related issues and provide expert views on how developments in technical know-how can be applied towards upgrading our existing manufacturing capabilities, streamlining production processes, enhancing operational efficiency and improving our products.

Enhancement plans (detailing project objectives, technical and testing parameters and implementation and follow-up procedures) are devised from time to time in respect of enhancement projects which are approved and supervised by designated senior management personnel. A project execution team composed of personnel from one or more relevant departments is then formed with the goal of achieving the objectives of each project.

Our Directors believe these enhancement projects drive us to continue to improve our production efficiency and product quality which is key for maintaining our leading position in the markets in which we operate. We will therefore continue to devote resources and efforts towards these enhancement projects.

Continue to devote of resources to research and development

We believe that our ability to innovate and continually improve is driven by research and development which is important in the advanced technology sector given the evolving and increasing demands of target customers.

We intend to continue to devote resources to research and development with a view to, *inter alia*:

- (i) improving our production process (including reducing costs and improving operational efficiency through automation or otherwise);
- (ii) exploring and testing new materials for use and/or integration into existing products and ways to improve the performance and features of our products in terms of functionality and applications, quality, environmental-friendliness and energy efficiency; and
- (iii) broadening our existing product range to serve different sectors and purposes.

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To achieve this goal, we intend to recruit additional qualified and experienced staff to our research and development team as well as to continue our collaboration efforts with universities, research institutes and high-tech companies in the PRC as well as overseas.

Through the continuous improvement and enhancement of our products and our production process which is driven by our research and development efforts, we hope to capitalise on opportunities arising from the expected increase in demand for ITO film related downstream products which we believe will be key in delivering growth to our sales revenue in the future.

Continuing to develop our business in line with the PRC government's policy incentives

We plan to continue to develop technologically advanced and environmental-friendly products in line with the economic development initiatives of 《國民經濟和社會發展第十三個五年規劃綱要(2016-2020年)》(the Thirteenth Five-Year Plan for National Economic and Social Development (2016-2020)*) (“**13th Five Year Plan**”) which outlines the policy framework, priorities and economic and social development goals of the PRC government for the years from 2016 to 2020.

One of the initiatives of the PRC government under the 13th Five Year Plan is to promote energy conservation and environmental protection in the industrial, construction and other sectors as well as foster the development of emerging strategic sectors, such as the smart materials sector. In particular, the PRC government aims to reduce energy consumption (currently expected to grow at a CAGR of 5.5% from 2016 to 2020) by encouraging and stimulating development of eco-friendly products through the provision of financial incentives.

To take advantage of financial incentives offered by the PRC government, we endeavour to ensure that our products are compliant with the energy-saving and emission-reduction policies of the PRC government. For example, our Smart Light-adjusting Projection System (which can be used as part of a window display and signboards for marketing and advertising purposes) are generally more efficient in terms of energy consumption compared to traditional display terminals such as LED screens. Through such efforts, Singyes Applicable Materials, our operating subsidiary, has been recognised as a high-tech enterprise by the Guangdong provincial government of the PRC and enjoys a preferential enterprise income tax rate of 15% (compared to the statutory enterprise income rate of 25%) in the PRC. We intend to continue to take advantage of, and we engage external consultants from time to time to assist with our applications for, entitlement to such tax and other financial incentives.

Expanding presence in overseas markets

Since the commencement of our business and over the Track Record Period, our marketing and sales efforts have been focused on the domestic market in the PRC. Our intention was to mature our production processes and technology and solidify our reputation and position in the domestic market prior to expanding into overseas markets.

Leveraging on our current market position as a leading producer of Smart Light-adjusting Products and Smart Light-adjusting Projection Systems in the PRC in terms of market share, we intend to gradually increase our presence in various overseas markets. To this end, we will increase our sales and marketing efforts in target markets through participating in industry conventions and

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exhibitions, meeting with potential customers, marketing our products through various online trading platforms, and expanding our overseas network through cooperation with overseas agencies. As at the Latest Practicable Date, we have already received orders from some non-PRC customers and we aim to increase our sales to overseas markets. Currently our overseas target markets include France, India, Thailand, Israel, UAE and Hong Kong. We will continue to seek access to appropriate markets following market research and evaluation of factors such as level of existing and anticipated market demand, supply and penetration, pricing, and other competition and disposable income levels among consumers in these markets.

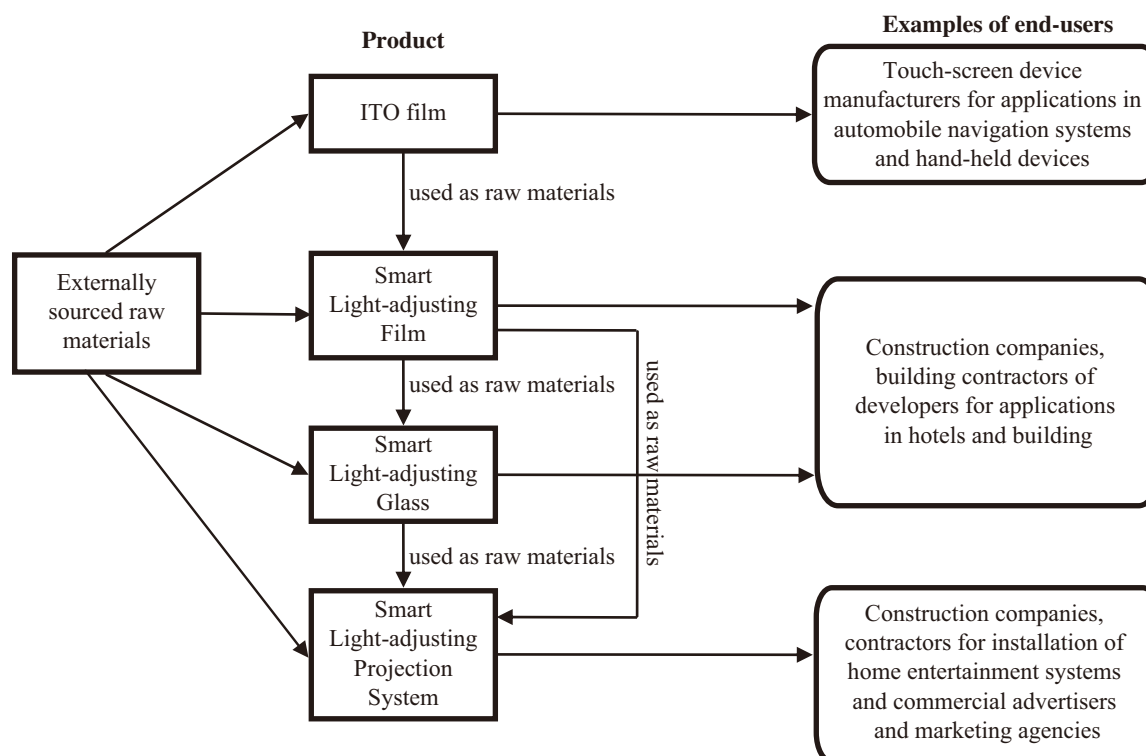
OUR BUSINESS MODEL

We principally:

- (i) manufacture and sell *ITO film*, which can be applied for use in a variety of products including smart phones, GPS systems and other touch-screen devices and equipment such as automated teller machines; and
- (ii) carry out the research and development of, and manufacture and sell:
 - *Smart Light-adjusting Film*, which is made from the integration of ITO film (which we manufacture in-house) and PDLC. Smart Light-adjusting Film can be switched from a milky, cloudy, translucent and opaque state into a colourless and transparent state when electricity is applied to it, and may be applied to windows and glass to control the passing-through of light;
 - *Smart Light-adjusting Glass*, which is manufactured by placing a layer of Smart Light-adjusting Film between two layers of glass. Smart Light-adjusting Glass permits a user to control the permeability of light through the glass by adjusting the voltage of electricity voltage applied to the Smart Light-adjusting Film fixed therein; and
 - *Smart Light-adjusting Projection System*, which makes use of project technology to project visual images onto projection screens. Such projection screens are manufactured using Smart Light-adjusting Products which is opaque when no power source is applied to it.

To maintain a cost-efficient operating structure, we have adopted a vertically integrated business model which gives us more control over our production. Our vertical integration commences from the production of ITO film, which may be directly sold to customers or subsequently processed into Smart Light-adjusting Film, Smart Light-adjusting Glass and Smart Light-adjusting Projection Systems through the application of various technologies and production processes. As at the Latest Practicable Date, our Group is the only manufacturer in the PRC which relies on its own supply of ITO film (a major component for the manufacturing of Smart Light-adjusting Products) for the production of downstream products. For further information on the benefits of on Group's vertical integration, please refer to the paragraph headed "Our competitive strengths — We are the only manufacturer of ITO film and related downstream products in the PRC which is fully vertically integrated" in this section of this prospectus.

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In addition to the research and development, manufacture and sales of ITO film and related downstream products, we may also receive orders for components, semi-finished goods and accessories (such as projectors, glass panels and power switches) used for the production of our key products which may be produced in-house and/or sourced from our suppliers. In particular, we have received a number of orders for projectors sourced from our suppliers (which we used in the production of our Smart Light-adjusting Projection Systems) over the year ended 31 December 2016. These components, semi-finished goods and accessories were sold at a price determined through our pricing policy as described in the paragraph headed “Marketing” in this section of the prospectus.

The following table sets out our revenue by product type during the Track Record Period:

Product type	Year ended 31 December					
	2014		2015		2016	
	RMB '000	%	RMB '000	%	RMB '000	%
ITO film	18,159	40.5	18,354	30.4	13,729	15.1
Smart Light-adjusting Film	7,200	16.1	18,621	30.8	18,882	20.8
Smart Light-adjusting Glass	18,566	41.4	8,360	13.8	26,492	29.1
Smart Light-adjusting Projection System	—	—	13,621	22.5	23,788	26.2
Other (Note)	880	2.0	1,521	2.5	7,996	8.8
Total	44,805	100	60,477	100	90,887	100

Note: Other revenues include sales generated from the sale and resale of components, semi-finished goods and accessories relating to and/or used in our key products such as projectors, glass panels and power switches.

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The following table sets out our gross profit by product type during the Track Record Period:

Product type	Year ended 31 December					
	2014		2015		2016	
	RMB '000	%	RMB '000	%	RMB '000	%
ITO film	3,115	21.8	3,663	15.3	3,222	9.3
Smart Light-adjusting Film	3,993	28.0	9,685	40.5	10,713	30.7
Smart Light-adjusting Glass	7,282	51.0	2,271	9.5	7,902	22.7
Smart Light-adjusting Projection System	—	—	7,907	33.1	10,673	30.7
Other (Note)	(109)	(0.8)	370	1.6	2,293	6.6
Total	14,281	100	23,896	100	34,803	100

Note: Other revenues include sales generated from the sale and resale of components, semi-finished goods and accessories relating to and/or used in our key products such as projectors, glass panels and power switches.

The following table sets out the breakdown of production volume of our products by external sales and internal use over the Track Record Period:

	For the year ended 31 December 2014				For the year ended 31 December 2015				For the year ended 31 December 2016			
	Purchase from third parties	Production volume	Volume by external sales	Volume by internal use	Purchase from third parties	Production volume	Volume by external sales	Volume by internal use	Purchase from third parties	Production volume	Volume by external sales	Volume by internal use
	(sq.m./set)	(sq.m./set) (Note 2)	(sq.m./set)	(sq.m./set)	(sq.m./set)	(sq.m./set) (Note 2)	(sq.m./set)	(sq.m./set)	(sq.m./set)	(sq.m./set) (Note 2)	(sq.m./set)	(sq.m./set)
ITO film	0.0	193,865.2	138,529.0	48,098.2	1,581.6	223,335.2	162,138.0	70,381.6	812.8	285,037.6	129,866.6	124,479.9
Smart Light-adjusting Film (Note 3)	542.0	20,008.7	6,984.0	12,280.1	0.0	33,621.0	24,500.0	7,601.2	8,980.7	40,527.2	28,471.6	19,369.2
Smart Light-adjusting Glass	0.0	12,405.2	11,062.0	0.0	16.9	7,629.7	6,220.0	641.9	2.7	21,242.5	22,196.1	143.0
Smart Light-adjusting Projection System		Our Company has not commenced production			0.0	220.0	220.0	0.0	0.0	471.0	471.0	0.0

Notes:

- Use of "sq.m." if referring to ITO film, Smart Light-adjusting Film and Smart Light-adjusting Glass; use of "set" if referring to Smart Light-adjusting Projection System.
- "Production volume" includes production for internal use and external uses as well as production for inventory (used for external sales; as samples; for research and development; or scrapped).
- Actual production volume is calculated based on product size reduced to the measurement required by customers.

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Our Group's policy in allocating self-produced products for internal use and external use

ITO films manufactured for the purpose of external sales are normally produced in advance based on our Group's assessment of potential demand from external parties at the beginning of the year (based on such factors as historical demand and communication with customers). ITO films which are manufactured for the purpose of internal use (i.e. to be used as raw materials for downstream products) would normally be produced on an on-demand basis following receipt of orders placed by customers for ITO film and/or downstream products. At present, as our Group has sufficient capacity in its ITO film production lines to satisfy all customer orders, it is not necessary to prioritise the allocation of ITO films between internal use and external sales.

The following table sets out the breakdown of the average self-produced cost and purchase cost of our products over the Track Record Period:

	For the year ended 31 December					
	2014		2015		2016	
	Average production cost (RMB)	Average purchase cost (RMB)	Average production cost (RMB)	Average purchase cost (RMB)	Average production cost (RMB)	Average purchase cost (RMB)
ITO film	76.3/sq.m.	N/A	52.7/sq.m.	89.7/sq.m.	39.8/sq.m.	65.8/sq.m.
Smart Light-adjusting Film	579.4/sq.m.	1,449.4/sq.m.	337.0/sq.m.	N/A	278.3/sq.m.	755.4/sq.m.
Smart Light-adjusting Glass	822.9/sq.m.	1,376.0/sq.m.	771.9/sq.m.	921.3/sq.m.	738.4/sq.m.	1,456.3/sq.m.
Smart Light-adjusting Projection System	Our Company has not commenced production		24,004.3/set	N/A	17,374.6/set	N/A

Note: "N/A" denotes our Company did not purchase that particular item during the relevant period.

OUR PRODUCTS

We currently manufacture and sell four main types of products, namely (i) ITO film; (ii) Smart Light-adjusting Film; (iii) Smart Light-adjusting Glass; and (iv) Smart Light-adjusting Projection System. We also sell and/or resell certain components, semi-finished goods and accessories which are used in our production of the above products.

ITO film

Indium-tin oxide (also known as ITO) is sprayed on glass, plastics and LED screens to enhance conductivity and transparency and to reduce the transmission of harmful electric radiation, ultraviolet and infrared light.

ITO film is manufactured by first depositing a layer of silicon dioxide (SiO₂) coating on the flexible PET film substrate, then spraying a transparent conductive ITO film on top; it is then covered with a layer of protective film before it is finally cut up into designated size.

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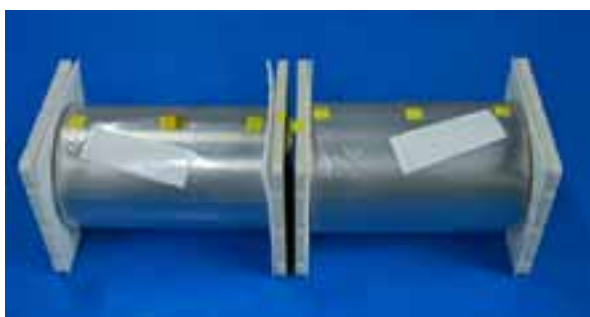
ITO film is widely used in industries like mobile phones, LCD televisions, construction-use power-saving windows, solar batteries, information communication, laptops, digital devices, electrical car products and medical devices.

We commenced our production and sales of ITO film in 2011. We manufacture ITO film based on the specifications and requirements (such as surface resistance, dimensions and shapes) of our customers through our production line involving the use of roll-to-roll automated ITO film production equipment as well as production techniques and processes which are managed and monitored under our quality control systems and procedures. Our ITO film is transparent to visible light, highly reflective to infrared lights, and has good conductivity.

In October 2015, we deployed a roll-to-roll ITO sputtering machine with a width of 2,100mm which enables us to manufacture ITO film as wide as two meters. As the supply of extra-wide ITO film is still rare in the PRC market, our ability to produce such films (i) gives us a competitive advantage as our ITO film has broader applications than comparable products produced by our competitors and gives our customers more flexibility when manufacturing products to cater for their end-customer's needs; and (ii) allows us to compete in the construction and large screen display systems markets.

Our ITO film customers are mainly touch-screen device manufacturers. For the years ended 31 December 2014, 2015 and 2016, we sold approximately 138,529 sq.m., 162,138 sq.m. and 129,867 sq.m., of ITO film to our customers respectively, with an average selling price of approximately RMB131, RMB113 and RMB106 per sq.m., respectively.

