



China Futex Holdings Limited

中國福紡控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8506

SHARE OFFER



Sole Sponsor



安信國際
ESSENCE INTERNATIONAL

Essence Corporate Finance (Hong Kong) Limited

Sole Bookrunner



安信國際
ESSENCE INTERNATIONAL

Essence International Securities (Hong Kong) Limited

Joint Lead Managers



安信國際
ESSENCE INTERNATIONAL

Essence International Securities (Hong Kong) Limited



SBI China Capital Financial Services Limited

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



China Futex Holdings Limited 中國福紡控股有限公司

(Incorporated in the Cayman Islands with limited liability)

LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF SHARE OFFER

Total number of Offer Shares under the Share Offer	: 300,000,000 Shares
Number of Public Offer Shares	: 30,000,000 Shares (subject to reallocation)
Number of Placing Shares	: 270,000,000 Shares (subject to reallocation)
Offer Price	: Not more than HK\$0.28 per Offer Share and expected to be not less than HK\$0.18 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	: HK\$0.01 per Share
Stock code	: 8506

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SBI China
Capital

SBI China Capital Financial Services Limited

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any of the other documents referred to above.

The Offer Price is expected to be determined by agreement between the Company and the Sole Bookrunner (for itself and on behalf of the other underwriters) on the Price Determination Date, which is scheduled on or about Thursday, 28 December 2017, or such later date as may be agreed between the Company and the Sole Bookrunner, but in any event not later than Friday, 29 December 2017. The Offer Price will be not more than HK\$0.28 per Offer Share and is currently expected to be not less than HK\$0.18 per Offer Share unless otherwise announced. The Sole Bookrunner may, with the Company's consent, reduce the indicative Offer Price range and/or the number of Offer Shares stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. If this occurs, notice of reduction of the indicative Offer Price range and/or the number of Offer Shares will be published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.kx-machine.com. If, for any reason, the Offer Price is not agreed between the Company and the Sole Bookrunner on or before Thursday, 28 December 2017 (or such other time as the Company and the Sole Bookrunner may agree), the Share Offer will not proceed and will lapse. The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws of the United States of America and may not be offered, sold, pledged, or transferred within the United States of America, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in accordance with any applicable U.S. securities law.

Prior to making an investment decision, prospective investors should carefully consider all the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

Prospective investors of the Share Offer should note that the Sole Bookrunner (for itself and on behalf of the Public Offer Underwriter) is entitled to terminate its obligations under the Public Offer Underwriting Agreement upon the occurrence of any of the events set forth in the paragraph headed "Underwriting – Public Offer Underwriting Arrangements – Grounds for termination" in this prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Should the Sole Bookrunner (for itself and on behalf of the Public Offer Underwriters) terminate the Public Offer Underwriting Agreement, the Share Offer will not proceed and will lapse. Further details of these termination provisions are set out in the section headed "Underwriting – Public Offer Underwriting Arrangements – Grounds for termination" in this prospectus. It is important that you refer to the said sections for further details.

20 December 2017

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the Stock Exchange's website at www.hkexnews.hk in order to obtain up-to-date information on companies listed on GEM.

EXPECTED TIMETABLE

If there is any change in the following expected timetable, the Company will issue an announcement on the Company's website at www.kx-machine.com and the website of the Stock Exchange at www.hkexnews.hk.

Latest time for completing electronic applications
under the **HK eIPO White Form** service through the
designated website at www.hkeipo.hk⁽²⁾11:30 a.m. on Wednesday,
27 December 2017⁽¹⁾

Application lists of the Public Offer open⁽³⁾11:45 a.m. on Wednesday,
27 December 2017

Latest time for lodging **WHITE**
and **YELLOW** Application Forms and to
give **electronic application instructions** to HKSCC⁽⁴⁾12:00 noon on Wednesday,
27 December 2017

Latest time to complete payment for
HK eIPO White Form applications by
effecting internet banking transfer(s) or
PPS payment transfer(s)12:00 noon on Wednesday,
27 December 2017

Application lists of the Public Offer close⁽³⁾ 12:00 noon on Wednesday,
27 December 2017

Expected Price Determination Date⁽⁵⁾ Thursday, 28 December
2017

Announcement of (i) the final Offer Price; (ii) the indication
of the level of interest in the Placing; (iii) the
level of applications in the Public Offer; (iv) the
basis of allotment of the Public Offer Shares under
the Public Offer; and (v) the number of Offer Shares
reallocated, if any, between the Public Offer and the
Placing to be published on the website of
the Stock Exchange at www.hkexnews.hk and the
Company's website at www.kx-machine.com on or before Wednesday, 3 January
2018

Hong Kong Identity Card/passport/Hong Kong business
Registration numbers of successful applicants (where
applicable) will be made available through a variety
of channels as described in the section headed "How
to Apply for Public Offer Shares – 11. Publication of Results"
in this prospectus from Wednesday, 3 January
2018

EXPECTED TIMETABLE

Results of allocations in the Public Offer will be available
at www.tricor.com.hk/ipo/result with a
“search by ID” function from Wednesday, 3 January
2018

Despatch/collection of share certificates in respect of wholly or
partially successful applications pursuant to
the Public Offer⁽⁶⁾ on or before Wednesday,
3 January 2018

Despatch/collection of **HK eIPO White Form**
e-Auto Refund payment instructions/refund
cheques in respect of wholly successful applications
if the final Offer Price is less than the price
payable on application (if applicable) and wholly or
partially unsuccessful applications
pursuant to the Public Offer^(6 and 7) on or before Wednesday,
3 January 2018

Dealings in Shares on GEM expected to commence
at 9:00 a.m. on Thursday, 4 January 2018

Notes:

1. All times and dates refer to Hong Kong local time and date.
2. You will not be permitted to submit your application through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application money) until 12:00 noon on the last day for submitting applications, when the application lists close.
3. If there is a “black” rainstorm warning signal or a tropical cyclone warning signal No. 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 27 December 2017, the Application lists will not open and close on that day. Further information is set out in the section headed “How to Apply for Public Offer Shares – 10. Effect of Bad Weather on the Opening of the Application Lists” in this prospectus.
4. Applicants who apply by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed “How to Apply for Public Offer Shares – 6. Applying by Giving Electronic Application Instructions to HKSCC Via CCASS” in this prospectus.
5. The Price Determination Date is expected to be on or about Thursday, 28 December 2017 (or such later time as agreed between the Company and the Sole Bookrunner (for itself and on behalf of the Underwriters)), but in any event not later than Friday, 29 December 2017. If the Sole Bookrunner (for itself and on behalf of the Underwriters) and the Company are unable to reach an agreement on the Offer Price on or before Friday, 29 December 2017, the Share Offer will not become unconditional and will lapse.

EXPECTED TIMETABLE

6. Applicants who apply on **WHITE** Application Forms or through **HK eIPO White Form** service for 1,000,000 Public Offer Shares or more under the Public Offer and have provided all required information may collect refund cheques and (where applicable) share certificates in person from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited from 9:00 a.m. to 1:00 p.m. on Wednesday, 3 January 2018 at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. Applicants being individuals who opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing a letter of authorisation from their corporation stamped with the corporation's chop. Both individuals and authorised representatives of corporations must produce, at the time of collection, identification and (where applicable) documents acceptable to the Hong Kong Branch Share Registrar.

Applicants who apply on **YELLOW** Application Forms for 1,000,000 Public Offer Shares or more under the Public Offer and have provided all required information may collect their refund cheques (if any) but may not elect to collect their share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedure for collection of refund cheques for applicants who apply on **YELLOW** Application Forms is the same as that for **WHITE** Application Form applicants.

Uncollected share certificates and refund cheques (if any) will be despatched by ordinary post (at the applicants' own risk) to the addresses specified in the relevant Application Forms. Further information is set out in the section headed "How to Apply for Public Offer Shares – 14. Despatch/Collection of Share Certificates and Refund Monies" in this prospectus.

7. e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and also in respect of successful applications in the event that the final Offer Price is less than the price per Public Offer Share payable on application. Part of your Hong Kong identity card number/passport number or if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. (Hong Kong time) on the Listing Date provided that (i) the Share Offer has become unconditional; and (ii) the right of termination as described in the section headed "Underwriting – Public Offer Underwriting Arrangements – Grounds for termination" in this prospectus has not been exercised and has lapsed. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by the Company solely in connection with the Share Offer and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Offer Shares offered by this prospectus. This prospectus may not be used for the purpose of and does not constitute an offer to sell or a solicitation of an offer in any other jurisdiction or in any other circumstances.

You should rely only on the information contained in this prospectus to make your investment decision. The Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made nor contained in this prospectus must not be relied on by you as having been authorised by the Company, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, agents, affiliates or representatives of any of them or any other person involved in the Share Offer.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this prospectus. You should read the whole document including the appendices hereto, which constitute an integral part of this prospectus, before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors”. You should read that section carefully before you decide to invest in the Offer Shares. Various expressions used in this summary are defined in the sections headed “Definitions” and “Glossary of Technical Terms” in this prospectus.

OVERVIEW

The Group is one of the top ten manufacturers of circular knitting machines in the PRC engaging in the research and development, manufacturing and sale of circular knitting machines. According to the Frost & Sullivan Report, the circular knitting machinery market in China is fragmented and the Group ranked third amongst all domestic circular knitting machinery manufacturers and seventh amongst all domestic, foreign owned and sino-foreign joint venture manufacturers in the PRC, based on the sales value of circular knitting machines in 2016. In terms of domestic and export sales value of circular knitting machinery manufactured in China in 2016, the Group contributed a market share of 2.7% in the PRC. Further, the Group continually invests much effort into technological innovation through its own research and development department and currently owns one invention patent and various utility model patents in relation to its circular knitting machines.

The Group’s products are sold either directly by the Group to textiles manufacturers in both the domestic market and the overseas market under one of the Group’s own brands, namely “”, “FUTEX 福紡” and “FUFANG 福紡” or indirectly through trading companies to overseas markets. During the Track Record Period, the Group’s revenue under the Group’s own brands amounted to approximately RMB61.1 million, RMB65.7 million, RMB40.1 million (unaudited) and RMB52.4 million for the two years ended 31 December 2015 and 2016 and the six months ended 30 June 2016 and 2017, representing an increase of approximately 7.6% and 30.8% in the corresponding year/period and a satisfactory growth in the recognition of the Group’s own brands.

As mentioned in the section headed “Industry Overview” of this prospectus, the overseas circular knitting machinery market has a better business prospect than the domestic market. To capitalise the business opportunity afforded by such industry trend, during the Track Record Period, the Group sold its products indirectly through trading companies to overseas markets such as India, Bangladesh, Thailand, South Korea, Turkey and Vietnam and directly to India, Bangladesh, Thailand, South Korea, Turkey and Egypt. The Group’s revenue derived from overseas sales increased from approximately RMB19.6 million (unaudited) for the six months ended 30 June 2016 to approximately RMB30.2 million for the six months ended 30 June 2017 and from RMB16.3 million for the year ended 31 December 2015 to approximately RMB36.5 million for the year ended 31 December 2016, representing an increase of approximately 54.6% and 123.2% respectively. Based on the unaudited management accounts for the ten months ended 31 October 2016 and 2017, the Group’s revenue contribution from overseas sales was approximately RMB28.9 million and RMB55.4 million, respectively, which represents an increase of approximately 92.0%. As such, the Directors expects the revenue contribution from overseas sales will continue to increase going forward.

In order to further develop the Group’s overseas business and enhance the Group’s brand recognition in overseas countries, the Group established an indirect wholly-owned subsidiary in the PRC, namely Zhangzhou Fukai, to engage in the direct sales of its products to overseas markets under its own brands. The Group plans to further develop the Group’s brand recognition and expand its customer base by setting up local sales offices in overseas countries with a fast-growing circular knitting machinery market such as India and Bangladesh, maintaining and establishing long-term strategic business relationships with trading companies, exploring new sales platforms and approaching new customers.

During the Track Record Period, the Group leveraged Longhuai Import & Export’s overseas connection and sold its products through Longhuai Import & Export to a number of

SUMMARY

customer(s) located in India, Bangladesh, Thailand, South Korea, Turkey and Vietnam. During the two years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, sales to Longhuai Import & Export amounted to approximately RMB4.7 million, RMB13.1 million and RMB1.0 million, which accounted for approximately 6.5%, 13.9% and 1.6% of the Group's total sales amount, respectively.

Since January 2017, Group has ceased to sell its products to Longhuai Import & Export and Longhuai Import & Export has undertaken to the Group that it will cease its business in relation to the overseas sales of circular knitting machines. Since January 2017 and up to the Latest Practicable Date, Longhuai Import & Export has ceased its business in relation to the overseas sales of circular knitting machines on own brand or OEM basis. There were no referral of overseas customers from Longhuai Import & Export to the Group during the Track Record Period and going forward.

BUSINESS MODEL

The Group derives its revenue mainly from the sale of circular knitting machines (i) domestically under the Group's own brands; and (ii) overseas either under the Group's own brands or the brands specified by trading companies purchasing on OEM basis.

The table below sets forth a breakdown of the Group's revenue attributable to domestic and overseas sales of circular knitting machines for the periods indicated:

	For the year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000 (unaudited)	% of revenue	RMB'000	% of revenue
Domestic sales								
– own brands	56,569	78.1	51,557	58.6	31,737	61.9	32,506	51.9
Overseas sales								
– own brands	4,503	6.2	14,162	16.1	8,340	16.3	19,905	31.8
– OEM	11,412	15.7	22,266	25.3	11,164	21.8	10,213	16.3
Total	72,484	100.0	87,985	100.0	51,241	100.0	62,624	100.0

Sales of parts and consumables were neither made under the Group's own brands nor on OEM basis, which caused the total sales made under the Group's own brands and on OEM basis to be different to the total revenue of the Group.

The table below sets forth the breakdown of the Group's revenue by major geographical regions for the periods indicated:

	For the year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000 (unaudited)	% of revenue	RMB'000	% of revenue
Countries								
PRC	56,815	77.7	57,814	61.3	37,247	65.6	32,944	52.2
India	7,642	10.4	17,328	18.4	10,610	18.7	11,678	18.5
Bangladesh	7,238	9.9	11,807	12.5	5,428	9.5	6,450	10.2
Thailand	1,083	1.5	3,309	3.5	3,085	5.4	11	0.0
South Korea	384	0.5	1,544	1.6	7	0.0	11,059	17.5
Egypt	–	–	–	–	–	–	271	0.4
Vietnam	–	–	1,260	1.4	–	–	–	–
Turkey	–	–	1,240	1.3	434	0.8	772	1.2
Total	73,162	100.0	94,302	100.0	56,811	100.0	63,185	100.0

SUMMARY

The significant increase in the Group's sales to South Korea for the six months ended 30 June 2017 is a result of repeated orders received from an existing customer of the Group and orders received from a new customer referred to the Group by the said existing customer in the period.

COMPETITIVE STRENGTHS

The Directors believe that the Group's competitive strengths are having (i) established brand recognition; (ii) strong research and development capabilities; (iii) proven quality control system over its products; (iv) experienced and dedicated management with in-depth industry knowledge; and (v) established sales coverage in China and in overseas countries.

For further details of the Group's competitive strengths, please refer to the section headed "Business – Competitive Strengths" in this prospectus.

BUSINESS STRATEGIES, FUTURE PLANS AND USE OF PROCEEDS

Business Strategies

The Group intends to strengthen its position as one of the top ten circular knitting machine manufacturers in the PRC by enhancing its overall competitiveness in the circular knitting machinery industry by focusing on (i) expanding its customer base in overseas markets; (ii) expanding its production capacity; (iii) expanding its production capabilities upstream; (iv) enhancing customer loyalty and brand awareness; and (v) continuing to maintain and enhance its research and development capabilities.

For further details of the Group's business strategies, please refer to the section headed "Business – Business Strategies" in this prospectus.

Reasons of the Share Offer

The Directors believe that the Listing will enhance the Group's corporate profile and brand image and the net proceeds of the Share Offer will strengthen its financial position and will enable the Group to implement its business plans set out in the paragraph headed "Future Plans and Use of Proceeds – Implementation Plans" and "Business – Business Strategies" in this prospectus. For the detailed reasons of the Share Offer, please refer to the section headed "Future Plans and Use of Proceeds – Reasons of the Share Offer and Proposed Use of Proceeds" in this prospectus.

Use of Proceeds

Assuming an Offer Price of HK\$0.23 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$0.18 and HK\$0.28 per Offer Share, the net proceeds of the Share Offer, after deducting the related expenses, are estimated to be approximately HK\$43.9 million. The Directors presently intend to apply such net proceeds as follows:

- approximately 9.1% of the net proceeds, or approximately HK\$4.0 million, for expanding the Group's customer base in the overseas market;
- approximately 10.3% of the net proceeds, or approximately HK\$4.5 million, for expanding the Group's production capacity;
- approximately 32.3% of the net proceeds, or approximately HK\$14.2 million, for expanding the Group's production capabilities upstream;
- approximately 11.2% of the net proceeds, or approximately HK\$4.9 million, for enhancing the Group's customer loyalty and brand awareness;
- approximately 19.4% of the net proceeds, or approximately HK\$8.5 million, for continuing to maintain and enhance the Group's research and development capabilities;
- approximately 9.1% of the net proceeds, or approximately HK\$4.0 million, for repayment of existing debt financing; and

SUMMARY

- the balance of approximately 8.7% of the net proceeds, or approximately HK\$3.8 million, for use as general working capital of the Group.

For details relating to the Group's use of proceeds, please refer to the section headed "Future Plans and Use of Proceeds – Reasons of the Share Offer and Proposed Use of Proceeds" in this prospectus.

PRODUCTS

The Group engages in the research and development, manufacturing and sale of circular knitting machines which can be classified into (i) single circular knitting machines; and (ii) double circular knitting machines. The Group also sells parts and consumables of circular knitting machines to its customers.

The table below sets out the revenue by product type and approximate percentage contribution of each product to the Group's total revenue during the Track Record Period:

	For the year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000 (unaudited)	% of revenue	RMB'000	% of revenue
Products								
Single circular knitting machine	28,509	39.0	32,208	34.2	16,578	29.2	16,498	26.1
Double circular knitting machine	43,975	60.1	55,777	59.1	34,663	61.0	46,126	73.0
Others ^(Note)	678	0.9	6,317	6.7	5,570	9.8	561	0.9
Total	73,162	100.0	94,302	100.0	56,811	100.0	63,185	100.0

Note: The revenue segment "Others" includes parts and consumables of circular knitting machines, which are used for the manufacture and maintenance of circular knitting machines.

For further details relating to the Group's products, please refer to the section headed "Business – Products" in this prospectus.

The Group generally adopts a cost-plus pricing policy in setting the selling price of its products. Such policy takes into account various factors including (i) production costs such as cost of raw materials, labour costs and other expenses; (ii) the Group's targeted profit margin; and (iii) the prevailing market condition.

SUMMARY

Average selling price and sales volume

The table below sets out the average selling prices and sales volume for single circular knitting machine and double circular knitting machine for the years/periods indicated:

	Year ended 31 December		2016		Six months ended 30 June		2017	
	2015				2016			
	Average selling price	Sales volume	Average selling price	Sales volume	Average selling price	Sales volume	Average selling price	Sales volume
	<i>Per unit</i>		<i>Per unit</i>		<i>Per unit</i>		<i>Per unit</i>	
	<i>RMB</i>		<i>RMB</i>		<i>RMB</i>		<i>RMB</i>	
					(unaudited)			
Single circular knitting machine	132,599.3	215	126,305.7	255	124,646.7	133	138,642.6	119
Double circular knitting machine	135,725.5	324	165,020.0	338	159,004.6	218	170,207.1	271
Circular knitting machine (i.e. all single and double circular knitting machines average)	134,478.5	539	148,372.2	593	145,985.8	351	160,575.9	390

The average selling price of circular knitting machines (i.e. all single and double circular knitting machines average) increased by approximately 10.3% during the two years ended 31 December 2015 and 2016, which is higher than that of the average selling price of circular knitting machines in the industry from 2011 to 2016, according to the Frost & Sullivan Report.

The average selling price of single circular knitting machines for the six months ended 30 June 2017 increased by approximately 11.2% compared to that for the six months ended 30 June 2016. The average selling price of single circular knitting machines decreased by approximately 4.7% during the two years ended 31 December 2015 and 2016, primarily due to the difference in the product mix sold during the years. The sales volume of the single circular knitting machines for the six months end 30 June 2016 and 2017 were 133 and 119 respectively. The sales volume of single circular knitting machines increased by approximately 18.6% during the two years ended 31 December 2015 and 2016 due to stable sales growth in the PRC and overseas markets.