Finished products of ITO film



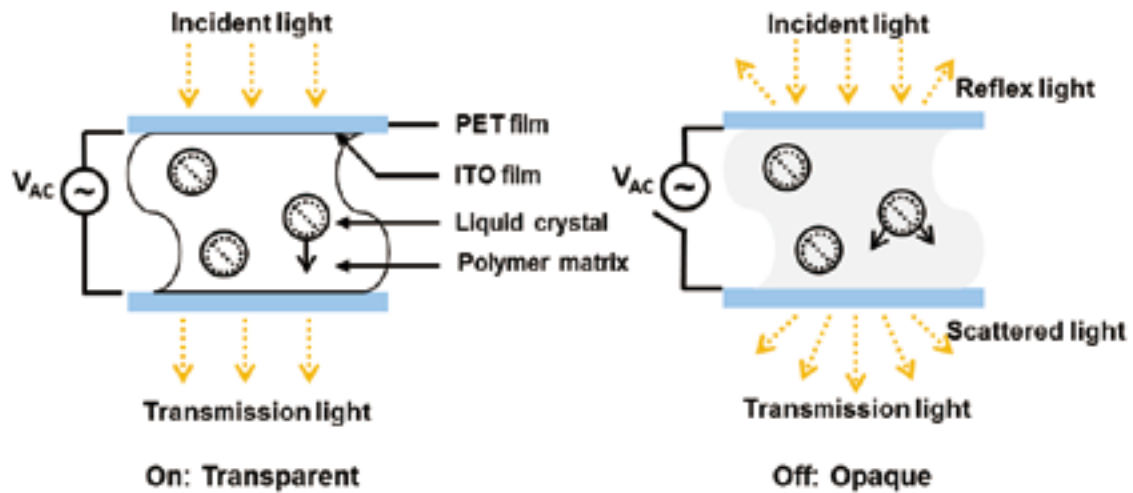
ITO sputtering machine



Smart Light-adjusting Products

Smart Light-adjusting Film

Smart Light-adjusting Film is a film containing PDLC (or polymer dispersed liquid crystals) that changes light transmission properties when electrical voltage is applied to it. When connected to power, the PDLC line in order, allowing light applied thereon to penetrate and causing the film to appear transparent. When power is disconnected, the order of PDLC will be disturbed which will cause light applied thereon to scatter and causing the film to appear opaque. The quality of a Smart Light-adjusting Film in terms of haze rate, light transmission rate and electricity consumption is largely dependent on the PDLC configuration.



Our first Smart Light-adjusting Film production line commenced operation in June 2012 and our second Smart Light-adjusting Film production line commenced operation in June 2014. We have strict quality control procedures to ensure that our Smart Light-adjusting Film meet the following technical specifications:

- light transmittance: on: more than 76%; off: more than 50%
- haze rate: on: less than 10%; off: more than 95%
- operating temperature: -20 to 70 degrees celsius
- storage requirement: less than 35 degrees celsius at humidity of less than 85%
- rated voltage: 60 V (AC, 50/60 Hz)
- energy consumption: less than 5 watts/sq.m.
- viewing angle: more than 160 degrees
- rate of anti-UV: 79.5%
- response time: less than 45 milli-second
- switching times: over 2,500,000
- heat insulation: more than class B2
- shotgun bag impact: II-1
- falling-ball impact peel performance: GB15763.3-2009
- heat resistance: GB15763.3-2009
- damp heat test: GB15763.3-2009
- radiation resistance: GB15763.3-2009

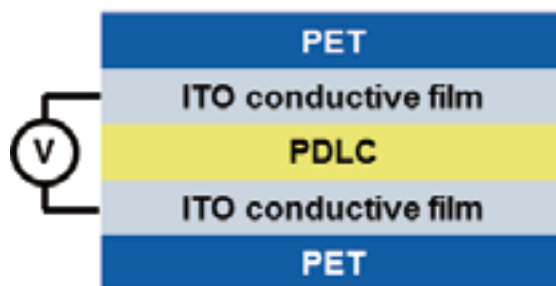
We manufacture Smart Light-adjusting Film by: (i) incorporating our self-developed PDLC between two layers of ITO film (which are manufactured in-house); (ii) applying UV curving technology; and (iii) making use of our roll-to-roll ITO sputtering machine and coating machine.

Roll-to-roll ITO sputtering machine



We set out below the structure of Smart Light-adjusting Film produced by us:

Structure of Smart Light-adjusting Film



For the years ended 31 December 2014, 2015 and 2016, we sold a total of approximately 6,984 sq.m., 24,500 sq.m. and 28,472 sq.m., of Smart Light-adjusting Film to our customers respectively, with an average selling price of approximately RMB1,031, RMB760 and RMB663 per sq.m., respectively.

Smart Light-adjusting Glass

Smart Light-adjusting Film may be applied onto glass which can be joined together to form large panels that can act as a privacy glass wall when power is disconnected and acts as a normal transparent glass when connected to a power source. Users can control the permeability of light passing through the Smart Light-adjusting Glass by simply adjusting the amount of electric voltage applied to the Smart Light-adjusting Film. This feature of the Smart Light-adjusting Glass makes it useful in many applications where privacy may be required (for example, in bathrooms; examination

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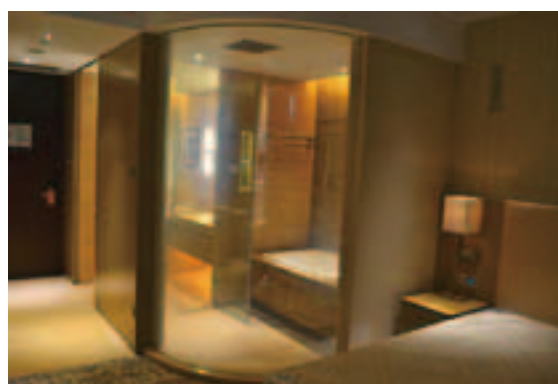
rooms in hospitals and clinics; inquiry rooms in police stations, courts and prisons, jewellery and museum displays; office conference rooms or as office partitions) or where it may be desirable to block out light (for example, as skylights or in video rooms). Our Smart Light-adjusting Glass can be widely used in commercial, residential, healthcare, hospitality, retail and public transaction industries for a variety of purposes.

The following pictures illustrate the appearance of our Smart Light-adjusting Glass products when they are switched on or off:

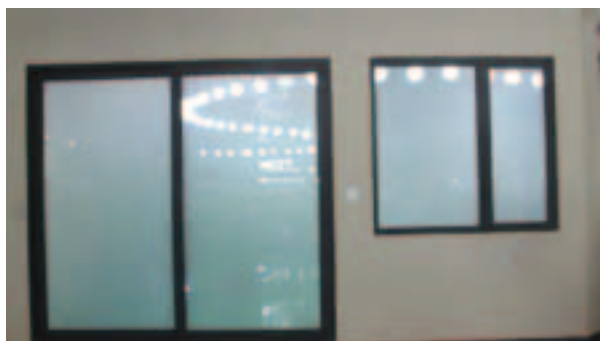
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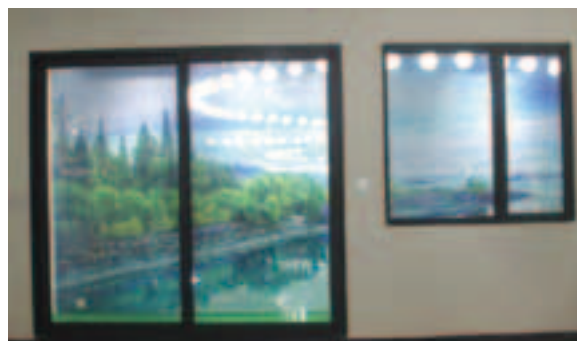
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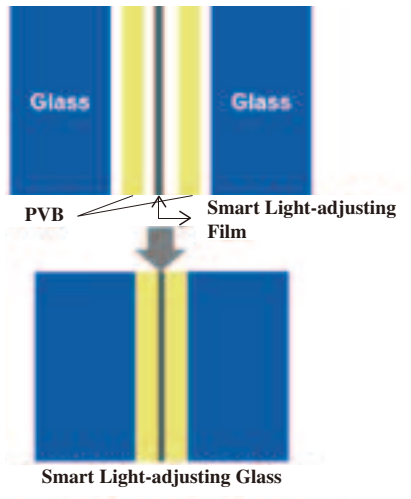
We generally manufacture two types of Smart Light-adjusting Glass, namely:

- (i) ***laminated Smart Light-adjusting Glass***, which is manufactured by wedging a piece of Smart Light-adjusting Film between two layers of glass and applying heat and pressure to embed the Smart Light-adjusting Film into the glass; and
- (ii) ***bound Smart Light-adjusting Glass***, which is manufactured by adhering Smart Light-adjusting Film to the surface of glass by UV glue or AB glue. We manufacture both single-layered and double-layered bound Smart Light-adjusting Glass; the latter is used for insulation purposes and is produced by sealing two panels of glass with a layer of air in between them.

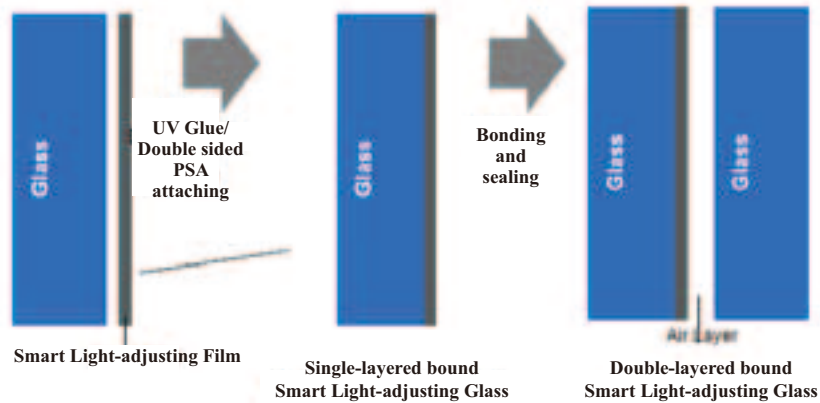
BUSINESS

The following diagrams illustrate, in simplified terms, the production process of laminated and bound Smart Light-adjusting Glass:

Production of laminated Smart Light-adjusting Glass



Production of double-layered bound Smart Light-adjusting Glass



Our Smart Light-adjusting Glass production line commenced operation in February 2013. We adopt production techniques and processes to ensure that our Smart Light-adjusting Glass are:

- (i) **high performance:** our Smart Light-adjusting Film embedded in the glass can be switched from transparent to opaque states over 2.5 million times and still maintain high optimal performance. We also test our Smart Light-adjusting Film to ensure that they meet performance tests in terms of heat, humidity, vibration and radiation resistance;

BUSINESS

- (ii) **safe:** our Smart Light-adjusting Glass is designed so that glass fragments will still adhere onto the Smart Light-adjusting Film if and when the glass is crushed so that it would not be hazardous to users when broken;
- (iii) **user friendly:** our Smart Light-adjusting Glass has:
 - (a) sound insulation properties which reduces the passing through of sound volume to below 35 decibels;
 - (b) UV blocking properties to block the passing through of approximately 79.5% of UV light during the opaque state, and is believed to benefit users by reducing the appearance of aging on their skin; and
- (iv) **customised:** we apply various techniques and processes to produce Smart Light-adjusting Glass that meets the specifications and requirements of our customers. For example, our Smart Light-adjusting Glass may be strengthened, colour-tinted, curved and shaped or double-glazed depending on the preferences of our customers. We believe that our ability to provide customised Smart Light-adjusting Glass which meets the demand of our customers is an important factor for our success.

For the years ended 31 December 2014, 2015 and 2016, we sold a total of approximately 11,062 sq.m., 6,220 sq.m. and 22,196 sq.m. of Smart Light-adjusting Glass respectively, with an average selling price of approximately RMB1,678, RMB1,344 and RMB1,194 per sq.m. respectively.

Smart Light-adjusting Projection System

A Smart Light-adjusting Projection System refers to a projection display system comprising a Smart Light-adjusting Product, a projector (adopting ultra-short throw laser projection and multi-fusion technology) and a control system whereby visual images and/or video may be projected from the projector onto a Smart Light-adjusting Product during its opaque state when electric voltage is disconnected (while the glass may be switched to its transparent state when an electric current is applied).

As at the Latest Practicable Date, we have three types of Smart Light-adjusting Projection Systems, namely:

- (i) **first generation Smart Light-adjusting Projection Systems:** whereby the Smart Light-adjusting Projection System is installed into a customised cabinet where visual images and/or video is projected onto a Smart Light-adjusting Glass panel from a ultra-short throw laser projector from behind the panel. Our first generation Smart Light-adjusting Projection Systems are designed for use in domestic or indoor environment for home entertainment and/or visual experience purposes;

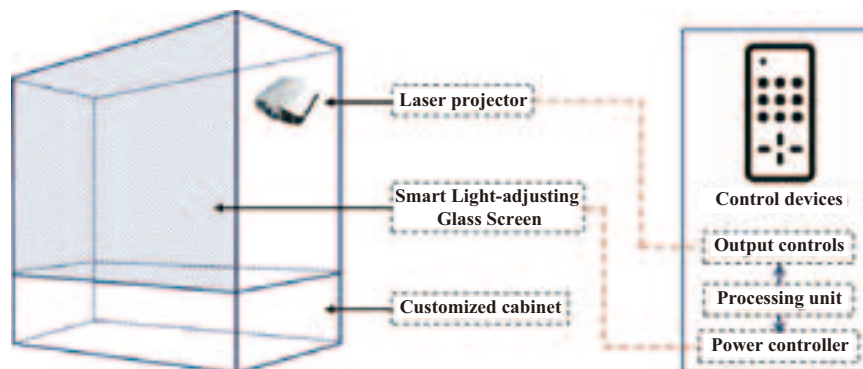
BUSINESS

- (ii) ***second generation Smart Light-adjusting Projection Systems:*** whereby the Smart Light-adjusting Film is embedded in a projection screen where visual images and/or video is projected onto the screen from the front using a more advanced ultra-short throw laser projector. We have commenced our production and sale of our second generation Smart Light-adjusting Projection Systems in May 2016 which are designed for use in domestic or indoor environments for home entertainment and/or visual experience purposes which take up less space and are more adaptable for use; and
- (iii) ***commercial Smart Light-adjusting Projection Systems:*** whereby our Smart Light-adjusting Projection Systems are installed and applied in various indoor or outdoor environments and settings for commercial purposes. For example, our Smart Light-adjusting Film may be adhered to screen doors in subway stations or our Smart Light-adjusting Glass may be used as display windows of retail stores and visual images and/or video can be projected thereon from the front using an ultra-short throw laser projector. Our commercial Smart Light-adjusting Projection Systems have diverse advertising, marketing and other applications, and we have since April 2016 entered into agreements for providing design and engineering solutions to our customers to assist them integrate our commercial Smart Light-adjusting Projection Systems in the desired environment and settings.

The following diagrams and pictures illustrate the key components and appearance of a sample of each type of our Smart Light-adjusting Projection Systems:

First generation Smart Light-adjusting Projection System

Conceptual diagram:



BUSINESS

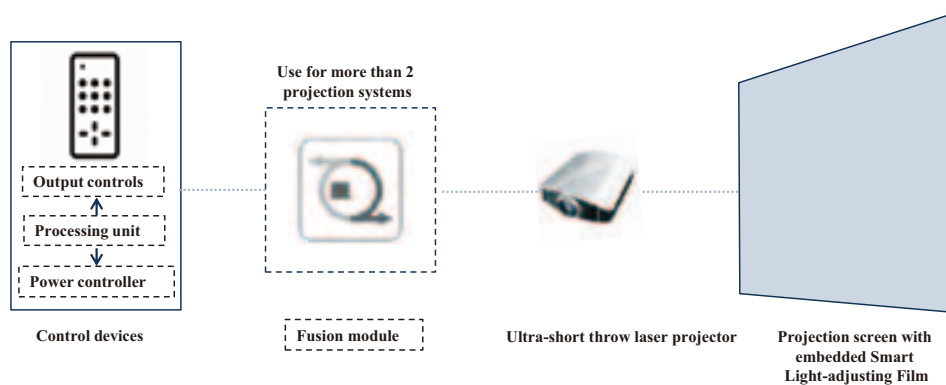
The following is a sample Smart Light-adjusting Projection System produced by us:

Sample product:



Second generation Smart Light-adjusting Projection System

Conceptual diagram:



Sample product:



BUSINESS

Commercial Smart Light-adjusting Projection System

Conceptual image (application of commercial Smart Light-adjusting Projection System to subway station in Beijing):



Our Directors believe that our Smart Light-adjusting Projection System can compete in the outdoor display market with LED display manufacturers for the following reasons:

- the production cost of our Smart Light-adjusting Projection System is currently lower than that of an LED display;
- the selling price of a typical Smart Light-adjusting Projection System is generally lower than that of a typical LED display;
- a user of Smart Light-adjusting Projection System is expected to incur substantially less maintenance and repair costs over the life of the product than that of a user of LED display;
- current LED displays block sunlight from entering into buildings on which they are installed while Smart Light-adjusting Projection Systems may allow or block sunlight from entering into buildings depending on whether it is in a transparent or opaque state; and
- a typical Smart Light-adjusting Projection System is substantially more energy-efficient than a LED display.

For the two years ended 31 December 2015 and 2016, we sold a total of 220 and 471 sets of Smart Light-adjusting Projection Systems, respectively, with an average selling price of approximately RMB61,914 and RMB50,505 per set, respectively.

For details of the future trends of prices of our products, please refer to the “Industry Overview” section of this prospectus.

BUSINESS

OUR PRODUCTION FACILITIES AND PROCESSES

Production facility

The entire production process of our products is carried out at our production base situated at Levels 1 and 2 of Factory Building No. 7 of Zhuhai Xingye New Energy and Industrial Park, 9 Jinzhu Road, Gaoxin district, Zhuhai city, Guangdong province of the PRC. Our production facilities comprise office and factories with a total gross floor area of approximately 5,740 sq.m..

We relocated our production facilities from a technology port in Nanping to our current site in March 2016. The current site is larger than our former facility and is more suitable for housing our production equipment. Since our commencement of business and up to the Latest Practicable Date, we have not experienced any material disruptions in respect of the use of our production facilities. It is our policy that staff report any disruptions in or to our production facilities to the relevant head of department who will arrange our equipment manager and relevant staff to arrange repairment. The procedures are in line with ISO:9001 standards.