The average selling price of double circular knitting machine for the six months ended 30 June 2017 increased by approximately 7.0% compared to that for the six months ended 30 June 2016. The average selling price of double circular knitting machines increased by approximately 21.6% during the two years ended 31 December 2015 and 2016, primarily because of the significant increase in the sales of one of the most advanced double circular knitting machines of the Group (i.e. Double Loop Transfer Rib Computerised Jacquard Knitting Machine, which has a high average selling price). The sales volume of the double circular knitting machines for the six months ended 30 June 2016 and 2017 were 218 and 271 respectively. The sales volume of double circular knitting machines increased by approximately 4.3% during the two years ended 31 December 2015 and 2016 due to growth from overseas markets.

SUMMARY

Cost of goods sold

The following table sets forth the components of the Group's cost of goods sold by nature for the years/periods indicated:

	Year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
Raw materials:								
Core	21,055	41.6	23,169	38.1	13,736	37.9	18,507	45.7
Metallic parts and components	23,807	47.1	31,320	51.4	19,068	52.5	17,966	44.4
Accessories	651	1.3	917	1.5	551	1.5	493	1.2
Direct labour cost	1,624	3.2	1,378	2.3	763	2.1	1,030	2.5
Manufacturing overheads	3,439	6.8	4,098	6.7	2,168	6.0	2,515	6.2
Total	50,576	100.0	60,882	100.0	36,286	100.0	40,511	100.0

During 2015 and 2016, the Group's raw materials cost collectively increased by approximately RMB9.9 million or 21.7%, in which the Core, metallic parts and components, and accessories increased by approximately RMB2.1 million, approximately RMB7.5 million, and approximately RMB0.3 million, or 10.0%, 31.6%, and 40.9% respectively. The increase in raw material cost was mainly due to the increase in the revenue in 2016. The Group's direct labour cost decreased by approximately RMB246,000 or 15.1% in 2016, which was primarily due to the increase in production efficiency and the benefit of economies of scale arising from the increase in revenue in 2016. The Group's manufacturing overheads increased by approximately RMB0.7 million or 19.2% during 2015 and 2016, which was primarily due to the increase in revenue in 2016.

For further details on the Group's cost of goods sold, please refer to the section headed "Financial Information – Principal Components of Consolidated Statements of Profit or Loss – Cost of goods sold" in this prospectus.

SUMMARY

Gross profit and gross profit margin

The following table sets forth a breakdown of the Group's gross profit and gross profit margin by segment for the years/periods indicated:

	Year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000 (unaudited)	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
Single circular knitting machine	8,126	28.5	11,692	36.3	6,215	37.5	5,606	34.0
Double circular knitting machine	14,363	32.7	20,548	36.8	13,212	38.1	17,000	36.9
Others	97	14.4	1,180	18.7	1,098	19.7	68	12.1
Total	22,586	30.9	33,420	35.4	20,525	36.1	22,674	35.9

The overall gross profit margin decreased from 36.1% for the six months ended 30 June 2016 to 35.9% for the six months ended 30 June 2017. The overall gross profit margin increased from 30.9% for the year ended 31 December 2015 to 35.4% for the year ended 31 December 2016, primarily due to the magnitude of the increase in the cost of goods sold was smaller than the increase in the revenue in 2016. For further details on the Group's gross profit and gross profit margin, please refer to the section headed "Financial Information – Principal Components of Consolidated Statements of Profit or Loss – Gross profit and gross profit margin" in this prospectus.

MANUFACTURING FACILITY AND PROCESSES

The Group operates one production line at its manufacturing facility located at Longhai City, Zhangzhou City, Fujian Province, the PRC. The table below sets out the designed production capacity of the Group's manufacturing facility, actual production volume and utilisation rate during the Track Record Period for the Group's products:

	For the year ended		Six months ended
	31 December 2015	31 December 2016	30 June 2017
Designed production capacity (<i>units</i>) ⁽¹⁾	754	754	377
Actual production volume (<i>units</i>)	538	611	385
Utilisation rate (%) ⁽²⁾	71.4	81.0	102.1 ⁽³⁾

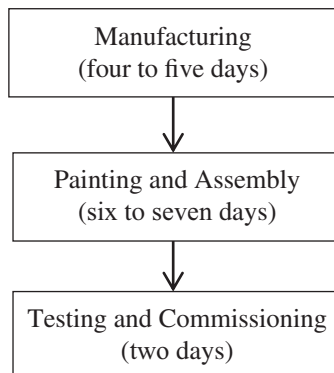
Notes:

- (1) The calculation of the annual production capacity is based on the following:
 - a. The designed production capacity is calculated by the maximum machinery operation hours per year multiplied by the number of machinery available and divided by the weighted average machinery operation hours required to produce one circular knitting machine taking into account the production mix of single circular knitting machines and double circular knitting machines manufactured in 2015 and 2016 and six months ended 30 June 2017.
 - b. In calculating the designed production capacity, it was assumed that the production line is in operation for one shift of 8 hours per day with 288 working days per year after taking into account statutory holidays and machine down time for maintenance.
- (2) The average utilisation rate is calculated by dividing the actual production volume of a year/period by the designed production capacity of that year/period.
- (3) The utilisation rate for the six months ended 30 June 2017 was over 100% due to the Group's manufacturing staff working overtime. None of the Group's manufacturing process were outsourced.

For further details, please refer to the section headed "Business – Manufacturing Facility and Processes – Manufacturing Facility" in this prospectus.

SUMMARY

The diagram below illustrates the general manufacturing process of the Group's circular knitting machines and the approximate time required:



For further details, please refer to the section headed “Business – Manufacturing Facility and Processes – Manufacturing Process” in this prospectus.

CUSTOMERS

The Group's domestic sales are made by the Group directly to domestic textiles manufacturers, and overseas sales are made directly through Zhangzhou Fukai and indirectly by the Group through trading companies, which resold the Group's products to their overseas customers. In view of the Group's success and experience in penetrating into overseas markets, the Group has established Zhangzhou Fukai to engage in the direct sales under the Group's own brand only to overseas countries.

For each of the two years ended 31 December 2015 and 2016 and six months ended 30 June 2017, revenue generated from the Group's five largest customers amounted to approximately 39.6%, 42.3% and 43.2% of the Group's total revenue, respectively and revenue generated from the Group's largest customer amounted to approximately 10.7%, 13.9% and 11.7% of the Group's total revenue, respectively. Save for Longhuai Import & Export, which is owned as to 95% by Ms. Zheng, a Controlling Shareholder, and as to 5% by Ms. Yuan, an executive Director and a Controlling Shareholder prior to their disposal of the entire interests on 6 November 2017, none of the Group's Directors, their close associates or Shareholders, who own more than 5% of the issued share capital of the Company as at the Latest Practicable Date had any interest in any of the Group's five largest customers during the Track Record Period. For further details, please refer to the section headed “Business – Customers” in this prospectus.

SALES AND MARKETING

The Group's marketing strategy involves direct marketing to approach existing and potential customers. From time to time, the Group's sales personnel conduct various forms of marketing activities such as attending both domestic and international industry exhibitions, visiting customers to better understand their needs for circular knitting machines and inviting customers to the Group's manufacturing facility. The sales and operating department further utilises the Alibaba.com online platform to advertise the Group's products and to reach out to its customers. For further details, please refer to the section headed “Business – Sales and Marketing” in this prospectus.

RAW MATERIALS AND SUPPLIERS

The raw materials used in the Group's production comprises the Core, metallic parts and components, and accessories. The raw materials required for production are generally readily available in the open market from a number of suppliers. The Group procures the necessary raw materials from a number of suppliers and do not enter into any long-term supply agreements with such suppliers.

For the years ended 31 December 2015 and 2016 and six months ended 30 June 2017, the Group's five largest suppliers of raw materials accounted for approximately 48.0%, 48.1% and 56.0% of the Group's total purchases, respectively and the Group's largest supplier of raw

SUMMARY

materials accounted for approximately 16.6%, 17.2% and 20.0% of the Group's total purchases, respectively. None of the Group's Directors, their close associates or Shareholders, who owns more than 5% of the issued share capital of the Company as at the Latest Practicable Date had any interest in any of the Group's five largest suppliers during the Track Record Period. For further details, please refer to the section headed "Business – Raw Materials and Suppliers" in this prospectus.

SUMMARY OF KEY OPERATIONAL AND FINANCIAL INFORMATION

The following table sets out a summary of the Group's consolidated statements of profit or loss for the years ended 31 December 2015 and 2016 and six months ended 30 June 2016 and 2017.

	For the year ended 31 December		Six months ended 30 June	
	2015 RMB'000	2016 RMB'000	2016 RMB'000 (unaudited)	2017 RMB'000
Revenue	73,162	94,302	56,811	63,185
Cost of goods sold	(50,576)	(60,882)	(36,286)	(40,511)
Gross profit	22,586	33,420	20,525	22,674
Profit before tax	14,357	14,658	13,119	12,741
Profit for the year/period attributed to owners of the Company	11,337	10,797	10,365	9,866

The following table sets out a summary of the Group's consolidated statements of financial position as at 31 December 2015 and 2016 and 30 June 2017.

	As at 31 December		As at 30 June
	2015 RMB'000	2016 RMB'000	2017 RMB'000
Non-current assets	27,612	27,570	26,668
Current assets	59,661	69,791	93,804
Current liabilities	60,706	70,167	72,802
Net current (liabilities)/assets	(1,045)	(376)	21,002
Total equity	26,567	27,194	47,670

The Group's net current liabilities amounted to approximately RMB1.0 million as at 31 December 2015, which was mainly attributable to the fact that the Group had relied on bank loans and amounts due to a related company to finance its operation for that year. The said bank loans were repayable on demand or within one year. The said amounts due to a related company had no fixed repayment terms. Hence the said bank loans and amounts due to a related company were classified as the Group's current liabilities, which amounted to approximately RMB36.4 million in aggregate as at 31 December 2015.

The substantial improvement in the gross profit of the Group during the year ended 31 December 2016 had led to a significant increase in the current assets of approximately RMB10.1 million as at 31 December 2016. However, as a result of an increase in current liabilities of approximately RMB9.5 million, the Group recorded a net current liabilities of approximately RMB376,000. The increase in net current liabilities was mainly attributable to the increase in bank loans of approximately RMB9.9 million to primarily finance the increase in the Group's sales and an increase in the amounts due to owners of the Company of approximately RMB8.6 million to finance the payment of the Listing expenses and the partial settlement of the consideration for purchase of equity capital of Zhangzhou Kaixing for the purposes of Reorganisation in 2016.

The Group's financial position has turned around to net current assets amounted to approximately RMB27.4 million (unaudited) as at 31 October 2017 compared to net current liabilities amounted to approximately RMB376,000 as at 31 December 2016. The turnaround to net current assets position was mainly attributable to the net profits generated from the operating activities in the ten months ended 31 October 2017 and the completion of the Offshore Pre-IPO Investment (as defined in the section headed "History, Reorganisation and Group Structure – Offshore Pre-IPO Investment" in this prospectus) in February 2017.

SUMMARY

The following table sets out a summary of the Group's consolidated statements of cash flows for the years ended 31 December 2015 and 2016 and six months ended 30 June 2016 and 2017.

	For the year ended		Six months ended	
	31 December		30 June	
	2015	2016	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(unaudited)	
Operating profit before working capital changes	18,166	18,981	15,138	14,985
Net cash generated from operating activities	18,521	3,972	5,364	12,378
Net cash used in investing activities	(683)	(1,994)	(48)	(131)
Net cash generated from financing activities	1,370	11,165	5,343	4,519
Net increase in cash and cash equivalents	19,208	13,143	10,659	16,766
Cash and cash equivalents as at beginning of the year/period	11,129	30,337	30,337	43,480
Cash and cash equivalents as at end of the year/period	30,337	43,480	40,966	60,246

KEY FINANCIAL RATIOS

The following table sets out the key financial ratios of the Group during the Track Record Period.

	For the year ended/ As at 31 December		For the six months ended/ As at 30 June
	2015	2016	2017
Gross profit margin (%)	30.9	35.4	35.9
Net profit margin (%)	15.5	11.4	15.6
Return on assets (%)	13.0	11.1	16.4
Return on equity (%)	42.7	39.7	41.4
Current ratio	1.0	1.0	1.3
Quick ratio	0.8	0.9	1.1
Interest coverage ratio	9.0	7.4	11.5
Debt to equity ratio (%)	22.8	53.6	Net cash
Gearing ratio (%) ⁽¹⁾	137.0	213.5	108.3

- (1) Gearing ratio is calculated based on total debt divided by total equity as at the relevant year end/period end. Total debt includes all loans and borrowings, amounts due to a related company, a director, owners of the Company and an owner of ultimate parent.

The Group's gearing ratio increased from approximately 137.0% as at 31 December 2015 to approximately 213.5% as at 31 December 2016 mainly due to the increase of bank loans and the increase of amounts due to a related company, a director and owners for the year ended 31 December 2016 to finance the Listing expenses of approximately RMB6.2 million incurred in 2016 and the partial settlement of the consideration for the purchase of equity capital of Zhangzhou Kaixing for the purposes of Reorganisation in 2016. The Group's gearing ratio decreased from approximately 213.5% as at 31 December 2016 to approximately 108.3% as at 30 June 2017 mainly due to (i) the reduction of loans and borrowing as a result of the repayments during the period of all the amounts due to a related company, a director and owners of the Company, which totalled approximately RMB13.2 million as at 31 December 2016; and (ii) the increase in total equity of approximately RMB20.5 million primarily due to the issue of Shares and the net profit during the period.

For further analysis on the Group's key financial ratios, please refer to the section headed "Financial Information – Key Financial Ratios" in this prospectus.

SUMMARY

OFFER STATISTICS

	Based on a Offer Price of HK\$0.18	Based on a Offer Price of HK\$0.28
Market capitalisation at the Offer Price ⁽¹⁾	HK\$180,000,000	HK\$280,000,000
Unaudited pro forma adjusted net tangible asset per Share ⁽²⁾	HK\$0.083	HK\$0.112

Notes:

- (1) The calculation of market capitalisation is based on the respective Offer Price of HK\$0.18 and HK\$0.28 per Offer Share and 1,000,000,000 Shares (including 300,000,000 Shares newly issued upon the Share Offer) expected to be in issue following the Share Offer.
- (2) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated after the adjustments referred to under the section headed “Unaudited Pro Forma Financial Information” in Appendix II to this prospectus, the respective Offer Price of HK\$0.18 and HK\$0.28 per Offer Share and 1,000,000,000 Shares (including 300,000,000 Shares newly issued upon the Share Offer) expected to be in issue following the Share Offer.

LISTING EXPENSES

The total estimated expenses in relation to the Listing (including underwriting commission) are estimated to be approximately HK\$25.2 million (assuming an Offer Price of HK\$0.23 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$0.18 to HK\$0.28), of which approximately HK\$9.0 million is directly attributable to the issue of new Shares in the Share Offer and to be accounted for as a deduction from equity and approximately HK\$16.2 million are expected to be charged to the consolidated statements of profit or loss in the period in which the expenses are incurred. Listing expenses of approximately HK\$7.0 million were incurred in 2016 and approximately HK\$9.0 million are expected to be charged to the Group’s consolidated statements of profit or loss after 31 December 2016, which will be reflected in the Group’s consolidated statement of profit or loss for the year ending 31 December 2017.

DIVIDEND

Save for the declaration of dividends amounted to approximately RMB3.2 million for the year ended 31 December 2016, the Group had not declared or paid any dividends during the Track Record Period.

The Group does not currently have any dividend policy or intention to declare or pay any dividends in the near future, nor does the Group have any predetermined dividend payout ratio.

Declaration of dividends is subject to the discretion of the Directors and after Listing, any declaration of final dividend for the year will be subject to the approval of the Shareholders. In addition, any declaration and payment as well as the amount of dividend will be subject to the constitutional documents of the Company and the Companies Law.

PREFERENTIAL TAX TREATMENT

Under the EIT Law and the EIT Regulation, the tax rate of the Group’s PRC subsidiaries is 25%. However, one of the Group’s PRC subsidiary, namely Zhangzhou Kaixing, has been granted the status of a “High and New Technology Enterprise” that entitled to a preferential EIT rate of 15% for three years commencing from the year ended 31 December 2012 and further extended for three more years commencing from the year ended 31 December 2015. Zhangzhou Kaixing is currently enjoying and has enjoyed such preferential EIT rate of 15% during the Track Record Period.

SHAREHOLDER INFORMATION AND PRE-IPO INVESTMENT

Immediately following the completion of the Capitalisation Issue and the Share Offer (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of options that may be granted under the Share Option Scheme), Azure Wealth will hold/be interested in 369,219,084 Shares, representing approximately 36.922% of the total issued share capital of the Company. Azure Wealth is owned as to 95% by Ms. Zheng and 5% by Ms. Yuan. Both Ms. Zheng and Ms. Yuan are directors of Azure Wealth. As such, Azure Wealth, Ms. Zheng and Ms. Yuan will be the Controlling Shareholders. Ms. Yuan is an executive Director and one of the Controlling Shareholders of the Company. For further details of the Group’s Controlling Shareholders, please refer to the sections headed “Directors, Senior Management and Employees” and “Relationship with Controlling Shareholders” in this prospectus.

SUMMARY

Controlling Shareholders' long-term commitment to the Group

In order to demonstrate their long-term commitment to the Group, each of the Controlling Shareholders has provided to the Company a voluntary lock-up undertaking that they will not at any time during the 24-month period following the Listing Date (the first 12 months of which is required under Rule 13.16A of the GEM Listing Rules while the second 12 months of which is provided to the Company voluntarily and cannot be waived) (i) offer, mortgage, hypothecate, pledge, charge, sell, contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of) the Controlling Shareholders Lock-up Shares; (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or (iv) agree to contract to, or publicly announce any intention to enter into, any transaction described in (i) or (ii) or (iii) above. Such voluntary lock-up period is beyond the general requirement stated in Rule 13.16A(1) of the GEM Listing Rules. For details of the undertaking, please refer to the section headed "Underwriting – Undertakings pursuant to the Public Offer Underwriting Agreement – Undertaking by the Controlling Shareholders" in this prospectus.

Pre-IPO Investment

Green Fountain, Palm Voyage, Palm Fortune, Fortunate Times and PAM Global Opportunities Fund ("**PAM Global**") are pre-IPO investors of the Company. After the Listing, Green Fountain, Palm Voyage, Palm Fortune, Fortunate Times and PAM Global will beneficially own 4.267%, 4.267%, 3.938%, 3.938% and 4.361% equity interests in the Company, respectively. Ms. Guo, the beneficial owner of Green Fountain, and Ms. Y Zheng, the beneficial owner of Palm Voyage, are businesswomen and personal friends of Ms. Yuan, an executive Director and one of the Controlling Shareholders. Mr. Cheng, the beneficial owner of Palm Fortune and Mr. Lam, the beneficial owner of Fortunate Times, are businessmen and were introduced to the Group by Ms. Zheng, one of the Controlling Shareholders. PAM Global was introduced to the Group by Mr. Cheng. For details of such investments, please refer to the section headed "History, Reorganisation and Group Structure – Onshore Reorganisation – Onshore Pre-IPO Investments" and "History, Reorganisation and Group Structure – Offshore Pre-IPO Investment" of this prospectus.

COMPETITIVE LANDSCAPE

According to the Frost & Sullivan Report, the circular knitting machinery market in China is fragmented with both domestic and foreign manufacturers. In terms of domestic and export sales value of circular knitting machinery manufactured in China in 2016, the top 10 players contributed an aggregate market share of 48.0% in the PRC. Benefiting from growing demand in Southeast Asian countries and other Asian countries and improving product quality, domestically owned circular knitting machinery manufacturers have experienced rapid growth in terms of both domestic and export sales value. In 2016, generating total revenue of RMB94.3 million, the Group ranked third among all domestic manufacturers, and seventh among all domestic, foreign owned and sino-foreign joint venture manufacturers.