As at the Latest Practicable Date, we operate two production lines for the production of ITO film, two production lines for the production of Smart Light-adjusting Film, and one production line for the production of Smart Light-adjusting Glass and Smart Light-adjusting Projection Systems respectively.

Production machinery, equipment and processes

We believe it is important for us to be able to identify and purchase technologically-advanced and high quality machinery and equipment to support our production processes. We consider such machinery and equipment crucial in ensuring quality and efficiency of our manufacturing process. As a result, we allocate substantial resources to identifying and purchasing machinery and equipment that we believe can produce high quality products efficiently.

For the years ended 31 December 2014, 2015 and 2016, our capital expenditure were mainly incurred for acquiring machinery, motor vehicles, office equipment and the renovation of our factory and the amounts incurred our these periods were approximately RMB1.7 million, RMB24.2 million, and RMB978,000 respectively. These capital expenditures were funded by a combination of cash generated from our operating activities, bank loans and capital injection by our Shareholders.

We acquired all of our machinery and equipment from domestic and international Independent Third Parties through commercial arm's length negotiations and transactions. The machinery and equipment used in our production lines is difficult for our competitors to replicate as they have been modified or have improved features incorporated to meet our actual production needs. To this end, our procurement department communicates our production needs and requirements to our suppliers to ensure that our machinery and equipment are tailor-made to suit our needs.

BUSINESS

The following table sets out details of our major machinery and equipment (with acquisition cost of over RMB50,000) located at our production facilities and related details as at 31 December 2016:

Machinery or equipment name and description	Year of purchase	Months used	Net carrying value (approx. RMB) <i>(Note)</i>	Remaining life <i>(months)</i>
ITO film				
Vacuum roll-to-roll ITO sputtering machine	2011	61	11,615,185.3	59
Vacuum roll-to-roll ITO sputtering machine	2014	13	18,069,368.5	107
Coating and laminating machine	2011	60	1,311,588.6	60
Air Handling Unit (AHU) compression-type water chiller	2015	16	434,908.1	44
Smart Light-adjusting Film				
High precision wet laminating machine	2013	40	1,343,813.1	80
High precision wet laminating machine (single position)	2014	32	313,594.0	88
Smart Light-adjusting Glass and Smart Light-adjusting Projection System				
Straight-line bilateral milling machine	2015	12	502,888.9	108
Autoclave	2013	42	237,103.4	78
Autoclave	2015	17	230,047.2	43
Laminated glass production line	2013	40	169,538.5	80

Note: Net carrying value equals the original acquisition cost of machine, less depreciation using accounting method, amortisation or impairment costs.

We acquired all our production machinery and equipment in recent years and we expect our major production machinery and equipment at our production facility to have an average useful life of approximately five to ten years. As of the Latest Practicable Date, we did not anticipate the disposal of any of our major production machinery and equipment.

BUSINESS

We regularly monitor and perform routine maintenance checks on our machinery and equipment in order to assess whether there is a need to replace, purchase, or update (where machinery and equipment with improved technical capabilities becomes available) our machinery and equipment. We maintain records of any maintenance and repair work carried out on our machines.

Our Directors confirm that we currently have no replacement schedule for our major machinery and equipment and we may not replace equipment or machinery merely because it is fully depreciated under our accounting policy (being an accounting concept relating to allocation of costs of an asset). We believe that with proper maintenance and repair, we may continue using machinery and equipment depreciated under our accounting policy for as long as it is in satisfactory working order.

Preparation of raw material and ancillary materials

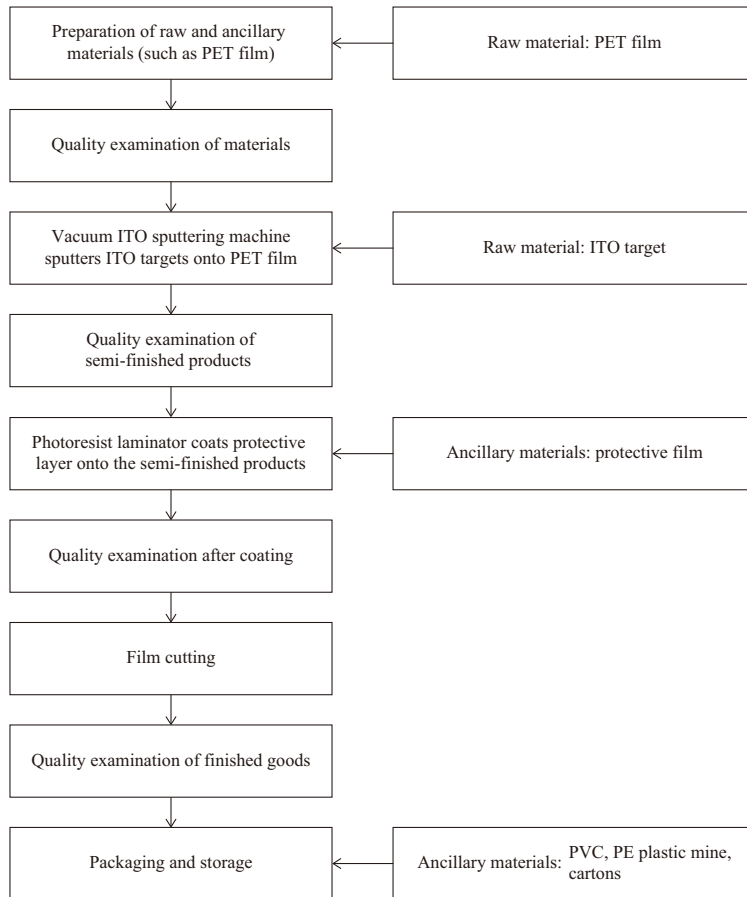
Upon receipt of customer sales orders, production staff will request the necessary raw materials and ancillary materials from the warehouse in accordance with the list of raw materials which are required for the production of Smart Light-adjusting Products to satisfy the sales order. The warehouse staff will prepare and compile the relevant raw materials (including raw materials produced in-house such as ITO film as well as other raw materials (such as components and parts) sourced from external parties) as requested by production staff. Where necessary, the warehouse staff may source additional raw materials from the production department or from external suppliers, as applicable, as part of our Group's inventory control process.

Production process and facilities relating to the manufacturing of ITO film

Our Group operates two ITO production lines, one of which produces ITO film with roll width of 2,100mm and one of which produces ITO film with roll width of 1,300mm. Each of these production lines comprises a vacuum roll-to-roll ITO sputtering machine, ITO protective layer laminating machine, SEM microscope and temperature chamber. Our production lines generally operate 24 hours a day, seven days a week.

BUSINESS

The following diagram illustrates the key processes involved in the production of our ITO film:



BUSINESS

The following table sets out the designed production capacity, actual production volume and utilisation rate of our ITO film production lines which consists of, among others, a 1,300mm roll-to-roll ITO sputtering machine and a 2,100mm roll-to-roll ITO sputtering machine, during the Track Record Period:

ITO film production lines	Year ended 31 December		
	2014	2015	2016
Designed production capacity (approximate)	203,372 sq.m. (<i>Note 1</i>)	307,847 sq.m. (<i>Note 2</i>)	621,271 sq.m. (<i>Note 2</i>)
Actual production volume	193,800 sq.m.	223,000 sq.m.	285,000 sq.m.
Utilisation rate (%) (<i>Note 3</i>)	95.3%	72.4%	45.9%

Note 1: The estimated maximum production capacity is calculated on the basis that: (i) the production line will be operated for 11.5 months per year, 25 days per month and 24 hours per day (i.e. 6,900 production hours in total in a year); and (ii) it takes approximately 42.41 hours to process each roll of ITO film of 1,250 sq.m. each (i.e. production rate of approximately 29.47 sq.m. per hour).

Note 2: We commenced the use of our 2,100mm roll-to-roll ITO sputtering machine (which is capable of processing ITO film rolls which are 1,250 sq.m. and 2,400 sq.m. in size) in October 2015. Therefore, the estimated production capacity of our ITO film production lines is the aggregate of: (i) the estimated maximum production capacity of the 1,300mm roll-to-roll ITO sputtering machine production line per Note 1 above; and (ii) the estimated maximum production capacity of the 2,100mm roll-to-roll ITO sputtering machine production line is calculated on the basis that: (a) the production line will be operated for 11.5 months per year, 25 days per month and 24 hours per day (i.e. 6,900 production hours in total in a year); and (b) the machine is capable of processing 25 rolls of 1,250 sq.m. ITO film or 16 rolls of 2,400 sq.m. ITO film each month, and we assume that the machine would be used for processing rolls of each width for 50% of each month (i.e. average production rate of approximately 60.56 sq.m. per hour).

Note 3: The utilisation rate is calculated by dividing actual production volume by the estimated designated production capacity for the relevant period.

As illustrated above, the utilisation rate of the production line for ITO film dropped from 95.3% in 31 December 2014 to 72.4% and 45.9% for the years ended 31 December 2015 and 31 December 2016 respectively due to the commencement of the use of our 2,100mm roll-to-roll ITO sputtering machine since October 2015, which materially increased the designed production capacity of the production line.

BUSINESS

Set out below are illustrations depicting different stages in our ITO film production process:

Air shower room prior to entering into the production facilities



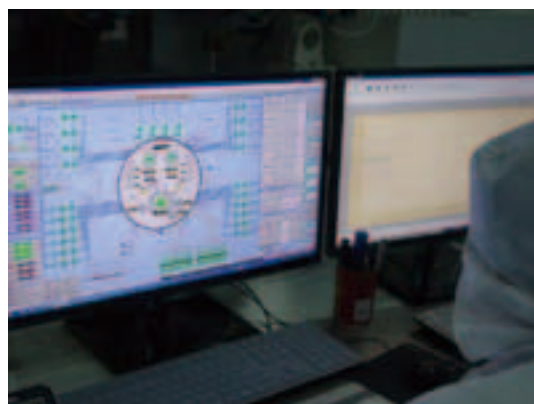
Preparation of raw materials



2,100mm roll-to-roll ITO sputtering machine



Operation of the roll-to-roll coating system

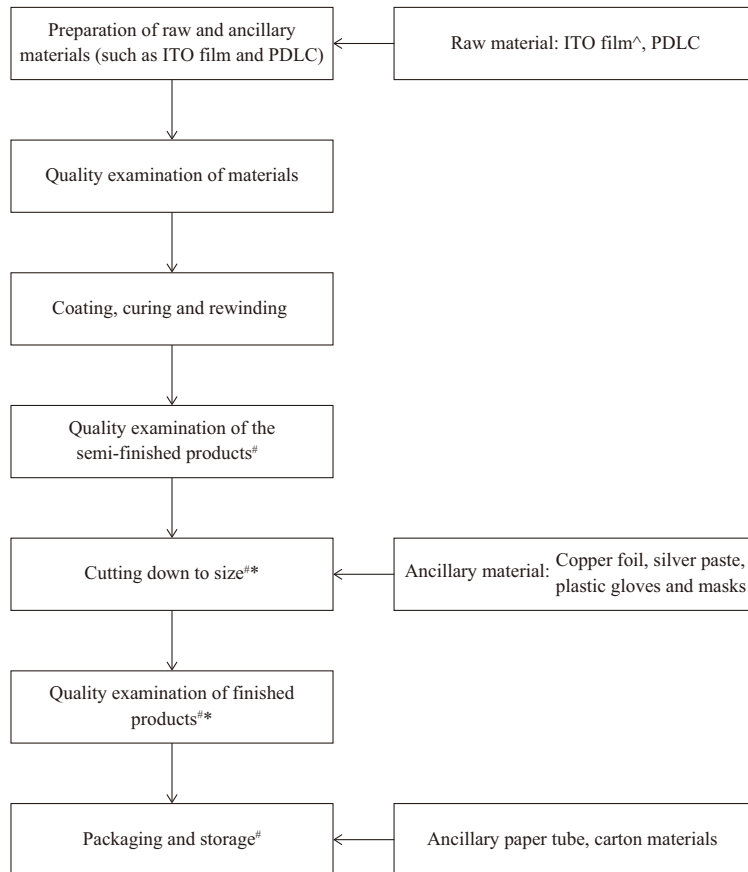


Production process for Smart Light-adjusting Film

Our Group has two production lines for the production of our Smart Light-adjusting Film, comprising (i) a 1,600mm wide high precision coating machine; and (ii) a 2,000mm wide high precision coating machine.

BUSINESS

The following diagram illustrates the key processes involved in our Smart Light-adjusting Film production:



Note:

1. Processes marked with “#” are confirmed by our Directors to be automated according to the implementation plan as set out in section headed “Future plans and use of proceeds” of this prospectus.
2. Processes marked with “*” are confirmed by our Directors to be “bottleneck” processes. For further information on “bottleneck” processes, please refer to the paragraph headed “Net proceeds for the acquisition of machinery and equipment” under the section headed “Future plans and use of proceeds” of this prospectus.
3. Raw materials marked with “^” are produced in-house.

BUSINESS

The following table sets out the designed production capacity, actual production volume and utilisation rate of our Smart Light-adjusting Film production lines which consist of, among others, a 1,600mm wide high precision coating machine and a 2,000mm wide high precision coating machine, during the Track Record Period:

Smart Light-adjusting Film production lines	Year ended 31 December		
	2014	2015	2016
Designed production capacity (approximate)	449,176 sq.m. <i>(Note 1)</i>	584,471 sq.m. <i>(Note 2)</i>	584,471 sq.m.
Actual production volume <i>(Note 3)</i>	36,900 sq.m.	32,800 sq.m.	51,465 sq.m.
Utilisation rate (%) <i>(Note 4)</i>	8.2%	5.6%	8.8%

Note 1: We commenced the use of our 2,000mm wide high precision coating machine in June 2014. Therefore, the estimated production capacity of our Smart Light-adjusting Film production lines is the aggregate of: (i) the estimated maximum production capacity of 1,600mm wide high precision coating machine production line; and (ii) the estimated maximum production capacity of the 2,000mm wide high precision coating machine production line on the basis that: (a) the production line will be operated for 11.5 months per year, 25 days per month and 14 hours per day (i.e. 4,025 production hours in total in a year); and (b) the 1,600mm wide high precision coating machine is capable of processing 20 rolls of 1129.4 sq.m. Smart Light-adjusting Film each month (i.e. average production rate of approximately 63.25 sq.m. per hour) and the 2,000mm wide high precision coating machine is capable of processing 20 rolls of 1411.8 sq.m. Smart Light-adjusting Film each month (i.e. average production rate of approximately 79.06 sq.m. per hour).

Note 2: Both machines were utilised throughout the respective periods.

Note 3: The actual production volume has been calculated based on the product size before reducing to the measurement as required by our customers.

Note 4: The utilisation rate is calculated by dividing actual production volumes by the estimated designated production capacity for the relevant period.

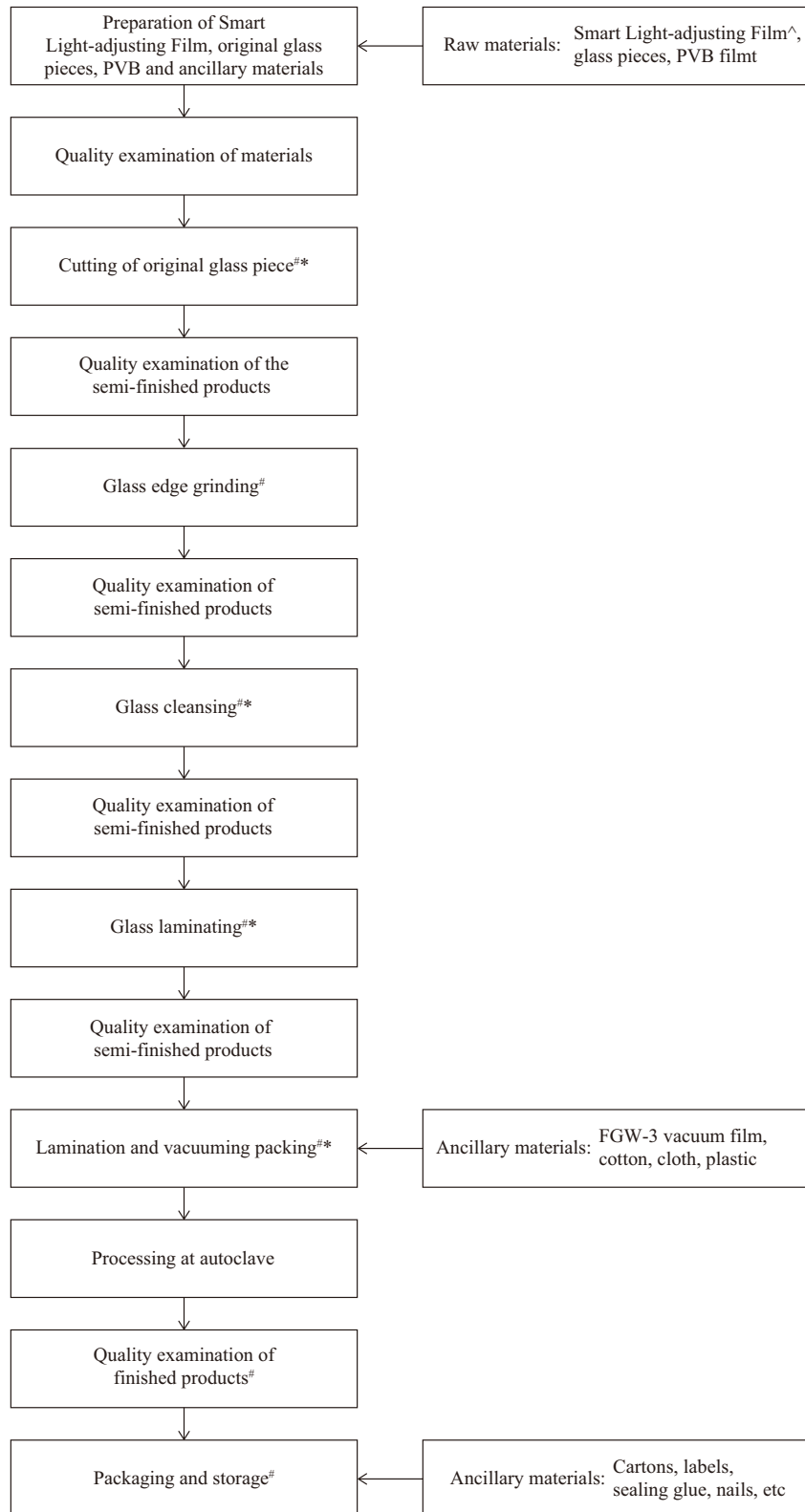
The reason for the low utilisation rate of the production line for Smart Light-adjusting Film was due to the fact that the design of the production line for Smart Light-adjusting Film (involving a 1,600mm wide high precision coating machine and a 2,000mm wide high precision coating machine) is capable of high-volume mass production of Smart Light-adjusting Film rolls, resulting in the maximum designed production capacity to be a large multiple of the existing production volume.

Production process and facilities for Smart Light-adjusting Glass

Our production line for Smart Light-adjusting Glass includes a glass loading table, a glass cutting machine, glass edge grinding devices, a glass washing and drying machine, a glass lay-up positioning conveyor, a PVB film spreader machine, a pre-press machine and autoclave. Our production lines generally operate ten hours a day, five to six days a week.

BUSINESS

The following diagram illustrates the key processes involved in our Smart Light-adjusting Glass production line:



BUSINESS

Notes:

1. Processes marked with “#” are confirmed by our Directors to be automated according to the implementation plan as set out in section headed “Future plans and use of proceeds” of this prospectus.
2. Processes marked with “*” are confirmed by our Directors to be “bottleneck” processes. For further information on “bottleneck” processes, please refer to the paragraph headed “Net proceeds for the acquisition of machinery and equipment” under the section headed “Future plans and use of proceeds” of this prospectus.
3. Raw materials marked with “^” are produced in-house.

Autoclave



The following table sets out the designed production capacity, actual production volume and utilisation rate of our Smart Light-adjusting Glass production line during the Track Record Period:

Smart Light-adjusting Glass production line	Year ended 31 December		
	2014	2015	2016
Designed production capacity (<i>Note 1</i>)	46,000 sq.m.	46,000 sq.m.	46,000 sq.m.
Actual production volume	12,400 sq.m.	7,600 sq.m.	21,242 sq.m.
Utilisation rate (%) (<i>Note 2</i>)	27.0%	16.5%	46.2%

Note 1: We have used the size of Smart Light-adjusting Glass produced as a standardised measurement of the output of our production process which involved preparing materials (such as Smart Light-adjusting Film and PVB), trimming, glass milling, cleaning and inspection, and vacuum packaging. The estimated production capacity is based on the assumption that our Smart Light-adjusting Glass production line (a) will be operated for 11.5 months per year, 25 days per month and 10 hours per day (i.e. 2,875 production hours in total in a year); and (b) is capable of producing 4,000 sq.m. of Smart Light-adjusting Glass each month.

Note 2: The utilisation rate is calculated by dividing actual production volumes by the estimated designated production capacity for the relevant period.

The low utilisation rate of the production line for Smart Light-adjusting Glass over the Track Record Period was due to its large designed production capacity compared to actual production volume (for external sales as well as internal use for production of downstream products).

BUSINESS

The utilisation rate for the production line increased from 16.5% for the year ended 31 December 2015 to 46.2% for the year ended 31 December 2016 mainly due to (i) the commencement of efforts in 2015 to expand our overseas business; and (ii) the increase in demand for Smart Light-adjusting Projection Systems (i.e. downstream product of Smart Light-adjusting Glass) due to the continued development of our Group in, and increase in demand in the market for, the product. This has led to substantial orders for Smart Light-adjusting Projection Systems in the year ended 31 December 2016 (please refer to the paragraph “Business – Our production facilities and processes - Substantial orders for Smart Light-adjusting Projection Systems” below for further details), which in turn led to increase in required production of Smart Light-adjusting Glass.

Substantial orders for Smart Light-adjusting Projection Systems

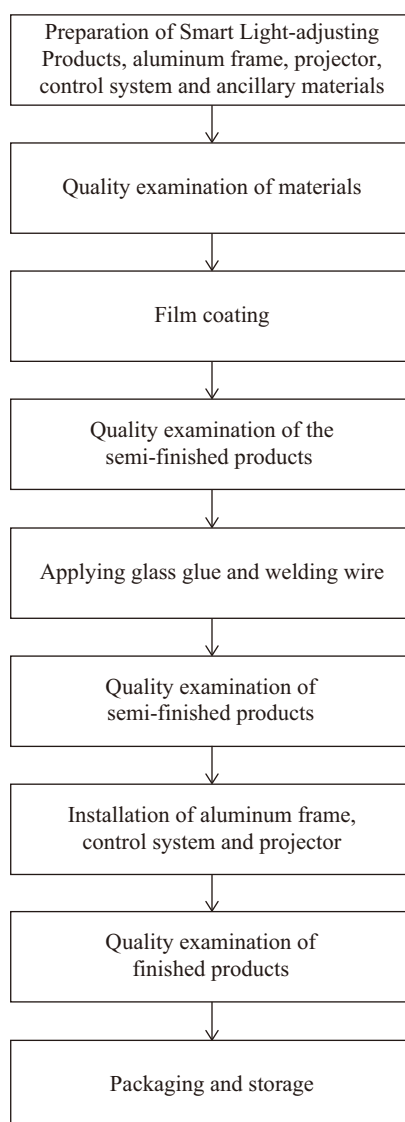
As at 31 December 2016, we have entered into a supply contract with a subcontracting company in Beijing for the supply and installation of 200 Smart Light-adjustment Projection Systems over 20 metro stations in the PRC, for a total consideration of approximately RMB13.4 million (equivalent to approximately HK\$15.3 million). In addition to this substantial order, our Group has also entered into a supply contract with a company in Shanghai for the supply and installation of 100 Smart Light-adjusting Projection Systems for advertising display windows in the Nanjing Road commercial area in Shanghai for a total consideration of approximately RMB6.1 million (equivalent to approximately HK\$7.0 million).

In order to fulfill these and other new orders, the utilisation rate in production capacity in respect of Smart Light-adjusting Film and Smart Light-adjusting Glass increased from 5.6% and 16.5% for the year ended 31 December 2015 respectively, to 8.8% and 46.2% for the year ended 31 December 2016 respectively.

BUSINESS

Production process and facilities for Smart Light-adjusting Projection System

Our production of Smart Light-adjusting Projection Systems involves the assembly and installation of different components including Smart Light-adjusting Products, ultra-short throw laser projector, control systems and other components. The following diagram illustrates the key processes in the production of our Smart Light-adjusting Projection System:



As at the Latest Practicable Date, our production and installation of Smart Light-adjusting Projection Systems does not rely on the use of key machinery or production facilities, but rather relies on our skilled employees and technicians to (i) carry out assembly and installation of different components; and (ii) apply and calibrate our systems for use in relevant environment and settings in line with designated specifications and/or design and engineering solutions proposed to our customers. As such, it is not possible to provide indicative or meaningful analysis of the utilisation rate of our Smart Light-adjusting Projection System production capacity. Nevertheless, we will hire suitably qualified employees and technicians to meet our production needs to satisfy the amount of customer orders for Smart Light-adjusting Projection Systems we may receive from time to time.

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A summary setting out the volume of upstream products required to produce each type of downstream products is as follows:

Per square meter of	Units required of production
Smart Light-adjusting Film	Two square meters of ITO Film
Smart Light-adjusting Glass	One square meter of Smart Light-adjusting Film
Smart Light-adjusting Projection System	One square meter of Smart Light-adjusting Glass

QUALITY CONTROL

We are committed to producing high quality products. We perform quality control, inspection and testing procedures throughout our production process to identify defects and irregularities throughout each of our production processes.

Quality control measures

We apply stringent quality controls at each stage of our production process. This involves:

- ***acceptance and storage of raw materials***
 - when raw materials (including PET raw film, ITO targets, various protective films, PVB and glass pieces) are delivered to our production base, our warehouse management staff will inform the procurement department and the relevant department responsible for making the procurement request will then check the received raw materials against the relevant invoices to ensure that the type, specifications and quantity of raw materials received is correct
 - our quality control staff will take samples from each batch of raw materials received to ensure they meet the required standards for production. All raw materials deemed suitable for use in production are labelled accordingly
 - where samples from a batch of raw materials fail to meet our required standards, the entire batch will be physically separated from the remaining raw materials and further assessments will be made to establish whether the raw materials can be warehoused
 - raw material inspection reports are completed in relation to the inspection of each batch of raw materials and follow-up action is taken with the relevant suppliers where problems and defects are detected
 - raw materials are stored in appropriate conditions (in terms of temperature and humidity) and are tested to ensure adherence to the prescribed production formula
- ***over the production processes***
 - before we commence mass production of a particular product, we will manufacture an initial sample for assessment and analysis

BUSINESS

- our quality control staff inspect semi-finished products at the key stages of the production process (for example, following edging or glass combining/laminating over the production of Smart Light-adjusting Glass). Quality control sampling checks are also carried out
- any semi-finished products which are found to be of sub-standard quality are labelled as defective and isolated immediately
- where the relevant defect raises material quality or technical concerns, our quality control staff shall file a report and the production process will be halted to allow the technical department to conduct a review in order to identify the cause
- defective products are reprocessed to remedy defects or scrapped, as appropriate, depending on the assessment of quality control and technical departments
- the condition of, and the processes being carried out in, our production lines are closely and constantly monitored by qualified staff through computerised inspection systems which provide indicators relating to film quality and production status and which assist in identifying problems
- ***inspection of finished products***
 - finished products are examined by our quality control staff who (i) carry out physical inspection; (ii) conduct tests to evaluate performance (for example, conducting thermal stability, light transmission rate, haze rate and durability tests); (iii) review whether the finished product meets the applicable corporate and/or industry standards; and (iv) determine whether or not the finished product meets the requirements of the relevant customers
 - the packaging of finished products will be inspected thoroughly by our quality control staff prior to delivery and a sample from each batch of finished products will be retained for future reference

In addition to the above, we have adopted and implemented the following quality control measures and procedures to maintain the quality standard of our products:

- ***handling defective products*** — where defective products (whether finished or semi-finished) are discovered during the production process or following delivery to customers, these products will be labelled, isolated and drawn to the attention of our quality control staff and the relevant products will be assessed to check the reason for the defects and appropriate follow up actions (including formulating and adopting appropriate remedial or preventive measures to avoid further incidents) will be implemented and recorded
- ***internal feedback and analysis*** — we constantly collect feedback from various departments (including the procurement department, quality control department, technology department and production department) and all suggestions, recommendations and problems or issues identified are evaluated and assessed. Through such practice, we identify areas for improvement and implement remedial or preventive measures to reduce incidents of defects

BUSINESS

- ***traceability of products*** — labels containing information such as product name, description, quantity, date and inspection record and other details are applied by staff to products at different stages of the production process. This ensures that products can be easily traced in the event of a customer complaint and that defective products can be effectively isolated for further handling without delay or disruption to our production process
- ***product maintenance and delivery*** — we have adopted safety measures relating to the moving, storing, packaging, maintenance and delivery of our finished products to prevent damage post-production
- ***consistency of product quality*** — we consistently use quality materials, provide regular training to our staff, conduct thorough products inspections and examinations and maintain up-to-date internal records to ensure that our products meet the standards prescribed by the China Quality Certification Centre

Quality control team

Our quality control team comprises ten members which is led by a department general manager with over ten years of experience in supervising the technical department and in quality control work. The general manager is responsible for all aspects of quality control relating to our products including communicating and liaising with different departments and reporting to senior management.

To ensure that our quality control staff can carry out their duties and responsibilities effectively, we require them to have obtained the requisite academic qualifications, training and experience in engineering, quality control and other relevant fields. In particular:

- our quality control engineers who are responsible for analysing and evaluating quality control results are required to hold a bachelor degree and/or advanced degrees and are required to have sound knowledge of relevant ISO standards as well as standards prescribed by the China Quality Certification Centre
- our quality control officers responsible for performing daily quality control inspections must hold at least a diploma and be experienced in equipment inspection

Certification obtained and quality standards met by our products

All our Smart Light-adjusting Products have passed inspection by, and met the standards, of:

- (i) the China Quality Certification Centre;
- (ii) European Union Directive 2002/95/EC; and
- (iii) Schedule 2 of Renewed European Union Directive 2011/65/EU.

BUSINESS

Furthermore, we have been accredited with an ISO9001:2008 certification in respect of the quality of our management systems, which we implemented throughout our supply, production and sales processes.

We set out below the certificates relating to product quality we have obtained over the Track Record Period:

Issuing institution	Certificate number/test report number	Subject matter	Certificate/result	Date of certification/ validity
China Quality Certification Centre	W-15803-2016-M1	Smart Light-adjusting Film (super transparent) (power off mode)	Compliance with ISO9050:2003 and ISO10292:1994	30 June 2016
China Quality Certification Centre	W-15803-2016-M3	Smart Light-adjusting Film (super transparent) (power on mode)	Compliance with ISO9050:2003 and ISO10292:1994	30 June 2016
China Quality Certification Centre	WT2016E09A00425	Smart Light-adjusting Glass	Compliance with JC/T 2129-2012	27 June 2016
SGS Guangzhou branch	CANEC1611658302	ITO film	Compliance with European Union's RoHS Directive 2011/65/EU	23 June 2016
SGS Guangzhou branch	CANEC1611658304	ITO Film halogen	Compliance with EN 14582:2007 method	23 June 2016
SGS Guangzhou branch	CANEC1609128904 A01	Smart Light-adjusting Film	Compliance with European Union's RoHS Directive 2011/65/EU	25 May 2016
SGS Guangzhou branch	CANEC1609128906 A01	Smart Light-adjusting Film	Compliance with EN 14582:2007 method	25 May 2016
China Quality Certification Centre	2015011302821761	Architectural (safety) sealed insulating glass (smart liquid crystal hollow glass) silicon, dual sealed insulating glass with aluminium spacer	Compliance with GB/T11944-2012	From 10 May 2016 to 10 May 2021
China Quality Certification Centre	W-150803-2015-M1	Smart Light-adjusting Film	Compliance with ISO9050:2003 and ISO10292:1994	25 August 2015
China Quality Certification Centre	00114Q27165R1M/4400	Research and production of ITO film, Smart Light-adjusting Film and Smart Light-adjusting Glass	ISO9001:2008 GB/T19001-2008	From 25 August 2015 to 14 August 2017

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Issuing institution	Certificate number/test report number	Subject matter	Certificate/result	Date of certification/ validity
China Quality Certification Centre	W-15803-2015-Z11	Smart Light-adjusting Glass (hollow)	Compliance with ISO9050:2003 and ISO10292:1994	25 August 2015
SGS Guangzhou Branch	SDHG1507010976FB	Self-adhesive light-adjusting glass	Compliance with GB8621-2012	21 July 2015
China Quality Certification Centre	2015011302821761	Architectural (safety) sealed Insulating glass dew point test	Compliance with GB/T11944-2012	23 March 2016
China Quality Certification Centre	N/A	Architectural laminated glass falling ball impact peel performance	Compliance with GB15763.3-2009	23 March 2016
China Quality Certification Centre	2012011302584162	Thermal resistance for architectural laminated glass	Compliance with GB15763.3-2009	23 March 2016
China Quality Certification Centre	2013011302631046	Shot bag impact performance of architectural laminated glass	Compliance with GB15763.3-2009	23 March 2016
China Quality Certification Centre	2013011302631046	Architectural laminated glass (smart liquid crystal glass) nominal thickness of interlayer 1.92mm and smart liquid crystal film	Compliance with GB15763.3-2009	From 29 July 2015 to 19 August 2019
China Quality Certification Centre	2014011302714588	Architectural tempered laminated glass (smart liquid crystal glass) nominal thickness of interlayer 2.68mm PVB and smart liquid crystal film	Compliance with GB15763.3-2009	From 23 December 2014 to 19 August 2019
China Quality Certification Centre	2014011302714587	Architectural tempered laminated glass (smart liquid crystal glass) nominal thickness of interlayer 3.44mm PVB and smart liquid crystal film	Compliance with GB15763.3-2009	From 23 December 2014 to 19 August 2019
Guangdong province construction engineering quality safety supervision and inspection centre, and Guangdong province architectural wall quality inspection centre*	F2014(62)0208440400030	TOSSEAL83 neutral silicone anti-fogging sealant	Compliance with GB/T 14683-2003 silicone architectural sealant	25 August 2014

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During the Track Record Period and up to the Latest Practicable Date, we did not experience any material loss due to product defect.

SUPPLIERS AND RAW MATERIALS PROCUREMENT

Our suppliers

Over the Track Record Period, the procurement of raw materials accounted for the largest portion of our costs of sales. Our raw materials accounted for approximately 84.3%, 84.6% and 84.8% of our total cost of sales for the years ended 31 December 2014, 2015 and 2016 respectively.

We procure a majority of our raw materials (including hardened PET film) from third party suppliers based in the PRC who are agents of overseas manufacturers. We also procure certain raw materials (including ITO target, protective film, PDLC and projectors) from PRC manufacturers.