RECENT DEVELOPMENTS

In view of the shifting of the manufacturing base of textiles manufacturer to Southeast Asian and other Asian countries with a lower labour costs than the PRC, the Group plans to expand the geographical coverage of its products and adopt a more proactive approach in the expansion of its overseas business. Instead of promoting its products under its own brands overseas indirectly solely through trading companies, the Group established an indirect wholly-owned subsidiary, namely Zhangzhou Fukai, in October 2016 to directly engage in sales to overseas customers. Since the commencement of its business operation, Zhangzhou Fukai has successfully exported the Group's products to India, Bangladesh, Thailand, South Korea, Turkey and Egypt. Save for promoting the Group's products under its own brands directly (instead of solely through trading companies), the Group's business model, revenue structure and cost structure basically remain unchanged subsequent to the commencement of business of Zhangzhou Fukai which took place in January 2017 and two key personnel responsible for overseas sales of circular knitting machines have left Longhuai Import & Export and joined Zhangzhou Fukai.

SUMMARY

Based on the unaudited financial information of the Group, which were reviewed by the Reporting Accountants in accordance with the Hong Kong Standard on Review Engagements 2410, the Group's revenue and gross profit margin for the ten months ended 31 October 2017 were approximately RMB106.6 million and 36.2%, and the Group's revenue and gross profit margin for the nine months ended 31 October 2016 were approximately RMB82.4 million and 35.7%, respectively, representing a substantial growth in revenue and a relatively stable gross profit margin for the period.

REGULATORY COMPLIANCE

During the Track Record Period, the Group was involved in certain non-compliance incidents in relation to: (i) failure to apply for social insurance registration within the prescribed period and make adequate social insurance contributions within the prescribed period; (ii) failure to set up housing provident fund accounts within the prescribed period and contribute to the housing provident fund for all eligible employees; (iii) failure to obtain all construction related permits for the construction of certain industrial workshops and a dormitory before commencement of construction; and (iv) failure to complete relevant completion inspection procedures, evaluation procedures and obtain pollutant discharge permits (排污許可證) before commencing operations or use of certain industrial workshops and a dormitory. For further details on such historical non-compliance incidents, please refer to the section headed "Business – Legal Proceedings and Compliance" in this prospectus.

RISK FACTORS

There are certain risks involved in the Group's operations and a detailed discussion of such risk factors that the Directors believe are particularly relevant to the Group is set out in the section headed "Risk Factors" in this prospectus. Set out below are some of the major risks that may have a material and adverse effect on the Group's business, financial conditions and results of operations:

- The Group may not be able to maintain its historical growth rates or profit margins, and its results of operations may fluctuate significantly.
- The Group may be unable to implement its business strategies successfully or it may fail to manage its expansion strategies successfully.
- The Group's research and development may not be able to catch up with technological advancements.
- The Group's business depends on its ability to retain key personnel.
- The Group had net current liabilities as at 31 December 2015 and 2016 and cannot assure you that such positions will not recur in the future.
- The Group may be unable to collect its trade receivables in a timely manner and have to record impairment losses.
- Labour shortages and increase in labour costs may have an adverse effect on the Group's business operations.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that since 30 June 2017 and up to the date of this prospectus, there had been no material adverse change in the financial or trading position or prospects of the Group and no event had occurred that would materially and adversely affect the information shown in the Group's consolidated financial statements as set out in the Accountants' Report included in the Accountants' Report in Appendix I to this prospectus.

DEFINITIONS

In this prospectus, the following expressions shall have the following meaning unless the context otherwise requires.

“Ace Progress”	Ace Progress Limited (高展有限公司), a limited liability company incorporated under the laws of the BVI on 4 July 2016 and a direct wholly-owned subsidiary of the Company
“Apex Green”	Apex Green International Limited, an international business company incorporated under the laws of the Republic of Seychelles on 16 July 2015 with company number 169620 and is wholly-owned by Mr. J Zheng
“Application Form(s)”	WHITE application form(s), YELLOW application form(s) and GREEN application form(s) or, where the context so requires, any of them
“Articles of Association” or “Articles”	the articles of association of the Company conditionally adopted on 11 December 2017 and will come into effect upon Listing, and as amended, supplemented or otherwise modified from time to time, a summary of which is contained in Appendix IV to this prospectus
“associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Azure Wealth”	Azure Wealth Limited (藍裕有限公司), an international business company incorporated under the laws of the Republic of Seychelles on 11 December 2015, with company number 176409 and one of the Controlling Shareholders, is owned as to 95% by Ms. Zheng and 5% by Ms. Yuan
“Bangladesh”	the People’s Republic of Bangladesh
“Board” or “Board of Directors”	the board of Directors of the Company

DEFINITIONS

“Business Day”	a day (excluding Saturday, Sunday or public or statutory holiday in Hong Kong and any day on which a tropical cyclone warning No. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “black” rainstorm warning signal is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are generally open for business in Hong Kong throughout their normal business hours
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of 658,408,840 Shares to be made upon capitalisation of the amount of HK\$6,584,088.40 standing to the credit of the share premium account of the Company referred to in the paragraph headed “Statutory and General Information – 3. Resolutions in writing of the Shareholders passed on 11 December 2017” in Appendix V to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant(s)”	a person or persons admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“close associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Companies Law” or “Cayman Companies Law”	the Companies Law (as revised) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”	China Futex Holdings Limited (中國福紡控股有限公司) (formerly known as China Precision Machinery Limited (中國精密機械有限公司)), an exempted company incorporated in the Cayman Islands with limited liability on 28 July 2016
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Controlling Shareholders”	has the meaning ascribed to it under the GEM Listing Rules and, in the context of this prospectus, means Azure Wealth, Ms. Zheng and Ms. Yuan
“core connected person”	has the meaning ascribed to it under the GEM Listing Rules
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Deed of Indemnity”	the deed of indemnity dated 19 December 2017 entered into by the Controlling Shareholders in favour of the Company to provide certain indemnities, particulars of which are set out in the paragraph headed “Statutory and General Information – 14. Tax and other indemnities” in Appendix V to this prospectus
“Deed of Non-Competition”	the deed of non-competition dated 19 December 2017 entered into among the Controlling Shareholders and the Company, in relation to non-competition undertaking, particulars of which are set out in the paragraph headed “Relationship with Controlling Shareholders – Non-competition Undertaking” in this prospectus
“Director(s)”	the director(s) of the Company

DEFINITIONS

“Dr. Hu”	Mr. Hu Xudong (胡旭東), an independent non-executive Director
“Dr. Mu”	Mr. Mu Zhirong (木志榮), an independent non-executive Director
“EIT”	enterprise income tax
“EIT Law”	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法)
“EIT Regulation”	Implementing Regulations of the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例)
“Egypt”	Arab Republic of Egypt
“Fortunate Times”	Fortunate Times Limited, an international business company incorporated under the laws of the Republic of Seychelles on 3 September 2013 with company number 131277 and is wholly owned by Mr. Lam
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent industry consultant commissioned by the Company to prepare the Frost & Sullivan Report
“Frost & Sullivan Report”	an independent research report in respect of the circular knitting machines industry in the PRC, commissioned by the Company and prepared by Frost & Sullivan
“Fujian Fufang”	福建福紡精密機械有限公司 (Fujian Futex Machinery Co., Ltd*), a limited liability company established in the PRC on 4 November 2010 and an indirect wholly-owned subsidiary of the Company
“Futex Machinery”	Futex Machinery Limited, a limited company incorporated under the laws of Hong Kong on 29 July 2016 and an indirect wholly-owned subsidiary of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange

DEFINITIONS

“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, as amended, supplemented or otherwise modified from time to time
“GREEN Application Form(s)”	the application form(s) to be completed by HK eIPO White Form Service Provider
“Green Fountain”	Green Fountain Management Limited, an international business company incorporated under the laws of the Republic of Seychelles on 30 April 2015 with company number 165815 and is wholly owned by Ms. Guo
“Group”	the Company and its subsidiaries, or any of them or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of the Company at that time
“HK\$”, “HK dollar(s)” or “HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“HK eIPO White Form”	the application for issue of Public Offer Shares in the applicant’s own name by submitting applications online through the designated website of HK eIPO White Form at www.hkeipo.hk
“HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by the Company, as specified on the designated website at www.hkeipo.hk
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited

DEFINITIONS

“IFRSs”	International Financial Reporting Standards, comprising International Financial Reporting Standards and the International Accounting Standards and Interpretations
“Independent Third Party(ies)”	party(ies) which are independent of and not connected with any Director, chief executive or substantial shareholder of the Company or any of the Group’s subsidiaries or any of their respective associates as defined in the GEM Listing Rules
“India”	the Republic of India
“INR”	Indian Rupee, the lawful currency of India
“JLL”	Jones Lang LaSalle Corporate Appraisal and Advisory Limited
“Joint Lead Managers”	Essence International Securities (Hong Kong) Limited and SBI China Capital Financial Services Limited
“Latest Practicable Date”	10 December 2017, being the latest practicable date for ascertaining certain information in this prospectus prior to its publication
“Listing”	the listing of the Shares on GEM
“Listing Committee”	the listing committee of the Stock Exchange
“Listing Date”	the date on which dealings in the Shares on GEM first commence, which is expected to be on or about 4 January 2018
“Listing Division”	the listing division of the Stock Exchange
“Longhuai Import & Export”	廈門龍懷進出口貿易有限公司 (Xiamen Longhuai Import & Export Co., Ltd*), a limited liability company established in the PRC on 15 July 2005 and is owned by an Independent Third Party. Longhuai Import & Export was owned as to 95% by Ms. Zheng and 5% by Ms. Yuan prior to their disposal of the entire interests on 6 November 2017

DEFINITIONS

“M&A Provisions”	Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定)
“MEP”	Ministry of Environmental Protection of the PRC (中華人民共和國環境保護部)
“Memorandum of Association”	the memorandum of association of the Company conditionally adopted on 11 December 2017 and will come into effect upon Listing, and as amended, supplemented or otherwise modified from time to time, a summary of which is contained in Appendix IV to this prospectus
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Chen”	Mr. Chen Yihui (陳毅輝), an executive Director
“Mr. Cheng”	Mr. Cheng Wing Lin (鄭永年), an Independent Third Party, save for his shareholding interest in the Company held through Palm Fortune
“Mr. J Zheng”	Mr. Zheng Jiafu (鄭加福), an executive Director
“Mr. Lam”	Mr. Lam Kin Wah (林建華), an Independent Third Party, save for his shareholding interest in the Company held through Fortunate Time
“Mr. Simon Shum”	Mr. Shum Shing Kei (沈成基), an independent non-executive Director
“Ms. Guo”	Ms. Guo Xueyan, an Independent Third Party, save for her shareholding interest in the Company held through Green Fountain
“Ms. Y Zheng”	Ms. Zheng Yangyu, an Independent Third Party, save for her shareholding interest in the Company held through Palm Voyage
“Ms. Yuan”	Ms. Yuan Yuan (袁遠), an executive Director and one of the Controlling Shareholders

DEFINITIONS

“Ms. Zheng”	Ms. Zheng Yonghua (鄭勇華), one of the Controlling Shareholders
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK\$0.28 per Offer Share and expected to be not less than HK\$0.18 per Offer Share, such price to be agreed upon by the Company and the Sole Bookrunner (for itself and on behalf of the other Underwriters) on or before the Price Determination Date
“Offer Shares”	the Public Offer Shares and the Placing Shares
“One Belt One Road”	a development strategy and framework, proposed by the PRC that focuses on connection and cooperation among countries primarily in Eurasia, which consists of two main components, the land-based “Silk Road Economic Belt” and oceangoing “Maritime Silk Road”
“Palm Fortune”	Palm Fortune Limited, an international business company incorporated under the laws of the Republic of Seychelles on 12 December 2013, with company number 137410 and is wholly-owned by Mr. Cheng
“Palm Voyage”	Palm Voyage Limited, an international business company incorporated under the laws of the Republic of Seychelles on 8 June 2015, with company number 167539 and is wholly-owned by Ms. Y Zheng
“Placing”	the conditional placing of the Placing Shares by the Underwriters on behalf of the Company for cash at the Offer Price as described in the section headed “Structure and Conditions of the Share Offer” of this prospectus
“Placing Shares”	the 270,000,000 new Shares initially offered by the Company at the Offer Price for subscription pursuant to the Placing (subject to reallocation as described in the section headed “Structure and Conditions of the Share Offer” in this prospectus)

DEFINITIONS

“Placing Underwriters”	together, the underwriters of the Placing
“Placing Underwriting Agreement”	the conditional underwriting agreement expected to be entered into around 28 December 2017 relating to the Placing and entered into by, among others, the Company, the executive Directors, the Controlling Shareholders, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers and the Placing Underwriters, as further described in the section headed “Underwriting – Placing” of this prospectus
“PRC” or “China”	the People’s Republic of China which, for the purposes of this prospectus only, excludes Hong Kong, Macau and Taiwan
“PRC Legal Adviser”	Jingtian & Gongcheng, the legal advisers to the Company as to PRC law
“Price Determination Agreement”	the agreement expected to be entered into between the Company and the Sole Bookrunner (for itself and on behalf of the other Underwriters) on or before the Price Determination Date to record the agreement on the final Offer Price
“Price Determination Date”	on or about 28 December 2017
“Public Offer”	the offer of the Public Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price on and subject to the terms and conditions stated in this prospectus and in the Application Forms as further described in the section headed “Structure and Conditions of the Share Offer” in this prospectus
“Public Offer Shares”	the 30,000,000 new Shares initially offered by the Company for subscription pursuant to the Public Offer (subject to reallocation as described in the section headed “Structure and Conditions of the Share Offer” in this prospectus)
“Public Offer Underwriters”	together, the underwriters of the Public Offer

DEFINITIONS

“Public Offer Underwriting Agreement”	the conditional underwriting agreement dated 19 December 2017 relating to the Public Offer and entered into by, among others, the Company, the executive Directors, the Controlling Shareholders, Apex Green, Sheen Vision, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers and the Public Offer Underwriters, as further described in the section headed “Underwriting – Public Offer Underwriting Arrangements” of this prospectus
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC
“Reorganisation”	the reorganisation of the Group in preparation for the Listing, as described in the section headed “History, Reorganisation and Group Structure” of this prospectus
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	State Administration for Industry and Commerce of the PRC (中華人民共和國工商行政管理總局)
“SAT”	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“SCNPC”	The Standing Committee of the National People’s Congress (全國人民代表大會常務委員會)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) with a par value of HK\$0.01 each in the share capital of the Company
“Share Offer”	the Public Offer and the Placing
“Share Option Scheme”	the share option scheme conditionally approved and adopted by the Company on 11 December 2017, the principal terms of which are summarised in the paragraph headed “Statutory and General Information – 13. Share Option Scheme” in Appendix V to this prospectus

DEFINITIONS

“Shareholder(s)”	holder(s) of the Shares
“Sheen Vision”	Sheen Vision Group Limited, an international business company incorporated under the laws of the Republic of Seychelles on 16 July 2015 with company number 169628 and is wholly-owned by Mr. Chen
“Sole Bookrunner”	Essence International Securities (Hong Kong) Limited, a licensed corporation to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO
“Sole Sponsor”	Essence Corporate Finance (Hong Kong) Limited, a licensed corporation to carry on type 6 (advising on corporate finance) regulated activities under the SFO
“South Korea”	the Republic of Korea
“sq.ft.”	square feet
“sq.m.”	square metres
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has/have the meaning ascribed thereto under the GEM Listing Rules
“substantial shareholder(s)”	has/have the meaning ascribed thereto under the GEM Listing Rules
“Takeovers Code”	the Code on Takeovers and Mergers and Share Buy-backs, as approved by the SFC and as amended, supplemented or otherwise modified from time to time
“Thailand”	the Kingdom of Thailand
“Track Record Period”	the two years ended 31 December 2015 and 2016, and six months ended 30 June 2017
“Turkey”	Republic of Turkey

DEFINITIONS

“Underwriters”	together, the Public Offer Underwriters and the Placing Underwriters
“Underwriting Agreements”	together, the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
“US\$” or “USD”	United States dollars, the lawful currency of the United States
“US” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“Vietnam”	Socialist Republic of Vietnam
“WHITE Application Form(s)”	the application form(s) for use by the public who require(s) such Public Offer Shares to be issued in the applicant’s or applicants’ own name(s)
“YELLOW Application Form(s)”	the application form(s) for use by the public who require(s) such Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS
“Zhangzhou Fukai”	漳州福凱貿易有限公司 (Zhangzhou Fukai Trading Co., Ltd*), a limited liability company established in the PRC on 12 October 2016 and an indirect wholly-owned subsidiary of the Company
“Zhangzhou Kaixing”	漳州凱星機械有限公司 (Zhangzhou Kaixing Machine Co., Ltd*), a wholly foreign owned enterprise company established in the PRC on 15 March 2004 and an indirect wholly-owned subsidiary of the Company
“%”	per cent

Unless otherwise specified, for the purpose of this prospectus and for the purpose of illustration only, Hong Kong dollar amounts have been translated based on HK\$1.00: RMB0.89. Certain amounts and percentage figures may have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

In this prospectus, if there is any inconsistencies between the Chinese names of the titles, entities or enterprises established or used as the case may be in the PRC and their English translations, the Chinese names shall prevail. The English names of PRC and overseas entities or titles mentioned in this prospectus may not be their official names in their respective locality and are used for identification only.

* For identification purpose only

GLOSSARY OF TECHNICAL TERMS

The glossary of technical terms contains explanations and definitions of certain terms used in this prospectus in connection with the Group and the Group's business. The terms and their meaning may not correspond to meanings or usage of these terms as used by others.

“CAGR”	compound annual growth rate
“CE Mark”	the CE marking indicates a product's compliance with European Union legislation and so enables the free movement of products within the European market. CE marking does not indicate that a product was made in the European Economic Area, but merely states that the product has been assessed before being placed on the market and thus satisfies the applicable legislative requirements (e.g. a harmonised level of safety) enabling it to be sold there. It means that the manufacturer has: (i) verified that the product complies with all relevant essential requirements (e.g. health and safety or environmental requirements) laid down in the applicable directives; and (ii) if stipulated in the directives, had it examined by an independent conformity assessment body
“CIF”	cost, insurance and freight
“circular knitting machine”	a type of knitting machine which knits yarn along a latitudinal direction which has either one or two cylinders where needles are placed as a circle. Fabrics produced by circular knitting machines are used to manufacture various end products, included but not limited to T-shirts, underwear, knitted sweaters, trousers, suits, jackets and shoes
“CNC”	the acronym for “computer numeric control”, where the functions and motions of a machine tool are controlled by means of a prepared program containing alphanumeric data
“Core”	核心, a core part of a circular knitting machine, containing the Cylinder, Triangles, and Heart
“Cylinder”	針筒, a core part of a circular knitting machine, mainly used to place the needles in the circular knitting machine for knitting purposes

GLOSSARY OF TECHNICAL TERMS

“domestic market” or “domestic sales”	the PRC market or the PRC sales
“double circular knitting machine”	a type of circular knitting machine that is characterised by having an upper cylinder and a lower cylinder, set perpendicular to each other, allowing for the production of reversible fabrics, which are ideal for garments that can be flipped to reveal a second colour or pattern, or identical on either side
“Double Loop Transfer Rib Computerised Jacquard Knitting Machine”	雙面移圈羅紋電腦機, a double circular knitting machine that integrates jacquard wearing technology with knitting technology, enabling the machine to produce stereoscopic patterns on knitted fabrics
“FOB”	free on board
“GDP”	gross domestic product
“GFA”	gross floor area
“Heart”	心臟, a core part of a circular knitting machine, mainly used for stabilising and connecting the Triangles
“ISO”	the International Organisation for Standardisation, a non-governmental organisation having a central secretariat based in Geneva, Switzerland, which gives world-class specifications for products, services and systems to ensure quality, safety and efficiency
“ISO 9001”	Quality Management System: a member of the ISO 9000 family, standards of which are set by ISO for quality management systems when an organisation needs to demonstrate its ability to provide products that fulfil customers and applicable regulatory requirements and aim to enhance customer satisfaction
“lathes”	車床, a type of machine used for milling and drilling
“OEM”	acronym for original equipment manufacturer, whereby products are manufactured in accordance with the customer’s specification and are marketed under the brand names specified by the customers

GLOSSARY OF TECHNICAL TERMS

“single circular knitting machine” a type of circular knitting machine that is characterised by having one cylinder only

“Triangle(s)” 三角, a core part of a circular knitting machine, which controls the movement of the needles placed within the cylinder according to the different products being produced by the circular knitting machines

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. The forward-looking statements are contained principally in the sections headed “Summary”, “Risk Factors”, “Industry Overview”, “Business”, “Financial Information” and “Future Plans and Use of Proceeds” of this prospectus. These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under the section headed “Risk Factors” of this prospectus, which may cause the Group’s actual results, performance or achievements to be materially different from performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- the Group’s business strategies;
- the Group’s capital expenditure and future plans;
- the Group’s ability to identify and successfully take advantage of new business development opportunities;
- the Group’s dividend policy;
- the Group’s prospective financial information; and
- the regulatory environment and industry outlook for circular knitting machinery industry.