We also procured super-transparent light-adjusting film from manufacturers before we commenced the mass production of such film in November 2016.

The following table set out certain information in relation to our top five suppliers during the Track Record Period:

For the year ended 31 December 2014

	Supplier	Principal business	Product supplied to our Group	Location	Approximate years of relationship as at the Latest Practicable Date	Approximate percentage of our total purchase (%)
1	Supplier A	A screen printing supplier in the field of printing digital communication products, home appliances, electronics, and smart products technology	PET film	Shenzhen, PRC	4.1	33.2
2	Supplier B	Conducts wholesale trading of goods and technologies, technological export and imports, and research and development of security products	ITO film	Shenzhen, PRC	3.2	17.6
3	Supplier C	Conducts research and development, manufacturing, marketing, and import and export Thin-Film Transistor (TFT), PDLC, Super-Twisted Nematic (STN), Twisted Nematic (TN) type liquid crystal display materials, organic electroluminescence materials and special-purpose liquid crystal materials	PDLC	Beijing, PRC	5.4	7.3
4	Supplier D	Conducts research and development, manufacturing, sales and service of high-tech products using the Company's ITO film	protective film, PET film	Shenzhen, PRC	4.5	6.2
5	Supplier E	Conducts wholesale and retail of optoelectronics materials, solar cells, building decoration materials and provide use of technological development and consulting services for marine renewable energy	ITO targets, Smart Light-adjusting Products	Zhuhai, PRC	4.1	4.7

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For the year ended 31 December 2015

	Supplier	Principal business	Product supplied to our Group	Location	Approximate years of relationship as at the Latest Practicable Date	Approximate percentage of our total purchase (%)
1	Supplier A	As described above	PET film	Shenzhen, PRC	4.1	25.9
2	Supplier F	Conducts research and development, and manufacturing of products using its advanced laser phosphor display laser display technology	laser projector	Shenzhen, PRC	1.6	12.8
3	Supplier D	As described above	protective film	Shenzhen, PRC	4.5	9.4
4	Supplier C	As described above	PDLC	Beijing, PRC	5.4	6.3
5	Supplier G	Handles (i) acrylic resin such as plastic sheets, films and processed goods, (ii) construction related materials such as fixtures and aluminium composite panels used as wall material in convenience stores and other buildings, and (iii) materials for LCD television light guide plates and cell phone display windows	PET film	Shanghai, PRC	2.9	5.3

For the year ended 31 December 2016

	Supplier	Principal business	Product supplied to our Group	Location	Approximate years of relationship as at the Latest Practicable Date	Approximate percentage of our total purchase (%)
1	Supplier D	As described above	protective film	Shenzhen, PRC	4.5	8.3
2	Supplier H	manufactures, develops and sells display system	laser projector	Guangzhou, PRC	0.6	8.1
3	Supplier I	Develops, installs and sells software, multi-media equipment and telecommunication equipment	laser projector	Wuhan, PRC	0.7	6.7
4	Supplier J	manufactures and sellers different materials including PET film	PET film	Shenzhen, PRC	1.4	6.6
5	Supplier K	develops and manufactures high-technology products	ITO film	Shenzhen, PRC	0.9	4.9

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For the years ended 31 December 2014, 2015 and 2016, our purchases from (i) our top five suppliers amounted to approximately RMB24.6 million, RMB16.1 million, and RMB20.4 million respectively, which accounted for 69.0%, 59.7%, and 34.6% respectively, of our total purchases, and (ii) our largest supplier amounted to RMB11.8 million, RMB7.0 million, and RMB4.9 million respectively, representing 33.2%, 25.9%, and 8.3%, respectively, of our total purchases.

During the Track Record Period and up to the Latest Practicable Date, none of our Directors or their close associates or our Shareholders owned more than 5% of our issued share capital or had any interest in any of our five largest suppliers. Our Directors confirm that each of our five largest suppliers are Independent Third Parties.

Concentration risk

Although we sourced a substantial amount of our raw materials from our five largest suppliers over the Track Record Period, we did not experience any material difficulty in sourcing raw materials nor have we experienced any shortage or delay in the supply of raw materials during the same period. In any case, we maintain a list of alternative suppliers who are able to provide raw materials of similar quality at similar prices which we may consider procuring from in the event of any shortage or delay in supply from existing suppliers. No long term contracts had been entered between our Group and our five largest suppliers. However, our Directors have confirmed that we did not have any material dispute with any of our five largest suppliers over the Track Record Period.

During the Track Record Period, we gradually reduced our reliance on any one single supplier. In the event there is any disruption in the supply of raw materials (such as PET film) we utilise, we will be required to purchase from alternative suppliers which may result in higher production costs. Further details of the risks of our reliance on one single supplier for PET film are set out in the section headed “Risk factors — Risks relating to our business — We rely on major suppliers for the supply of raw materials of a satisfactory quality and their failure to supply us or our failure to procure raw materials of the requisite quality standard or at acceptable prices could materially and adversely affect our operations and financial results” in this prospectus.

Our procurement procedures and measures

We have adopted and implemented a procurement policy to ensure that we are able to acquire raw materials which meet our production requirements at a reasonable cost. Under our procurement policy:

- (i) our procurement staff will compare prices and the terms and conditions offered by different suppliers in respect of our purchase of raw materials and compile a procurement proposal;
- (ii) all procurement proposals will require the approval of our general manager and deputy general manager (depending on value of procurement proposal) prior to procurement decisions being made;

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- (iii) we enter into legally binding procurement contracts with our suppliers in connection with each procurement request which set forth the quantity, price and quality specifications for each type of raw materials;
- (iv) all raw materials delivered to our production base are inspected by (a) the procurement department and the department who made the procurement request to ensure that materials received are in line with our procurement request; and (b) our quality control department to examine the raw materials from quality control perspective;
- (v) to facilitate new product development and to maintain our cost efficiency, our procurement department is required to assess potential new suppliers from time to time. Under our policy for assessing and selecting suppliers, our procurement department is required to obtain information on potential suppliers by attending exhibitions, obtaining information online as well as through customer referrals and industry sources, among other channels. Our procurement department will conduct initial analysis of potential suppliers in terms of product quality, price, ability to deliver products on time and technical capabilities. In general, suppliers are categorised into raw materials suppliers and other suppliers. Raw materials suppliers are required to provide a fee quote and price comparison, and deliver samples to us. The samples will then be sent to our technology department or relevant engineers in our quality control department for inspection. For other suppliers, our selection criteria are generally based on fee quotes and price comparison. In our assessment, we will request potential suppliers to provide us with their quality management certificates, and in cases of agencies, quality management certificates from the original suppliers, and if necessary, third-party evaluation reports on quality. In respect of corporate compliance, we will request potential suppliers to provide their business licences or organisation code certificates and tax registration certificates. If considered necessary or appropriate, we will conduct a physical assessment of our suppliers' quality management, production management and packaging processes at their premises; and
- (vi) we regularly assess the performance and pricing of our suppliers and maintain up-to-date records on all selected suppliers.

Credit and warranty terms and payment method

For the procurement of raw materials, our suppliers generally offer us credit for a period of up to 60 days from the time the goods are received by us. We usually settle our procurement cost by bank transfer or bank acceptance bills.

OUR CUSTOMERS

Our ITO film customers are primarily domestic touch-screen device manufacturers, whereas our Smart Light-adjusting Film and Smart Light-adjusting Glass customers are primarily construction companies and contractors of developers. Our Smart Light-adjust Projection System customers are primarily construction companies and commercial users.

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We generally manufacture our ITO film, Smart Light-adjusting Products and Smart Light-adjusting Projection System based on the purchaser orders we receive from our customers. We also manufacture ITO film in advance for external sales with reference to historical demand. The following table sets out a summary of our major type of customers by product type and possible applications within such category:

Type of product	Main type of customers	Possible applications
ITO film	Touch-screen device manufacturers	Smart Light-adjusting Film, Smart Light-adjusting Glass, touch-screen display products
Smart Light-adjusting Film	Construction companies and contractors of developers	Glass partition, windows of office or residential building or hotel
Smart Light-adjusting Glass	Construction companies and contractors of developers	Glass partition, windows of office or residential building or hotel
Smart Light-adjusting Projection System	Contractors of developers and users for commercial advertising and marketing purpose	Outdoor display, exhibition display, rear-projection home entertainment and television sets

Our key customers

The following table set out certain information in relation to our top five customers during the Track Record Period:

For the year ended 31 December 2014

Customer	Principal business	Product sold to customer	Location	Approximate years of relationship as at the Latest Practicable Date	Approximate percentage of our total revenue (%)
1 Customer A	Conducts research and development, manufacture, and sales of electricity resistant and capacitive touch screens	ITO film	Shenzhen, PRC	5.8	16.1
2 Customer B	Constructs various projects ranging from housing, public works, disaster control among others	Smart Light-adjusting Glass	Sichuan, PRC	3.6	9.0
3 Customer C	Conducts research and development, manufacture and sales of resistant and capacitive touch screens	ITO film	Shenzhen, PRC	5.9	7.6

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	Customer	Principal business	Product sold to customer	Location	Approximate years of relationship as at the Latest Practicable Date	Approximate percentage of our total revenue (%)
4	Customer D	Conducts research and development, manufacture and sales of professional touch screen products	ITO film	Dongguan, PRC	5.2	6.5
5	Customer E	Conducts research and development, manufacture and sales of PDLC smart film	Smart Light-adjusting Glass	Shenzhen, PRC	4.2	4.1

For the year ended 31 December 2015

	Customer	Principal business	Product sold to customer	Location	Approximate years of relationship as at the Latest Practicable Date	Approximate percentage of our total revenue (%)
1	Customer F	Processor and distributor of industry-specific machinery and glass slicer	Smart Light-adjusting Film and Smart Light-adjusting Projection System	Shenzhen, PRC	2.5	8.9
2	Customer G	Constructing curtain walls engineering, metal doors and windows, steel structure engineering, building curtain walls engineering designs, developing curtain wall glass, processing metal fittings, providing sub-contractor service, and providing curtain wall project management	Smart Light-adjusting Film	Jiangsu, PRC	1.7	7.8
3	Customer C	As described above	ITO film	Shenzhen, PRC	5.9	7.3
4	Customer H	Conducts wholesale and retail of optoelectronics materials, solar cells, building decoration materials and provide use of technological development and consulting services for marine renewable energy	Smart Light-adjusting Products and ITO film	Zhuhai, PRC	4.1	4.6

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Customer	Principal business	Product sold to customer	Location	Approximate years of relationship as at the Latest Practicable Date	Approximate percentage of our total revenue (%)
5 Customer I	Sales and processing of all types of construction, curtain wall steel; curtain wall accessories, steel parts, import of domestic chemical anchor, high strength bolts and other materials	Smart Light-adjusting Projection System	Beijing, PRC	1.7	4.4

For the year ended 31 December 2016

Customer	Principal business	Product sold to customer	Location	Approximate years of relationship as at the Latest Practicable Date	Approximate percentage of our total revenue (%)
1 Customer J	Development of information technology, provision of consultation services and advertising services	Smart Light-adjusting Projection System	Shanghai, PRC	2.4	12.9
2 Customer K	Interior renovation and design and mainly engaged in the sales of rubber, plastic and water heating equipment	Smart Light-adjusting Glass	Zhuhai, PRC	0.8	6.6
3 Customer L	Development, sale and engineering of multi-media system, execution of cultural project and provision of marketing solution	Smart Light-adjusting Projection System	Guangzhou, PRC	1.2	6.2
4 Customer C	As described above	ITO film/Smart Light-adjusting Film	Shenzhen, PRC	5.9	5.8
5 Customer M	Provides services in relation to building engineering, curtain wall engineering, and internal renovation	Smart Light-adjusting Glass	Guangzhou, PRC	1.2	4.4

Customer H, our fourth largest customer in 2015 is also Supplier E, which was our fifth largest supplier in 2014. The reason for this arrangement was that Customer H/Supplier E is a trading company and therefore it may act as a buyer and/or a seller of the same material as part of their daily operations.

In 2015, Customer H sourced ITO film, Smart Light-adjusting Film and Smart Light-adjusting Glass from us and contributed approximately RMB2.8 million or approximately 4.6% to our total revenue. In 2014, we sourced ITO Targets, Smart Light-adjusting Film and Smart Light-adjusting Glass from Supplier E which accounted for approximately RMB1.7 million or approximately 4.7% to our total purchases. We sourced Smart Light-adjusting Products from Supplier E in 2014 during the period when we have not fully automated our production process for mass production of relevant products.

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The following table sets out a breakdown of our gross profit attributable to Customer H over the Track Record Period:

	Year ended 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	118.2	2,793.6	N/A
Cost of sales	71.0	1,514.3	N/A
	<hr/>	<hr/>	<hr/>
Gross profit from Customer H	<u>47.2</u>	<u>1,279.3</u>	<u>N/A</u>

For the years ended 31 December 2014, 2015 and 2016, sales to our five largest customers amounted to approximately RMB19.4 million, RMB19.9 million, and RMB32.6 million respectively, representing approximately 43.3%, 33.0%, and 36.0% respectively, of our total revenue, and sales to our largest customer amounted to approximately RMB7.2 million, RMB5.4 million, and RMB11.7 million respectively, representing approximately 16.1%, 8.9%, and 12.9%, respectively, of our total revenue.

None of our Directors, their close associates or our Shareholders who, to the best knowledge, information and belief of our Directors, owned more than 5% of our issued share capital, had any interest in any of our five largest customers during the Track Record Period and up to the Latest Practicable Date. Our Directors confirm that each of our five largest customers are Independent Third Parties.

Geographic location of our customers

During the Track Record Period, the majority of our customers were based in the PRC although we also have customers based in overseas markets. The following table sets out a breakdown of our revenue by region for the periods indicated:

Product type	Year ended 31 December					
	2014		2015		2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Domestic						
— Mainland China	44,194	98.6	59,987	99.2	89,806	98.8
Overseas (<i>Note</i>)	611	1.4	490	0.8	1,081	1.2
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>44,805</u>	<u>100.0</u>	<u>60,477</u>	<u>100.0</u>	<u>90,887</u>	<u>100.0</u>

Note: Primarily relate to revenue from the export of our products to Australia, Peru, Germany and Dubai. The destination of the exports is based solely on the addresses of the customers as set forth in the sales invoices. Our customers may resell our products to end-customers located elsewhere.

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SALES AND DISTRIBUTION CHANNELS

Over the Track Record Period, our products were sold to our customers through direct sales and the entering of distribution agency agreements. The following is a breakdown of our sales through these sales channels:

	Year ended 31 December					
	2014		2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%
Direct sales	44,320	98.9	59,829	98.9	86,539	95.2
Distribution sales	485	1.1	648	1.1	4,348	4.8
Total	<u>44,805</u>	<u>100.0</u>	<u>60,477</u>	<u>100.0</u>	<u>90,887</u>	<u>100.0</u>

Since 2016, as part of our direct sales, we have also entered into five supply framework agreements with certain counterparties for the supply of our products. As at 31 December 2016, we have generated sales of approximately RMB4.9 million pursuant to these supply framework agreements. These supply framework agreements expired on 31 December 2016 and were not renewed due to our change in sales and marketing strategy.

Direct sales

Over the Track Record Period, most of our products were sold to our customers by way of direct sales whereby our customers directly place purchase orders with our sales department. Our practice is to enter into legally binding written contracts with our customers in respect of their purchases which are negotiated based on our standard contract for each type of our products.

Furthermore, we may from time to time enter into strategic arrangements or understanding with various counterparties in relation to the supply of our products to various projects. Such arrangements and understandings are generally of a cooperative nature but may not be legally binding although they may provide a framework for the entering into of legally binding sales contracts.

The following are some of the salient terms of our standard sales contracts:

- (i) **pricing**: the pricing of our products is usually determined by our pricing policy. Please refer to the paragraph headed “Sales and marketing — Pricing policy” in this section of this prospectus for further information. We generally do not offer any discounts on our products although we have adopted and implemented a discount policy on significant bulk purchases or sales to significant projects whereby all applicable discounts must be approved by our general manager;

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- (ii) **delivery**: products will be delivered within the periods prescribed in the sales contract;
- (iii) **inspection and acceptance of products**: our customers are generally responsible for inspecting products on delivery; we require our customers to raise objections relating to product quality within five to seven business days from the date of delivery. Customers are deemed to have accepted the delivered products if they do not raise objections within this period;
- (iv) **warranty and product returns**: we warrant that our products are free from defects in materials and workmanship and we will generally arrange replacement of all products directly produced by us which are found to be defective, irrespective of whether or not such defect relates to quality issues (as verified by our quality control and technical departments) and/or which are attributable to our production or other processes prior to acceptance of the products by our customers. Please kindly refer to the paragraph headed “Customer management — Product returns policy and warranty” in this section of the prospectus for further information. The warranty period for our products ranges from one to five years from the date of delivery;
- (v) **credit terms**: credit terms which we grant to our customers are based on commercial negotiations and mutual agreement on a case-to-case basis following our assessment of their background (including known financial position and reputation), credit track record, length of business relationship with them, future business prospects as well as contract size of the relevant order. Under our credit policy, customers who have a good credit track record with us may be granted a 30 to 60 day extension to their previous credit periods, and customers who may have delayed payment to us once may be granted the same credit period as before. However, we will not supply any products to customers if they have missed three or more payments within a year. The credit period which we offer to our major customers over the Track Record Period ranged from one to six months while we may require small and new customers to settle payments against delivery of our products. Our Directors are of the view that our Group’s credit policy is in line with industry norms; and
- (vi) **payment terms**: payment terms relating to customer orders are negotiated on a case-by-case basis with customers. We typically require the contract sum to be paid to us at the time of delivery or within a specified period from delivery. In some instances, we may require the customer to pay a portion of the contract sum as an initial deposit upon signing of the contract. Payments due to us are usually settled by our customers by way of bank transfer, bank acceptance bill or cheque.

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Distribution agreements

Over the Track Record Period, we have entered into five distribution agreements with certain counterparties for the distribution of our Smart Light-adjusting Products and Smart Light-adjusting Projection System. These agreements were negotiated on a case-to-case basis with our counterparties. The following are some of the salient terms contained in most of these agreements:

Duration:	mostly one year to 18 months, but in a few instances up to three years
Geographic location for distribution:	primarily within Mainland China, with exceptions
Exclusivity:	others may not market similar products in specified geographic locations set out under the agreement
Rights and obligations of agent:	<ul style="list-style-type: none">• must possess all relevant licences and approvals for carrying out distribution activities• must have at least five sales personnel to market products within prescribed geographic location(s)• may contract sub-agent(s) but will be fully responsible for its relationship with sub-agent(s)• should cooperate and collaborate with us for the distribution of certain products• responsible for all losses arising from illegal operations or breach of agreement• must keep all commercial and technical know-how strictly confidential
Our rights and obligations:	<ul style="list-style-type: none">• supply of products pursuant to agreed price and supply schedule pursuant to sales orders• provision of sales and marketing materials and product samples• provision of product training and attendance at material exhibitions• ensure fair treatment in mitigating and treating conflicts among distributors

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- to provide designs, technical and installation support for participation in major events and projects
 - to provide technical support by phone and in person when necessary
- Sales and pricing policy:
- may not market in our name but may market as our agent with consent
 - fixing the price within a prescribed range (subject to change with seven days' prior written notice)
 - sales by agent to sub-agents or projects must be marked up at a prescribed percentage of our supply price
- Obsolete stock arrangements: none
- Goods return arrangements: products must be in line with product standards and specifications. Any product defect must be notified to us in writing and we shall return relevant products free of costs and shipment fees, if the defect is found to be attributable to our fault
- Sales targets: quarterly and annual sales target must be reached or we are entitled to terminate the agreement
- Payment and credit terms: negotiated on a case-to-case basis based on assessment of background (including credit history) of the agent. Prepayment deposit may be required from agent or credit may be granted
- Conditions for terminating and renewing agreement:
- terminable by us following an agent's failure to perform certain duties under the agreement
 - renewable one month in advance of the expiry date on the mutual agreement of both parties

Sales to our distributors are recognised as revenues similar to our direct sales, i.e. when significant risks and rewards of ownership have been transferred. No goods were returned from our distributors over the Track Record Period.

Our Directors believe that through the entering of such distribution agreements we will be able to effectively penetrate our target markets through the relevant distribution agents which will increase our brand awareness in the relevant markets. Our Directors are of the view that the entering into of such distribution agreements are on normal commercial terms, in the interest of our Group, and are in line with the industry norms.

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Supply framework agreements

Since 2016, we have entered into five supply framework agreements with certain counterparties pursuant to which the relevant parties may acquire certain Smart Light-adjusting Products from Singyes Applicable Materials up to a maximum prescribed amount over the duration of the agreement. These counterparties may be provided a rebate of up to 5% of the sales amount upon sales to them have reached certain volume thresholds (calculated as a percentage of the maximum prescribed amount).

The entering of supply framework agreements with these counterparties were intended to assist in our sales of our products as they are traders and merchants of, among other products, ITO film and Smart Light-adjusting Products in the PRC. For the year ended 31 December 2016 and over the period from 31 December 2016 up to the Latest Practicable Date, we have generated sales of approximately RMB4.9 million and RMB2.4 million respectively, pursuant to these supply framework agreements.

The effective discount which we provide to counterparties of supply framework agreements is in line with our pricing policy to provide bulk discounts based on the volume of orders from a customer. We treat these counterparties in a similar way as our other customers (and not as our agents) and our terms of sales in the framework agreements are generally in line with those which we offer our other customers (other than in respect of the rebate). Revenues generated from sales orders of these customers would be recognised in the same way as our direct sales. The rebate terms offered to these counterparties are identical and therefore we do not expect any competition among these counterparties.

The amounts of sales we generated from the supply framework agreements with these counterparties were not satisfactory in 2016 and the counterparties (except one) were not able to reach the target threshold of volume which would entitle them to rebates pursuant to the terms of the relevant agreements. As such, our Group determined, and the counterparties agreed, not to renew the supply framework agreements which expired on 31 December 2016 but rather focus more of its sales and marketing efforts on direct sales. Notwithstanding such change in sales and marketing strategy, our Group continues to supply products to the relevant counterparties whose purchases continue to contribute to the revenue of our Group.

Our Directors believe that the entering of supply framework agreements were on normal commercial terms, in the interest of our Group, and are in line with the industry norms.

MARKETING

Our products are primarily marketed to and sold to customers in the PRC. As at 31 December 2016, our sales department had 38 staff comprising (i) a ITO film sales team; (ii) a Smart Light-adjusting Products sales team; and (iii) a Smart Light-adjusting Projection System sales team.

Our sales department is mainly responsible for formulating our sales and marketing strategies, identifying and developing potential customers and servicing existing customers.

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Sales management policy

We have adopted and implemented a sales management policy and system which covers pre-sales activities as well as during-sales and after-sale management. Under such policy:

(i) *pre-sales activities:*

- we gather market information regarding our potential customers and competitors as well as market intelligence through various means including participation in industry exhibitions and associations and we will position ourselves accordingly following analysis of the information gathered
- annual sales plans will be devised and approved by our general manager; such plans will include monthly sales target as well as details of the composition of the sales team which will implement the sales plan. Sales plans will be reviewed on a semi-annual basis and adjusted if necessary taking into account such factors as market conditions
- product information which has not been previously disclosed will only be released to the public with the approval of our deputy general manager
- we may arrange meetings with potential new customers to introduce our products (and provide product samples where appropriate) to gain an understanding of the needs and business operations of our target customers. We will record details of these meetings and follow-up with potential customers where appropriate

(ii) *during-sales management activities:*

- upon receipt of a customer order, we will assess our ability to satisfy the customer's requirements and will immediately inform the customer if it is anticipated that we will not be able to do so. We will also carry out relevant due diligence (including obtaining of the customer's business licence, tax registration certificates and other licences) as well as arrange the execution of sales contract with the customer
- following receipt of a sales order, our sales department will prepare a sales contract for review of the relevant departments. In particular, (i) our technical department will review requirements relating to technical, quality, materials and installation perspectives; (ii) our production and procurement departments will review from logistics and inventory perspectives; and (iii) our quality control department will review from quality and packaging perspectives. Following the review, the relevant contract will be finalised and approved by our deputy general manager

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- our sales department will keep track of our production process and product quality to ensure that they are in line with our customers' requirements; we will immediately notify our customer where any issues or problems are identified at any time over the production process
- our sales department will co-ordinate with our warehouse staff to arrange the most appropriate and efficient method of product delivery to our customers

(iii) *after-sales management activities:*

Please refer to the paragraph headed "Customer management" in this section of the prospectus in relation to after-sales and customer satisfaction surveys which we carry out on a periodic basis for the purpose of collecting feedback from our customers.

Pricing policy

We have adopted and implemented a policy for the determination of pricing of our products. Under such policy:

- (i) we determine our prices on a "cost-plus" basis, which takes into account the cost of raw materials, processing (labour and utilities), and profit estimation based on market demand, expected market trends, historical sales data and prices of our competitors' products. As such, our Directors believe that we are generally able to pass on the procurement costs of raw materials to our customers. In addition to the increase in the price of our products caused by occasional fluctuations in price of raw materials, we conduct price review and adjustment on a quarterly basis based on the factors listed above and general market conditions. Towards the end of each procurement quarter, our procurement department is required to determine with our suppliers the purchase price of raw materials for the following quarter, and our price lists offered to our customers are devised based on such estimations obtained;
- (ii) our financial department is responsible for performing pricing analyses from a financial perspective (including carrying out cost and breakeven analysis and profitability assessments) and reporting their findings and recommendations on pricing to the pricing policy team;
- (iii) we closely monitor market prices for our raw materials, and we may change our prices before the start of a new quarter if we experience fluctuating cost of raw materials to ensure our prices are in line with our costs. Pricing decisions must be approved by our pricing policy team comprising our general manager, the deputy general manager of our sales department and the general manager of the financial department; and

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- (iv) once the price for our products have been determined, our prescribed pricing must be used when providing price quotation and when entering into sales contracts; discounts applicable to significant bulk purchases or sales to significant projects may only be given through compliance with our discount policy and following with the obtaining of approval from our general manager.

Sales and marketing activities

We mainly rely on our in-house sales teams for the sales and marketing of our products in the PRC. We have three sales teams, each consisting of eight to ten sales staff.

Our sales teams will promote our products to our customers and potential customers and try to gain an understanding of their business and operational needs. In order to raise our profile and awareness of our brand among potential customers:

- (i) we regularly attend and participate in industry exhibitions in the PRC (including trade fairs at the China National Convention Centre and Shenzhen Convention and Exhibition Centre) and host demonstration seminars to promote our brand and showcase our products to potential customers;
- (ii) we have engaged advertising, marketing agents and public relations professionals to devise strategies to promote our products and brand awareness as well as advise on public relations matters; and
- (iii) we are involved a number of industry associations which will assist us in gathering market intelligence and gaining understanding on market access.

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CUSTOMER MANAGEMENT

We are determined to maintain good and stable business relationship with our customers by ensuring that they are satisfied with our products and are provided with sufficient after-sales support. We believe that high customer satisfaction is key to our brand and reputation and results in sales through client referrals. We have adopted and implemented various company policies and procedures in respect of customer satisfaction and complaint handling, summaries of which we set out below:

Customer satisfaction review and complaints handling policy and procedures

We are keen to receive feedback from our customers as it helps us understand their evolving needs, which we believe is crucial to our ongoing business and product development. To this end:

- (i) ***complaint handling procedure:*** our sales department is responsible for handling customer complaints. All customer feedback and complaints are recorded in our customer feedback log.

- *Quality related complaints:* Where the relevant feedback relate to product quality issues, the matter (including all relevant details) will be transferred to the quality control department which will supervise and lead all relevant departments to analyse the possible cause and identify possible solutions.

The quality control department will examine and test the defective product using our quality control standards and where a defect is confirmed, a defect report will be issued to the technical department for assessment. Investigations will be carried out on the cause of the defect and rectification and preventive measures will be proposed for implementation to prevent similar incidents from arising in the future.

Based on the findings from the quality control and technical departments, our sales department will devise a response to the relevant customer with appropriate proposal(s) to resolve the matter. Following delivery of the proposal(s) to the customer (usually involving replacement of relevant defective products), a further follow-up will then be carried out within next two business days to ensure that the customer is satisfied. If the customer is not satisfied with the results, the sales department may devise alternative solutions and where necessary, consult with senior management.

- *Staff related complaints:* Where the relevant feedback relates to staff conduct or attitude or failure to exercise care and diligence, the sales department will seek to ascertain the facts with the relevant staff as well as obtain and review relevant documentation, if any. Where the complaint is attributable to the fault of our staff, the matter may be brought to the human resources department for appropriate follow-up actions.

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- *Contract related complaints:* Where the relevant feedback relates to a breach of contract or agreement or a regulatory breach, the sales department will report the matter (together with all relevant documentation) to senior management who will carry out detailed discussions as to appropriate actions to be taken. If necessary, external legal advisers may be consulted for advice.
- (ii) *after-sales survey:* our sales department is required to carry out on-site customer visits at least once every month (to be accompanied by technical engineer(s) in at least two visits each year) to gain an understanding of their needs and level of satisfaction with the delivered products, receive their suggestions and comments as well as inform and update them as to measures adopted or implemented as a result of their suggestions and recommendations;
- (iii) *customer satisfaction survey:* our sales department is responsible for formulating and conducting customer surveys on a periodic basis (at least annually) to obtain customer feedback. These surveys are used to evaluate our customers' satisfaction with our service quality as well as product quality.

All customers feedback received will be analysed and evaluated by our sales department who would be responsible for preparing a customer satisfaction report summarising the findings of the survey and which will take into account complaints and feedback that may have been received over the relevant period. Such a report will be circulated to all relevant departments and submitted to senior management for evaluation as to whether any follow-up action(s) needs to be taken.

Product returns policy and warranty

The following table sets out the amount of sales return relating to our delivered products during the Track Record Period:

Product type	Year ended 31 December		
	2014 RMB'000	2015 RMB'000	2016 RMB'000
ITO film	598.1	206.0	57.8
Smart Light-adjusting Products	26.7	0.0	1.1
Others	1.7	23.5	0.0

We stand behind the quality of all our products and it is important to us that our customers are satisfied with our products. As such, our products come with a warranty against manufacturing and quality defects for a period of one to five years depending on the nature of the product.

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During the warranty period, it is generally our policy to arrange replacement of products which are directly purchased from us which are found to be defective, whether or not such defects relate to quality issues (as verified by our quality control and technical departments) and/or which are attributable to our production or other processes which took place prior to acceptance of the products by our customers. The replacement products are shipped to our customers free of charge either on a standalone basis, or with the consent of the customers with their future shipments. While it is our policy not to offer refund repayments, we may provide relevant customers with credits for further orders in respect of products which are found to be defective.

Where it is found that a defect in a product(s) is not attributable to quality or our production processes (for example, due to improper handling over the transportation process), we will nevertheless offer reasonable assistance to our customers as well as devise and implement preventive measures to prevent similar incidents in the future.

Customer feedback and complaints record

The following table sets out details of customer feedback and complaints received by us over the Track Record Period, all of which were product related:

Product type	Year ended 31 December		
	2014	2015	2016
ITO film	10	8	3
Smart Light-adjusting Products	15	11	5
Smart Light-adjusting Projection System	N/A	0	0

Our complaints handling procedures were adhered to in dealing with each of the complaints and all details and rectification measures were adopted by all the relevant departments. For example, in one of our complaints, our customer reported that fingerprints and stains were discovered in certain of ITO films delivered. In response, our technical department verified the problem and identified that it could have been caused by improper handling by production staff over the production process or by the customer following delivery. To prevent reoccurrence, we determined to strictly enforce and strengthen our requirement that all our production staff wear gloves at all material times over the production process. Full details of the incident (including identity, time and place, departments and staff involved, issues identified and rectification measures taken) were recorded in the complaints log.

Over the Track Record Period and up to the Latest Practicable Date, all complaints relating to product related issues were handled and/or settled through replacement of relevant products pursuant to our production return policy and we have not made any refunds or been subject to any monetary claims. Our Directors confirm that during the same period, there had not been any material product returns or recall of products due to quality defaults which had a material adverse effect on our business and results of operations.

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Handling of overdue balances

We review and monitor overdue balances and receivable balances on an ongoing basis, and our finance department generates periodic trade and bills receivables ageing reports to alert our senior management of overdue balances.

Our sales department is required to state clearly on our monthly billing statements to customers the amount of their total overdue balance, and our customers are subsequently required to confirm such amount. With a view to reduce overdue balances, our sales team will communicate with our customers to remind them of amounts payable in advance of payment dates. In connection with overdue balances, we will take the following measures to pursue settlement:

For balances which are overdue:

- (i) from customers with stable operating conditions, we will remind them to make payment and such reminder will be made through telephone or electronic means;
- (ii) for more than six months, we will issue a written overdue payment letter to customers in arrears. Our senior management personnel may also intervene in the matter; and
- (iii) for more than a year, and if the business of the relevant customers are at risk, we may commence legal proceedings against the relevant customers for the collection of outstanding amounts.

INVENTORIES

We constantly monitor our inventories, which include raw materials, works-in-progress and finished products. We strive to maintain optimal inventory levels to meet customer demand while managing our working capital requirements. As at 31 December 2014, 2015 and 2016, our inventories were approximately RMB13.6 million, RMB8.6 million and RMB11.9 million respectively. For the years ended 31 December 2014, 2015 and 2016, our inventory turnover days were approximately 111.0, 110.9 and 66.8 days, respectively. More information on our inventories and inventory turnover days during the Track Record Period is set out in the section headed “Financial information — Inventories” of this prospectus.

We monitor our inventory levels in accordance with our inventory management policy and make provisions in accordance with our accounting policy. During the Track Record Period, we did not make any provision for impairment of our inventories.

Under our inventory policy:

- (i) once we receive any procured raw materials, our procurement department must inspect its packaging for signs of any damage. Damage which may have been caused during delivery must be recorded in writing with photos taken as proof for future claims and the relevant logistics company may be contacted for immediate follow-up action;

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- (ii) once packaging of raw materials received is thoroughly inspected, the relevant shipment is transferred to our inspection area wherein staff from our procurement department would check the shipment and record in writing whether the name, model, origin, amount, accessories and other information relating to the shipment of raw materials accords with the specifications detailed in the relevant procurement contract;
- (iii) once our procurement department has confirmed that the contents of a shipment are consistent with the relevant procurement contract, the shipment is transferred to the quality control department for further sampling and inspection from a quality control perspective. Basic raw materials may bypass inspection by the quality control department and are inspected directly by staff requesting the order;
- (iv) raw materials fulfilling quality control requirements are transferred to our warehouse staff who would be responsible for registration, recordation as well as arranging warehousing and storage. Raw materials failing quality control requirements will be physically segregated and stored separately for further disposal;
- (v) production staff requesting raw materials are required to complete procurement slips which are approved by supervisory staff to retrieve requisite raw materials and our warehouse staff would arrange retrieval of raw materials on an “first in first out” basis;
- (vi) chemical reagents and industrial gases are stored separately from other materials and stored out of range of any potential sources of fire, water or electricity; and
- (vii) all materials stored as inventory must be clearly labelled and handled with care and stored in the appropriate environment (in respect of temperature and humidity).