The words “anticipate”, “believe”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “seek”, “will”, “would” and the negative of these terms and other similar expressions, as they relate to the Group, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect the Group’s current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of uncertainties and factors, including but not limited to:

- any changes in the laws, rules and regulations of the central and local governments in the PRC and Hong Kong relating to any aspect of the Group’s business or operations;
- general economic, market and business conditions in Hong Kong and the PRC;
- macroeconomic policies of the PRC government;
- inflationary pressures or changes or volatility in interest rates, foreign exchange rates or other rates or prices;
- various business opportunities that the Group may pursue; and
- the risk factors discussed in this prospectus as well as other factors beyond the Group’s control.

FORWARD-LOOKING STATEMENTS

Subject to the requirements of applicable laws, rules and regulations, the Group does not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way the Group expects, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set forth in this section as well as the risks and uncertainties discussed in the section headed “Risk Factors” of this prospectus.

RISK FACTORS

Potential investors of the Offer Shares should carefully consider all of the information set out in this prospectus and, in particular, the following risks and special considerations associated with an investment in the Company before making any investment decisions in relation to the Company. If any of the possible events as described below materialises, the Group's business, financial position and prospects could be materially and adversely affected and the market price of the Offer Shares could fall significantly.

This prospectus contains certain forward-looking statements relating to the Group's plans, objectives, expectations and intentions which involve risks and uncertainties. The Group's actual results may differ materially from those as discussed in this prospectus. Factors that could contribute to such differences are set out below as well as in other parts of this prospectus.

The operation results are mainly subject to several risk factors which can be categorised into the following areas: (i) risks relating to the Group's business; (ii) risks relating to the Group's industry; (iii) risks relating to conducting business in the PRC; and (iv) risks relating to the Share Offer, and are summarised below:

RISKS RELATING TO THE GROUP'S BUSINESS

The Group may not be able to maintain its historical growth rates or profit margins, and its results of operations may fluctuate significantly.

During the Track Record Period, the Group had been experiencing steady growth by having a steady increase in revenue. For the six months ended 30 June 2016 and 2017, the Group recorded a revenue of approximately RMB56.8 million (unaudited) and RMB63.2 million, respectively. For the years ended 31 December 2015 and 2016, the Group recorded a revenue of approximately RMB73.2 million and RMB94.3 million respectively. For a variety of reasons, the Group may not be able to expand its business at a rate comparable to its historical performance. For example, the Group's growth rate and profit margin could be hampered by economic downturn, fierce competition, change in regulations and government policies, failure to catch up with technology developments, shortage of key or specialised personnel or other risks described in this section.

The Group may be unable to implement its business strategies successfully or it may fail to manage its expansion strategies successfully.

The Group's future success depends on its ability to implement its business strategies and it cannot guarantee that it will be able to implement its business strategies successfully. The Group's key business strategies include, amongst others, expanding its customer base in the overseas market, expanding its production capabilities upstream, expanding its production capacity, enhancing customer loyalty and brand awareness and continuing to maintain and enhance its research and development capabilities. However, the successful implementation of

RISK FACTORS

these business strategies depends on a number of factors, including, among other things, changes in the market, the availability of funds, competition and government policy. Some of these factors are beyond the control of the Group and by nature, are subject to uncertainty.

There is no assurance that the business strategies of the Group can be implemented successfully and any failure or delay in the implementation of any or all of these strategies may have a material adverse effect on the profitability and prospects of the Group.

The Group's future growth will depend on its ability to successfully expand its production capacity

The utilisation rate of the Group's production capacity for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017 was approximately 71.4%, 81.0% and 102.1% respectively. If the Group is unable to increase its production capacity, it may lose market share as it may lose orders from customers due to not having sufficient production capacity. Additionally, the Group may not be able to achieve the optimum economies of scale in its operations that allows it to minimise costs and remain competitive in the market. If the Group is unable to deliver high quality products to its customers in a timely manner, its reputation may be affected.

While the Group is making efforts to increase its production capacity, the Group cannot be certain that it will be able to do so or the demand for its products will continue to increase or remain at the current levels. Failure to manage the Group's expansion or execute growth strategies could adversely affect its business, results of operations, financial condition, cash flows, and prospects. The Group's investors' return on equity may also be adversely affected as a result. If, due to unforeseen factors, there is insufficient funding, the Group may be required to forgo some of its expansion plans, issue more shares which may dilute its investors' shareholding or seek debt financing that may not be available on commercially reasonable terms, which may also adversely affect its investors' return on equity.

If the Group fails to implement its overseas growth strategy, its business, financial condition and results of operations may be materially and adversely affected.

As part of the Group's expansion strategy, it plans to increase its revenue generated from overseas sales by establishing overseas sales offices in countries with a fast-growing circular knitting machinery market such as India and Bangladesh. Further, the Group established Zhangzhou Fukai to engage in direct sales to customers in overseas markets. Since the commencement of its business operation, Zhangzhou Fukai had exported the Group's products to India, Bangladesh, Thailand, South Korea, Turkey and Egypt. The growth of the Group's overseas sales of circular knitting machines is largely dependent on the demand for its products in the overseas markets. For the years ended 31 December 2015 and 2016 and six months ended 30 June 2017, the Group's overseas sales represented approximately 22.3%, 38.7% and 47.8% of its total revenue respectively.

RISK FACTORS

The Group's expansion plans and exposure to the overseas markets exposes it to a number of risks, including, among other things:

- imposition of currency restrictions, restrictions on repatriation of earnings or other restraints;
- exchange rate risk;
- imposition of tariffs, trade sanctions or other trade barriers;
- difficulties in registering, maintaining or enforcing intellectual property rights;
- political and economic instability or civil unrest;
- slower than expected global economic growth and unfavourable macroeconomic conditions.

If the Group fails to avoid or mitigate these risks, its global expansion strategy may be negatively affected, which could adversely affect its business, financial condition, results of operations and prospects.

The Group's research and development may not be able to catch up with technological advancements.

The Group's competitiveness is substantially dependent on its ability to develop new products as well as improve existing products. To keep up with evolving market demands, and to maintain competitiveness, the Group is required to keep abreast of the evolving technological advancements, obtain up-to-date market information and introduce new products. The Group's growth prospects are dependent on its ability to improve its existing products or develop new products that meet evolving market demands. As a result, the Group focused on and invested in its research and development activities. For each of the two years ended 31 December 2015 and 2016 and six months ended 30 June 2017, the amount the Group incurred in research and development was approximately RMB2.7 million, RMB5.0 million and RMB2.8 million, respectively, representing approximately 3.6%, 5.3% and 4.4% of its total revenue, respectively. There is no assurance that the Group will be able to invest the same amount of resources in research and development in the future. While the Group strives to focus its research and development efforts on outcomes that will have a direct positive impact on its business, there is no assurance that its research and development efforts will be successful or directly applicable to improve its products, or that its new technology and products will be accepted in the market. Additionally, the Group's ability to introduce newly developed products to the market depends on factors beyond its control, including prevailing economic conditions, changing appetite of its customers, ability of its customers to obtain financing for new and potentially more costly products, and changes in industry standards and regulatory requirements for circular knitting machines. Failure to respond to changes and advancements in technology in a timely manner or at all may weaken the Group's competitiveness, reduce its market share and may materially and adversely affect its profitability and results of operation.

RISK FACTORS

In addition, there is no assurance that the Group's existing and/or potential competitors will not develop products which are similar or superior to its products which may serve as substitutes for its products. Technological advancements and the introduction of new products that are more technologically sophisticated by the Group's competitors may also reduce the price of and the demand for the Group's existing products or may render such products obsolete, which may materially and adversely affect the Group's financial condition.

The Group's business depends on its ability to retain key personnel.

The Group's business and its historical success can be substantially attributed to the expertise and experience of its senior management and key employees including Ms. Yuan, who is responsible for the overall operation and development strategy of the Group, and Mr. J Zheng, who leads the research and development department of the Group and is responsible for the market research and promotion for the Group's products and management of customer relationship. If any of the Group's directors or the key employees ceases to be involved in the Group's management, its business and operations may be materially impaired. The Group's continued success depends on its ability to retain key personnel and to attract new talent. However, competition for recruiting suitable technical and professional personnel is fierce, and the Group may need to offer higher compensation and more attractive benefits in order to attract and retain talent, which may adversely affect its financial condition and results of operations. In addition, the process of hiring and training qualified personnel is often costly in terms of time and money, and if the Group's talent management is unsuccessful, qualified personnel may not be integrated into its workforce in a timely manner to meet its business needs.

Further, if any of the Group's key personnel joins a competitor or establishes a competing business, the Group may face the risk of losing its key employees and its business, finance condition and results of operations may be adversely affected.

The Group had net current liabilities as at 31 December 2015 and 2016 and cannot assure that such positions will not recur in the future.

The Group's net current liabilities amounted to approximately RMB1.0 million and RMB376,000 as at 31 December 2015 and 2016, respectively. As at 31 December 2015, the net current liabilities of the Group was mainly attributable to the fact that the Group had relied on bank loans and amounts due to a related company to finance its operation for that year. The said bank loans were repayable on demand or within one year. The said amounts due to a related company had no fixed repayment terms. Hence, the said bank loans and amounts due to a related company were classified as the Group's current liability, which amounted to approximately RMB36.4 million in aggregate as at 31 December 2015. As at 31 December 2016, the net current liabilities of the Group was mainly attributable to the increase in bank loans of approximately RMB9.9 million to primarily finance the increase in the Group's sales and an increase in the amounts due to owners of the Company of approximately RMB8.6 million to finance the payment of the Listing expenses and the partial settlement of the consideration for purchase of equity capital of Zhangzhou Kaixing for the purposes of

RISK FACTORS

Reorganisation in 2016. For further details of the net current liabilities of the Group, please refer to the section headed “Financial Information – Description of Selected Consolidated Statements of Financial Position Items – Current Assets and Liabilities” in this prospectus. The Group cannot assure you that it will not have net current liabilities position in the future. If the Group has net current liabilities in the future, the Group may be exposed to constraints in its working capital for use in its operations, making it more difficult to satisfy the Group’s repayment obligations or increasing the Group’s vulnerability to adverse economic conditions.