We primarily procure raw materials for ITO films and Smart Light-adjusting Products based on customer demand, but we generally maintain our inventory of raw materials at levels that we believe are sufficient for two to three months of production. Our production department is responsible for making decisions on the procurement of raw materials based on internal production management plans. Currently, our deputy general manager, who has more than 15 years of relevant experience, is in charge of our production department. More information of on our inventories and inventory turnover days during the Track Record Period is set out in the section headed “Financial information — Inventories” of this prospectus.

RESEARCH AND DEVELOPMENT

We believe our research and development capabilities are important for developing new products and we therefore devote resources and efforts to continually optimise and enhance the functionality of our products, our production process and technologies as well as exploring the possibility of introducing new applications to existing products.

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Qualifications and core focus of our research and development team

To advance our research and development capabilities, we have established a professional research and development team comprising 14 staff as at 31 December 2016 with relevant qualifications and experience. All of our research staff have research related qualifications and possess diploma, bachelor, master and/or doctorate degrees in such fields as material science, engineering, polymer chemistry, electronics, automation and computer science.

Our research and development team has the following core focuses and responsibilities:

- (i) conduct research and development of new materials and products which can be used to enhance the quality of our existing products;
- (ii) enhance our production capability relating to ITO film and Smart Light-adjusting Film through continued research;
- (iii) explore and improve ways in which our ITO film and Smart Light-adjusting Products can be applied, fitted and adapted for use by our customers as well as to improve the ease, flexibility and efficiency of installation;
- (iv) explore and examine proposals and potentials solutions to challenges through the integration and application of advanced projection and display technologies, for the development of our Smart Light-adjusting Projection System; and
- (v) cooperate and form alliances with various local and overseas universities, research institutions as well as high-tech companies with a view to progressing and advancing existing technologies through the exchange of technical know-how and collaboration.

Research results

Our continuous research and development efforts (which include cooperation with research institutes and universities in the PRC and abroad) have led to:

- (i) the development of technologies that improve the performance of our products in terms of functionality and application, quality, environmental-friendliness and energy consumption.

For instance, we developed our own PDLC configuration to improve the quality of our Smart Light-adjusting Film and Smart Light-adjusting Glass and adopted our self-developed fluorine-containing PDLC formula, coupled with the optical grade flexible ITO film material, to produce Smart Light-adjusting Film which has more than 95% haze rate when it is switched off and 76% light transmission rate when it is switched on.

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- (ii) development of certain technological know-how which are patented with intellectual property offices in the PRC. Please refer to the paragraph headed “Intellectual property” in this section for further information;
- (iii) the publication of various articles in published industry-related periodicals;
- (iv) the recognition as a 廣東省高新技術企業 (High-Tech Enterprise of Guangdong Province*) in 2015 by the Guangdong Provincial Science and Technology Bureau, Guangdong Provincial Finance Bureau, Guangdong Provincial State Administration of Taxation, and Guangdong Provincial Local Taxation Bureau;
- (v) our operating subsidiary, Singyes Applicable Materials, being commissioned by the China Building Material Federation (中國建築材料聯合會) and other authorities as a leading drafting party of national and regional industry standards in the PRC for Smart Light-adjusting Products due to our recognition as a key participant with active contribution to research and innovation in the industry. In particular, we were a lead drafting party for the following industry standards:

Year	Project	Level of standard	Standard
2015	電致液晶貼膜調光玻璃 (Laminated electron photoresist switchable glass*) (20152253-T-609)	National standard	In the process of drafting
2015	電致液晶調光膜 (Laminated electron switchable transparent film*)	Provincial standard	In the process of drafting

Our Group has also filed and recorded corporate standards in relation to 液晶調光膜 (liquid crystal light-adjusting film*), 貼膜調光玻璃 (photoresist switchable glass*), 光學級透明氧化銦錫 (ITO film*), 電致液晶夾層調光玻璃 (laminated electron light-adjusting glass*) and 中空玻璃 (hollow glass*), with relevant PRC government authorities.

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- (vi) award of various subsidies and grants from the PRC government in acknowledgement of our research efforts. The following subsidies and grants were granted to us by the Guangdong Provincial Department of Science and Technology and the Zhuhai Municipality of the Ministry of Finance of the PRC over the Track Record Period:

Year	Project	Amount (in RMB)
2016	Incentive for new high-tech enterprises	600,000
2015	Interest subsidy for promotion of imports	887,600
2015	Special fund for enterprises in the new high-tech enterprise cultivation database	166,300
2015	Supporting fund for expanding imports	95,100
2013	Industry-university-government research cooperation fund	800,000

- (vii) developed technologically advanced production equipment, formulas, systems and process know-how tailored to our production needs. A summary of our key material research results in recent years is set out below:

Product	Our research results
ITO film	developed a type of capacitive ITO screen
Smart Light-adjusting Film	developed a method for roll-to-roll continuous processing of Smart Light-adjusting Film
	developed a type of self-adhesive Smart Light-adjusting Film
Smart Light-adjusting Glass	developed a double-layered bound Smart Light-adjusting Glass product
Smart Light-adjusting Projection System	developed technology to enhance the haze rate of Smart Light-adjusting Glass for the use of projection systems

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Research related expenses

For the years ended 31 December 2014, 2015 and 2016, we have invested approximately RMB1.6 million, RMB2.0 million and RMB2.2 million on our research and development efforts respectively (representing approximately 11.8%, 12.7% and 8.2% of our total expenses for the respective periods). Our research and development expenses mainly consist of trial production cost of new products at our production facilities, remuneration of our research specialists, costs of raw materials we use in our laboratory testing and expenditures on purchasing new equipment or improving existing equipment.

It is our policy to set aside an annual budget for research and development. In order to ensure research efficiency and to encourage innovation, we have adopted and implemented:

- (i) a detailed policy for managing our use of research and development funds as well as monitoring progress for each of our projects; and
- (ii) a detailed incentive policy to award our research staff for research related-achievements (such as for technological or materials breakthroughs and advancements, publication of research papers and articles or the successful grant of patent applications).

For the information of our future plans on research and development, please refer to the section headed “Future plans and use of proceeds” of this prospectus.

HONOURS AND AWARDS

We have received honours and awards from various entities in the PRC since the establishment of our Company in 2010 in recognition of, among other things, our products, management and overall reputation as a supplier in the PRC. The following table sets forth our awards and honours:

Awards/honours	Year awarded	Awarding organisation
理事單位 (Managing Unit*)	2012-2015	深圳市平板顯示行業協會 Shenzhen Flat Panel Display Industry Association — Touch panel branch*
Best Supplier	2015	China Hotel Association (中國飯店協會)
第三屆“市長杯” — 工業設計大賽 優秀獎 — “調光投影系統” (Third Major’s Cup of Zhuhai — Excellence Awards of the product group of Industrial Design Competition — “Smart Light-Adjusting Projection System”)	2015	珠海市第三屆“市長杯”工業設計大賽 組委會 (Zhuhai City Government Third Major’s Cup Industrial Design Competition Committee)
優秀供應商 (Excellent Suppliers*)	2013	中觸實業(深圳)有限公司 (Touch-China Industry (Shenzhen) Company Limited*)
“ITO導電膜”2012年度廣東省 優秀自主品牌 (“ITO film” 2012 Guangdong Provincial Excellent Independent Brand*)	2013	廣東省企業聯合會與廣東省企業家協會 (Guangdong Provincial Enterprise Confederation and Guangdong Provincial Association of Entrepreneurs*)

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MARKET AND COMPETITION

According to the F&S Report, the ranking of Singyes Applicable Materials, our key operating subsidiary, in the ITO film and Smart Light-adjusting Products markets in the PRC in terms of market share by revenue for the years ended 31 December 2014 and 2015 were as follows:

	Year ended 31 December	
	2014 ranking (market share)	2015 ranking (market share)
ITO film	9 (2.4%)	8 (2.1%)
Smart Light-adjusting Products (Smart Light-adjusting Film and Smart Light-adjusting Glass)	2 (20.1%)	1 (20.4%)
Smart Light-adjusting Projection System	N/A ^(Note)	1 (51.2%)

Note: We did not participate in the Smart Light-adjusting Projection System market in the year ended 31 December 2014

According to the F&S Report, we were the leading manufacturer of Smart-Light adjusting Products and Smart Light-adjusting Projection Systems in terms of market share in the PRC for the year ended 31 December 2015 and one of the few manufacturers which are fully vertically integrated in our production with the expertise to manufacture ITO films as well as related downstream products. We believe that our leading position in the PRC will positively position us to capture future opportunities arising from the expected continual growth in demand for ITO films and related downstream products in the PRC.

Competitive landscape

According to the F&S Report:

- the PRC ITO film market is a highly centralized market whereby the top ten manufacturers accounted for 83.9% of total market share in 2015 and it is expected that these manufacturers will consolidate or increase their market position going forward. We principally compete with these domestic ITO film manufacturers and ranked ninth and eighth in terms of market share for the years ended 31 December 2014 and 2015 respectively
- the Smart Light-adjusting Products market is also a centralized market whereby the top five manufacturers accounted for approximately 80% of the total market share revenue in 2015. We principally compete with these domestic Smart Light-adjusting Products manufacturers and we ranked second and first in terms of market share for the years ended 31 December 2014 and 2015 respectively

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- in the Smart Light-adjusting Projection System market, we principally compete with another domestic manufacturer which, along with our Group, accounted for approximately 84.7% market share by revenue for the year ended 31 December 2015

Barriers of entry

There are high barriers to entry to each of these markets including:

- dominance over core production resources by large-scale manufacturers with strong financial capabilities
- requirement of substantial capital investment in production facilities
- necessity to devote substantial resources to research and development as well as product enhancement
- necessity to develop sales teams equipped with substantial technical knowledge
- ability to establish long-term relationship with downstream customers
- ability to engage in mass production to take advantage of economies of scale and lower average production cost
- sales and marketing capability and network coverage
- for manufacturers of ITO related downstream products, the ability to engage in vertical integration from upstream activities to achieve production cost control and to establish long-term relationship with end-users

Please refer to the section headed “Industry overview” for further details regarding our competitive landscape and barriers of entry to the markets in which we operate and the section headed “Risk factors — Risks relating to our business — competition in the ITO film and Smart Light-adjusting Products could materially and adversely affect our financial performance” for further information regarding relevant risks relating to competition faced by our Group.

INSURANCE

Over the Track Record Period and up to the Latest Practicable Date, Singyes Applicable Materials has maintained cargo transportation insurance which provides protection against all risks of physical loss or damage to freight arising from any external causes (subject to exceptions, such as force majeure events) during shipping and transportation within the PRC. The insurance covers the declared or actual value of the cargo lost or damaged over the period from the time the cargo leaves the premises of Singyes Applicable Materials until collection and delivery of the cargo at the destination. Singyes Applicable Materials has also maintained insurance policies covering risks in respect of its machinery and equipment. The relevant insurance providers are Independent Third Parties.

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We have not obtained any insurance which provides for protection against business interruptions, product liability claims, thief, litigation or proceedings and personal injuries arising from the use of our products. As confirmed by our PRC legal advisers, we are not required to maintain these insurance for our business operations under the laws and regulations of the PRC.

Our Directors believe that our Group has taken out sufficient insurance for our operations and that the coverage of insurance obtained is generally consistent with industry practice and provides adequate protection for our assets and operations.

During the Track Record Period and up to the Latest Practicable Date, we made two insurance claims in relation to damage caused to several Smart Light-adjusting Glass panels over the delivery process. The claimed amounts were not material to our business operations. As we were fully insured against such losses, we did not suffer any financial loss. Nevertheless, we have taken appropriate follow-up action with the affected customers (including arranging refunds and replacements) and have adopted measures (including ensuring clearer labelling of fragile contents on our cargo) to reduce the incidence of similar events in the future.

Further information in relation to other claims or liabilities not covered by insurance is set out in the sectioned headed “Risk factors — Our insurance coverage may not completely cover the risks related to our business and operations” in this prospectus.

EMPLOYEES

As at 31 December 2014, 2015 and 2016, we employed 109, 111 and 113 full-time employees, respectively. The following table sets out the total number of employees engaged by our Group by function as at 31 December 2016:

Function	Number of employees	% of total
Management	3	2.7%
Production	35	31.0%
Quality control	10	8.8%
Research and development	14	12.4%
Administration	2	1.8%
Sales and marketing	38	33.6%
Finance	5	4.4%
Procurement	2	1.8%
Machinery maintenance	4	3.5%
Total	113	100%

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We enter into labour contracts with each of our employees in accordance with PRC labour law. As confirmed by our PRC legal adviser, we have not been subject to any penalties in relation to any violation of PRC labour laws and regulations.

We recruit employees based on the requirements of the relevant positions, the experience and qualification of the employee and the prevailing market conditions at the relevant time. As at the Latest Practicable Date, we had not experienced any significant labour shortage, issue or dispute that had disrupted our operations nor had we experienced any difficulty in recruiting and retaining experienced and suitably qualified staff. We conduct a yearly review to analyse reasons for employee turnover (if any) and follow-up suggestions of how to retain employees for senior management's consideration.

Our Directors believe that our success depends on our employees' consistent, reliable and high-quality work. In order to attract, retain and develop the knowledge, technical skills and quality of our employees, we place a strong emphasis on providing adequate training to our employees. Our administration department is required to arrange, manage and assess all our training programs whilst our deputy general manager is required to review annual training targets as well as our implementation of training programs. These training programmes will cover important aspects of our production process including the importance of maintaining high quality standards as well as operational safety and hygiene in the work environment.

Our Directors believe that we offer our employees competitive remuneration packages. Our employees are remunerated based on their individual qualifications, job experience and performance while our sales staff may also receive a sales bonus based on the volume of sales generated through them. We make contributions for our employees in relation to the mandatory social security funds including pension, work-related injury insurance, maternity insurance, medical and unemployment insurance in accordance with applicable laws and regulations of the PRC. We also provide non-statutory benefits to our staff including technical skills grants, special post allowances, patents-related thesis writing incentives, wedding gifts, children's education allowances, festivities allowances and we also offer shuttle transport, free meals, body checks, training and dormitories for our employees.

INFORMATION SYSTEMS

We believe our information technology systems are important to our daily business operations. We have successfully implemented enterprise resource planning (ERP) systems to support our production processes, quality control, inventory, delivery, procurement, sales, costs management, accounting functions and human resources management.

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INTELLECTUAL PROPERTY

As of the Latest Practicable Date, we have registered 32 patents in the PRC and have five patent registration applications pending. Of the registered patents (i) 13 are self-developed product/technology patents, three are self-developed production techniques and/or methods and 16 are other intellectual property know-how; and (ii) five are directly related and/or involved in the production of ITO films, six are directly related and/or involved in the production of Smart Light-adjusting Film, four are related and/or involved in the production of Smart Light-adjusting Glass and the remaining 17 related to other materials, devices and applications.

Such patents relate to proprietary know-how in connection with various materials, processes, systems and equipment concerning the production of ITO film and Smart Light-adjusting Products developed by us. In addition, we have registered two trademarks and made two trademark applications in the PRC and one trademark application in Hong Kong. We are also the registered owner of one domain name for the website www.syeamt.com. Please refer to the paragraph headed “Further information about the business of the Group” in Appendix IV to this prospectus for further information regarding or pending or registered intellectual property rights.

We do not register all of our self-developed production techniques, technology and methods, new material composition formulas, blue-prints, designs as well as other core intellectual property know-how with offices in the PRC or elsewhere as we consider that the preservation of secrecy of such know-how is absolutely crucial to maintaining our competitive advantage and any leakage of such technical information or data to our competitors may materially and adversely affect our business. As such, our Directors believe that it would be prudent not to register such specialised or proprietary know-how with public authorities and/or agency to minimise the risk of leakage. Such know-how relate to, *inter alia*, the following:

- (i) the ITO film coating process;
- (ii) formula relating to PDLC composition;
- (iii) process and equipment relating to roll-to-roll production of Smart Light-adjusting Film;
and
- (iv) electrode nailing and edge sealing processes used in production of Smart Light-adjusting Film.

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In order to safeguard such know-how from leaking to our competitors, we have adopted and implemented the following measures, all of which are strictly enforced:

- (i) all our staff (whether or not they may be exposed to technical know-how in their course of employment) are bound by our research findings confidentiality policy as well as strict confidentiality provisions in their employment contract prohibiting them from disclosing any technical know-how, intellectual property or other valuable information (such as discreet projects relating to production, research and technology exchange) to any third party. Where necessary, certain staff who may have access to sensitive know-how are required to provide further confidentiality undertakings to us. Such confidentiality provisions and undertakings are strictly enforced and any staff found in breach may subject them to fines, termination of employment and/or legal proceeding which we may commence against them (depending on severity of breach);
- (ii) in respect of particularly sensitive technical know-how (such as a technical formula) which may be applied towards a particular segment of our production process, the relevant staff will be imparted with only part of the know-how on a “need-to-know” basis and no person would have the full know-how. Such segregation makes it extremely difficult for one or more staff (in breach of their confidentiality obligations or otherwise) to leak or take advantage of commercially sensitive information in their possession;
- (iii) all commercially valuable technical know-how (in physical or electronic form or otherwise) are sufficiently segregated, safeguarded and secured with restricted access only to senior management level personnel;
- (iv) where it is necessary in the course of business to disclose confidential information to counterparties or third parties, the prior approval of the general manager (and where necessary, Directors) must be obtained;
- (v) access to sensitive production facilities are generally restricted to limited authorised personnel designated to operate relevant facilities;
- (vi) clearance of designated supervisory staff (and where necessary, senior management) is required for any photocopying, recording or transmission of technical know-how; and
- (vii) we have entered into confidentiality agreements with each of our collaborative research and development partners and we generally do not disclose trade secrets to third parties.

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any intellectual property infringement claims which had a material impact on our Group. For details relating to risk of such claims, please refer to the section headed “Risk factors — We may be exposed to intellectual property infringement and/or other claims by third parties that, if successful, could disrupt our business and materially affect our financial condition and results of operations” in this prospectus.

BUSINESS

ENVIRONMENTAL PROTECTION, HEALTH AND OCCUPATIONAL SAFETY

Environmental protection

We have adopted and implemented an environmental protection policy to ensure responsible disposal of wastes and to minimise damage and material disruptions to the environment in the proximity of our production base.

We are required by the relevant environmental agencies of the PRC to comply with the following requirements and restrictions:

- (i) to ensure that noise pollution caused by our production facilities are in compliance with prescribed noise pollution thresholds;
- (ii) no discharge of any industrial waste or sewage;
- (iii) prohibition on the operation, use or disposal of imported electronics solid waste materials;
- (iv) waste from production, scrap and packaging materials must be recycled for use; and
- (v) waste considered by the PRC government to be harmful and dangerous substances must be disposed of by suitably qualified waste disposal companies with relevant requisite licences.

Our Directors confirm that our operations have complied with, and will comply with, all the above requirements and restrictions as well as all applicable PRC environmental laws and regulations in all material aspects. Our PRC legal advisers have confirmed that we have not been subject to any penalties or administrative sanctions arising from non-compliance of national or local environmental laws and regulations and had not been subject to any material environmental claims, lawsuits, or disciplinary actions during the Track Record Period.

Health and occupational safety

We are required to comply with work safety laws and regulations imposed by the government authorities in the PRC. We have implemented various occupational health and safety procedures to maintain a safe work environment, including (i) providing guidance for operational and safety control procedures to all employees; (ii) adopting protective measures at our production facilities; (iii) inspecting our equipment and facilities regularly to identify and eliminate safety hazard; and (iv) providing regular training to our employees on safety awareness. We have established a work safety committee to monitor and ensure the effective implementation of our health and safety procedures. As our business expands, we will continue to regularly review our occupational health and safety procedures to ensure they comply with industry customary practices and applicable legal standards.

BUSINESS

Taking into account our obligations to comply with Work Injury Insurance Regulations (工傷保險條例) and Guangdong Province Work Injury Management Regulations (廣東省工傷管理條例) of the PRC, we have a policy which states that in the event of a reportable work injury (i) our human resources staff must report the accident and injury to the Zhuhai Human Resources and Social Insurance Department of the PRC (珠海人力資源和社會保障局) within 24 hours of the relevant incident; and (ii) a report will be submitted by our human resources staff on behalf of the injured staff to the relevant governmental department within 30 days. The injured staff is entitled to periodical payments during his or her temporary incapability to resume work due to the injury. In cases where the injured person is a temporary staff or is working past retirement age, our human resources staff must contact the relevant insurance company and follow-up with the matter. However, he or she will not be entitled to periodical payments during his or her period of absence from work. Work injuries must be filed and kept on record for two years and we are required to conduct investigations following the accident.

Over the Track Record Period and up to the Latest Practicable Date (i) we had not encountered any material unplanned business disruptions due to health and safety issues, nor had we received any material health and safety related claim from any existing or former employees for any accident occurred; and (ii) we had complied with applicable laws and regulations in the PRC relating to health and safety related matters in all material aspects and have implemented robust internal control policies and procedures to ensure the on-going compliance.

PROPERTIES

Leased properties

As at the Latest Practicable Date, our Company leased one property from the Remaining Group, with an aggregate gross floor area of approximately 5,740 sq.m.. A summary of the lease arrangement is set out below:

No.	Description/ location	Gross floor area (sq.m.)	Lessor	Monthly rental	Existing usage	Duration
1.	Levels 1 and 2, Factory Building No. 7 of Zhuhai Xingye New Energy and Industrial Park, 9 Jinzhu Road, Gaoxin District Zhuhai City, Guangdong province of the PRC	5,740	Singyes Energy-saving	RMB86,100	Offices and factories	1 October 2015 to 30 September 2018
2.	Level 1 and 2, Factory Building No. 7 of Zhuhai Xingye New Energy and Industrial Park, 9 Jinzhu Road, Gaoxin District Zhuhai City, Guangdong province of the PRC	5,740	Singyes Energy-saving	RMB91,840	Offices and factories	1 October 2018 to 30 September 2021

BUSINESS

The above property was leased from the lessor who was able to provide valid title certificates. Our Directors confirm that we are using these leased properties in accordance with the permitted usages under the relevant lease agreements.

As at 31 December 2016, no single property interest forming part of our Group's property activities had a carrying amount of 1% or more and no single property interest forming part of our Group's non-property activities had a carrying amount of 15% or more of our total assets. Thus, this prospectus is exempted from compliance with the requirements of Rules 8.01A and 8.01B of the GEM Listing Rules and the requirements of section 342(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, with respect to the inclusion of a property valuation report in this prospectus.

REGULATORY COMPLIANCE AND LEGAL PROCEEDINGS

We may from time to time become a party to various legal, arbitral or administrative proceedings arising in the ordinary course of our business. As of the Latest Practicable Date, we were not a party to, and we are not aware of, any legal, arbitral or administrative proceedings, which, in our opinion, is likely to have a material and adverse effect on our business, financial conditions or results of operations.

Save as disclosed in the section headed "Non-compliance" below, our PRC legal advisers have confirmed that during the Track Record Period and up to the Latest Practicable Date, our Group has complied with applicable laws and regulations in the PRC in which we operate and that we had obtained all permits, licenses, qualifications, authorizations and approvals material to our business operations. In addition, our Directors believe that we have implemented sufficiently robust internal control policies and procedures to ensure our on-going compliance with applicable laws and regulations by our Group, our Directors and our senior management.

NON-COMPLIANCE

Our PRC legal advisers have confirmed that our Group has not been involved in any non-compliance of applicable PRC laws and regulations over the Track Record Period, save as the failure to make social security and housing contributions to our employees in full compliance of the relevant PRC laws and regulations, as described below.

Relevant PRC laws and regulations

According to 關於規範社會保險繳費基數有關問題的通知 (the PRC Social Insurance Law and the Notice on Regulating Social Insurance Payment Basis Related Issues*), our Group is required to make an employers contribution to employees' social insurance contribution based on the employee's actual total remuneration over a certain period of time.

According to 住房公積金管理條例 (the Housing Provident Fund Management Regulations*) and 關於住房公積金管理若干具體問題的指導意見 (the Guidance on the Problems of the Management of Housing Provident Fund*), we are required to make an employer's contribution to employees' housing contribution based on the employee's monthly average salary in the last year.

BUSINESS

Event of non-compliance

We have made social security and housing provident fund contributions for our employees on the basis of not less than the minimum payment bases as required by local competent departments (being the minimum amount announced by 珠海市人力資源和社會保障局 (Zhuhai Human Resources and Social Security Bureau*) and 珠海市住房公積金管理中心 (Zhuhai Housing Provident Fund Management Center*)) rather than on the basis of the payment requirements required under the relevant PRC laws and regulations described above.

We estimated that the aggregate amount of unpaid social security and housing provident fund contributions during the Track Record Period was approximately RMB1,150,000.

Over the period of non-compliance, relevant members of senior management includes our current Directors and senior management as disclosed in the section “Director, senior management and employees” of this prospectus for further information.

Legal consequence for non-compliance and maximum potential penalty and other financial liabilities

Our PRC legal adviser advised that, (i) the relevant PRC authority may order our Group to pay the unpaid social security contribution within a prescribed time limit, failing which, for any unpaid contribution, a late penalty of 0.05% per day of the unpaid amount and a further fine equivalent to one to three times of the unpaid amount may become payable by our Group; and (ii) the relevant authority may order our Group to pay the unpaid housing contribution within a prescribed time limit, failing which, the PRC authorities may seek an enforcement order from the People’s Court.

Reason for non-compliance

As our employees also have responsibility to make their respective share of contribution to the social security and housing provident fund, their salaries may need to be reduced if contributions were made to the full extent of the social security and housing provident fund.

No enforcement actions or proceedings to date

In 2014, we made provision of approximately RMB120,000 for such non-compliance whereas we did not make any provision in 2015 and 2016. The reason for the absence of provision in 2015 and 2016 that the Director believed the risk of being penalised is relatively low.

As at the Latest Practicable Date, our Group has not received any notice of violation of any relevant social security and housing laws and regulations. Our Group has not received any notice for payment of administrative penalties from the relevant authority. Moreover, our Group has not received any notification from the relevant authority ordering us to make unpaid social security or housing contributions to our employees otherwise.

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Rectification actions taken and/or to be taken

We understand through discussions with the relevant PRC authorities that they will not normally impose administrative penalties on enterprises in relation to failure to make full social security and housing provident fund contributions unless there have been any complaints from an employee. Further, we have obtained the following confirmations:

- (i) 珠海市住房公積金管理中心 (The Zhuhai Housing Provident Fund Management Center*) issued a certificate to us dated 2 June 2016 certifying that, during the period between 1 June 2013 and 30 April 2016, there were no findings of administrative penalties from relevant authority; and
- (ii) 珠海市人力資源和社會保障局 (The Zhuhai Human Resources and Social Security Bureau*) also issued a letter dated 8 June 2016 certifying to our Group that, during the period between 1 June 2013 and 31 May 2016, there were no findings of violation of labor laws and regulations and there were no records of administrative penalties and proceedings due to violation of labour laws and regulations.

We have received waiver letters from all relevant employees to the effect that they have agreed not to pursue our Group in relation to the non-compliance with social security and housing provident fund requirements under PRC laws and regulations.

To prevent future non-compliance, we have adopted measures set out in the paragraph headed “Measures implemented to prevent potential non-compliance” below, which will involve, among others, regular review of our social security and housing provident fund contributions by our audit committee who will make recommendations if necessary.

Indemnities

Singyes Solar, one of our Controlling Shareholders, has entered into the Deed of Indemnity to indemnify our Group, in respect of, amongst others, any liability (including all damages, losses, claims, fines and penalties that may be imposed, charges, fees, costs, interests and expenses (including all legal costs and expenses) together with all reasonable costs and other liabilities which our Company and/or any of our Subsidiaries may sustain, suffer, incur or be imposed by any regulatory authorities or courts) as a result of any violation or non-compliance or alleged non-compliance by any members of our Group with any applicable laws, rules or regulations of any jurisdiction, including but the event of non-compliance described above.

Assessment of impact to our Group

Given that (i) the employees have undertaken by way of letters of confirmation not to pursue our Group’s liabilities, (ii) our Group has not been penalized by 珠海市住房公積金管理中心 (Zhuhai Housing Provident Fund Management Center*) as at the Latest Practicable Date; and (iii) the Deed of Indemnity has been executed by Singyes Solar, our PRC legal adviser has advised that the risk of direct penalties to be imposed by relevant authorities on our Group is relatively low in relation to the aforementioned non-compliance issue.

BUSINESS

Our Directors believe that such non-compliance issue will not cause material loss and impact on the business and operations of our Group.

Directors' confirmations

Our Directors have confirmed that, save as disclosed above, we have complied with all relevant laws and regulations in the jurisdictions in which we operate during the Track Record Period and up to the Latest Practicable Date.

Measures implemented to prevent potential non-compliance

In order to continuously improve our corporate governance and to prevent incidence of non-compliance in the future, we intend to adopt or have adopted the following measures:

- (i) we have appointed Octal Capital Limited as our compliance adviser with effect from the Listing Date to advise on ongoing compliance with GEM Listing Rules issues and other applicable securities laws and regulations relating to a listed issuer in Hong Kong;
- (ii) our legal advisers as to Hong Kong laws have provided training to the Directors and the senior management of our Group on the continuing obligation of a listed company in Hong Kong and on Directors' responsibilities and liabilities and will provide appropriate and adequate training or regular seminars and updates on these topics to the Directors and senior management from time to time after the Listing;
- (iii) we have designated our compliance officer, Mr. Sun, and our company secretary, Ms. Lau Wai Han, to assist our Board to identify, assess and manage the risks associated with compliance of laws and regulations applicable to our Group. They will report to the Board on a timely basis in relation to any potential non-compliance incidents identified by them and, if necessary, consult external professionals for advice;
- (iv) our Group will retain PRC legal counsel to advise our Group from time to time in relation to PRC legal and regulatory compliance matters concerning our Group as a whole;
- (v) our senior management and employees will be provided with our updated policies, as well as adequate training (with assistance with external advisers and consultants where necessary) and/or updates regarding the legal and regulatory requirements applicable to the business operations of our Group from time to time;

BUSINESS

- (vi) we have established an audit committee comprising three independent non-executive Directors, namely Mr. Lee Kwok Tung Louis (the chairman of the audit committee), Mr. Wei Junfung and Ms. Li Ling as part of our measures to improve corporate governance. For the qualifications and experience of these committee members, please refer to the section headed “Directors, senior management and employees” in this prospectus. The primary duties of the audit committee are to provide our Directors with an independent review of the effectiveness of our financial reporting process, internal control and risk management system of our Group, to oversee the audit process, to provide advice and recommendations to the Board on the appointment, reappointment and removal of external auditors and other duties and responsibilities as assigned by our Directors. We have prepared written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules and the Corporate Governance Code and Corporate Governance Report as set forth in Appendix 15 of the GEM Listing Rules;
- (vii) our Group’s audit committee will on a regular basis review the payment of the social security and housing contributions, and make recommendations regarding the internal control measures to the Directors where appropriate; and
- (viii) our management will design and implement a risk management policy to address various potential risks identified in relation to its operations. Our risk management policy sets forth procedures to identify, analyse, categorise, mitigate and monitor various risks. Our Board is responsible overseeing risk management and assessing and updating its risk management policy.

We believe that our internal control systems and current procedures are sufficient in terms of comprehensiveness, practicability and effectiveness.

INTERNAL CONTROLS

Our Board is responsible for establishing our internal control system and reviewing its effectiveness on a periodic basis. We have established procedures for developing and maintaining our internal control system, covering areas such as corporate governance, operations, management and finance. Our Directors believe that our internal control system is sufficient in terms of comprehensiveness, practicability and effectiveness.

In preparation for the Listing, we have engaged an independent business consulting and internal audit firm, Ernst & Young (China) Advisory Limited (the “**Internal Control Consultant**”) in January 2015 to conduct an evaluation of our internal control systems and to review, amongst others, our management of business operations, finance, human resource and IT risks and review and follow up the effectiveness of our enhanced internal control measures, including over our previous non-compliance in relation to social security and housing provident fund contributions. The work performed by the Internal Control Consultant has been completed.

BUSINESS

Based on the Internal Control Consultant's review and recommendations, our Group has adopted measures and policies to improve its internal control systems, to prevent future non-compliance, and to ensure its compliance with the GEM Listing Rules and relevant PRC and Hong Kong laws. After the Internal Control Consultants performed their follow-up review, they have not identified any material deficiencies in our internal control system.

Views of our Directors and the Sole Sponsor

Based on the above, our Directors are of the view that our Group has taken reasonable steps to establish an internal control system and procedures to enhance its control on both working and management levels and that the above remedial measures and on-going compliance measures are adequate and effective in preventing similar non-compliance incidents from re-occurring in the future. Having also considered the view of the Internal Control Consultant, our Directors are satisfied and the Sole Sponsor concurs that the non-compliance incidents described above did not involve any dishonesty or any fraudulent act on part of our executive Directors and did not raise any questions as to the integrity of our Directors, and as such the non-compliance incidents do not have any material impact on the suitability of our executive Directors to act in such roles in accordance with the requirements of Rules 5.01 and 5.02 of the GEM Listing Rules or the suitability of our Company under Rule 11.06 of the GEM Listing Rules, and that executive Directors are competent to manage our Group's business in a law abiding manner.

RISK MANAGEMENT

We recognise the need for risk management in our strategic and operational planning, day-to-day management and decision making process and are committed to managing and minimising risks by identifying, analysing, evaluating and mitigating risk exposure that may impact the continued efficiency and effectiveness of our operations or prevent it from achieving its business objectives.

We have established a set of risk management policies and measures to identify, evaluate and manage risks arising from our operations. The risks which are identified by our Company are broadly categorised into business risks, compliance risks, operation risks and other risks. All such risks may arise from time to time in connection with the operations of our Group.

The major features of our risk management policies include the following:

- (i) we have adopted quality control and supervision measures and procedures to ensure quality products and services are provided to our customers. For further details, please refer to section headed "Business — Quality control";
- (ii) we have established internal workplace safety guidelines and regular training for our employees to address potential occupational health and safety risks associated with our working environment. Please refer to the paragraph headed "Health and occupational safety" under the section headed "Business — Environmental protection, health and occupational safety" for details;

BUSINESS

- (iii) our human resources department is responsible for monitoring employee compliance with our internal rules and manuals to ensure that we comply with the relevant regulatory requirements and applicable laws, so as to reduce our risks; and
- (iv) our compliance officer is responsible for facilitating and coordinating our risk management process.

Further, the risk management process of our Group will involve making assessment of the consequence and likelihood of risks and the development and/or review of risk management plans for mitigating such risk and ensuring that our staff and other stakeholders will have access to appropriate training in the area of risk management.

For more details on risks associated with our Company, please refer to the section headed “Risk factors” in this prospectus.

Our Directors have confirmed that during the Track Record Period, save as disclosed in this prospectus, no material operational failure occurred and we believe that our risk management system is sufficient and effective.