The Group plans to expand its production capacity and production capabilities upstream by acquiring and installing additional equipment and machineries, and such expansion may result in increase in depreciation expenses.

The Group plans to expand its production capacity and production capabilities upstream by purchasing and installing several equipment and machineries. The Group intend to apply approximately 42.5% of the net proceeds from the Listing to purchase and install additional equipment and machineries. For details as to the type of machineries and equipment to be purchased and installed, please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus. The Group’s depreciation expense may increase due to the increase of such equipment and machineries, which may in turn materially and adversely affect the Group’s business, financial condition and results of operations.

The Group may be unable to collect its trade receivables in a timely manner and have to record impairment losses.

The Group may not be able to collect its trade receivables in a timely manner and some of its customers may delay payment of the outstanding balances after due dates beyond the Group’s control. During the six months ended 30 June 2017, the trade receivables turnover days and trade payable turnover days both decreased and as such, the Company’s inability to collect trade receivables in a timely manner may affect its ability to settle its trade payables. As at 31 December 2015, the Group’s trade receivables that were past due but not impaired amounted to approximately RMB1.3 million, of which approximately RMB0.6 million were past due over 12 months, representing approximately 43.5% of the trade receivables that were past due but not impaired. No impairment losses were made to the said trade receivables of approximately RMB0.6 million because they were all settled in 2016. As at 31 December 2016 and 30 June 2017, the Group did not have any trade receivables that were past due but not impaired. Moreover, no impairment losses to the Group’s trade receivables were recognised during the Track Record Period.

There is no assurance that impairment losses will not occur in the future even if the Group has from time to time enhanced its credit control and collection policies to minimise its credit risk. If any amount of trade receivables is considered to be uncollectible, impairment losses will be made accordingly. As a result, the Group’s financial condition and results of operations may be materially and adversely affected.

RISK FACTORS

Labour shortages and increase in labour costs may have an adverse effect on the Group's business operations.

As at 30 June 2017, the Group had 91 employees. For each of the years ended 31 December 2015 and 2016 and six months ended 30 June 2017, the Group's employee benefit expenses amounted to approximately RMB4.9 million, RMB5.4 million and RMB3.1 million, respectively.

The Group's future growth and expansion will depend on its ability to retain its existing workforce, and to continue to employ a suitable workforce at a rate consistent with the growth of its business. There is no assurance that the Group will be able to continue to recruit staff in a timely and cost-efficient manner. If the Group experiences a shortage of labour, it may not be able to maximise its production volume or fully utilise its production capacity, which may hinder its future business growth or delay its business expansion plans. Any labour shortage in the region in which the Group operates may force it to recruit from a wider geographical region and/or at a higher cost, which may have an adverse impact on its financial condition and results of operations. Furthermore, there is no assurance that the Group will not experience any labour strike or dispute in the future. Any labour strike or dispute may materially and adversely affect the Group's business operations.

Labour costs have increased significantly in the PRC in recent years and has changed the Group's cost structure. Apart from inflation, the implementation of the Labour Contract Law of the PRC (中華人民共和國勞動合同法), which became effective as of 1 January 2008 and was amended on 28 December 2012 with effect from 1 July 2013, has increased the Group's staff costs in the PRC, which has in turn increased its production costs. Further, the Group plans to expand its customer base in overseas markets by setting up overseas sales offices in India and Bangladesh. Even though according to the Frost & Sullivan Report, the associated labour costs in these countries are comparatively lower than labour costs in the PRC, the Group cannot assure you that the Group will not experience increases in labour costs in such countries. The Directors expect that the Group's labour costs will continue to increase in the future. If labour costs in the PRC continue to increase and labour costs increase in India and Bangladesh in the future and the Group is unable to pass such increase in costs to its customers in a timely manner or adopt appropriate and effective means to reduce its labour costs, its profitability and results of operations may be materially and adversely affected.



Loss of major customers may materially and adversely affect the Group's business and results of operations.

For each of the two years ended 31 December 2015 and 2016 and six months ended 30 June 2017, the revenue contributed by the Group's five largest customers amounted to approximately RMB29.0 million, RMB39.9 million and RMB27.3 million, respectively, representing approximately 39.6%, 42.3% and 43.2% of its total revenue, respectively. The Group's revenue and sales volume are subject to factors beyond its control, such as the PRC regulatory environment, sales strategies of its customers, industry conditions and overall economic climate. The Group cannot assure you that its customers will continue to purchase from it at current levels or at all in the future. Any significant reduction in customers' purchase orders may materially and adversely affect the Group's results of operations and financial condition.

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The Group does not enter into long-term sale and purchase agreements with fixed quantity to be purchased from its customers and its sales are made on a case-by-case basis. Since the Group does not have long-term purchase commitment from its customers and the Group is not their exclusive supplier, there is no assurance that the Group's existing customers will continue to purchase its products at current levels in the future or that its customers will not purchase from other suppliers. If the prices of the Group's products are not as competitive as those set by its competitors for comparable products or if the quality of its products does not meet its customers' expectations or requirements, its customers may not continue to place purchase orders with it. If the Group's existing customers choose not to purchase its products or if they significantly decrease their purchase volume, its results of operations and financial performance may be materially and adversely affected and the Group may lose its market position in the circular knitting machinery industry in the PRC.

Third parties may infringe the Group's intellectual property rights, or it may be subject to claims of alleged infringement on the intellectual property rights of others.

The Group's focus on research and development enables it to stay competitive, which is one of its key strengths. As at the Latest Practicable Date, the Group owns 15 utility model patents and one invention patent in total, of which one utility model patent and one invention patent relates to its Double Loop Transfer Rib Computerised Jacquard Knitting Machine. The Group has marketed its products under the brand names of “”, “**FUTEX 福紡**” and “**FUFANG 福紡**” of which each of “” and “**FUFANG 福紡**” is a registered trademark in the PRC. The trademark for “**FUTEX 福紡**” is currently being applied for. Further details of the Group's intellectual property are set out in the section headed “Further Information about the Company and its Subsidiaries – 8. Intellectual Property Rights of the Group” in Appendix V to this prospectus.

The Group relies on trademarks, patents, domain names, trade secret protection laws and confidentiality agreements with its employees, customers and other stakeholders to protect its intellectual property rights. Trade secrets such as product designs and product customisation are covered by confidentiality agreements as well.

The Group's intellectual property is exposed to theft and other forms of misappropriation. In particular, the legal protection to trademarks, patents, trade names, copyrighted materials, domain names, trade secrets, know-how and other forms of intellectual property in the PRC is limited and less effective as compared to many other countries. Preventing unauthorised use of the Group's intellectual property is therefore difficult, time consuming and expensive, yet yielding limited and uncertain results. Misappropriation of the Group's trademarks and other intellectual property could divert significant business to its competitors, damage its brand names and reputation, and may require it to initiate litigation that could be expensive, time consuming and require the Group to divert management resources from the operations of its business.

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Further, there is no assurance that infringement claims against the Group from third parties will not occur. The Group may be subject to legal proceedings and claims alleging infringement of intellectual property rights. Any infringement claims against the Group from third parties may involve the Group in time consuming and costly litigation or investigation, divert significant management and staff resources, require it to enter into expensive royalty or licensing arrangements, prevent it from using important technologies or other intellectual property, result in monetary liability, prevent it from distributing its products, or otherwise disrupt its operations. As at the Latest Practicable Date, the Directors were not aware of any claims or imminent claims against the Group alleging infringement of intellectual property rights.

The Group may not be entitled to preferential tax treatment, which may adversely affect its results of operations and financial condition.

According to the EIT Law promulgated on 16 March 2007 and the EIT Regulation promulgated on 6 December 2007, both of which became effective on 1 January 2008, enterprises in the PRC, including domestic and foreign invested enterprises, shall pay EIT at the unified rate of 25%.

The EIT Law also provides a preferential tax treatment for high and new technology enterprises in the form of a preferential enterprise income tax rate of 15% subject to the competent authorities' review and approval. According to the Administrative Measures for Certification of High and New Technology Enterprises (高新技術企業認定管理辦法), Zhangzhou Kaixing, the Group's major operating subsidiary, is recognised as a "High and New Technology Enterprise" by Fujian Provincial Department of Science & Technology (福建省科學技術廳), Fujian Provincial Department of Finance (福建省財政廳), Fujian Provincial Office, SAT (福建省國家稅務局) and Fujian Local Taxation Bureau (福建省地方稅務局) and is entitled to the preferential enterprise income tax rate of 15% for three years commencing from the year ended 31 December 2012 and further extended for three more years commencing from the year ended 31 December 2015.

The renewal of the recognition as a "High and New Technology Enterprise" will be subject to a three-year review by the relevant authorities in the PRC. Preferential tax treatment granted to Zhangzhou Kaixing by the relevant authorities is subject to such review and may be adjusted or revoked at any time. There can be no assurance that the Group can successfully renew the recognition of Zhangzhou Kaixing as a "High and New Technology Enterprise" or continue to enjoy the same preferential tax treatments in the future. In the event that the PRC government changes its tax policy of supporting new technology development, or Zhangzhou Kaixing ceases to be eligible for such preferential tax treatments, the Group may be subject to higher enterprise income tax rates. The Group's performance and profitability may be adversely affected by any unfavourable changes in PRC tax policies.

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Non-renewal, revocation or suspension of permits, licenses and certificates required for the Group's operations may materially and adversely affect its business, financial condition and results of operation.

The Group is required to obtain and maintain valid permits, licenses, certificates and other authorisations issued by the PRC national and local governmental authorities (including but not limited to NDRC, MOFCOM and SAIC) in order to carry out its business. For details of the relevant authorisations required, please refer to the section headed "Regulatory Overview" and the paragraph headed "Risks Relating to the Group's Industry – If there are changes in the PRC national and local government policies that are unfavourable to the Group's industry, its growth prospects, business, financial condition and results of operations may be materially and adversely affected" in this section. Further, the Group must comply with the conditions and restrictions imposed by the various government authorities to maintain its permits, licenses, certificates and other authorisations. The PRC Legal Advisers have advised the Group that it has obtained all material permits, licenses and certificates that are necessary for its current operations in the PRC.

The PRC national and local governmental authorities (including but not limited to NDRC, MOFCOM and SAIC) may conduct special and/or routine inspections, audit, inquiries and examinations on the Group in order to ensure that it complies with the conditions and/or restrictions required for it to maintain its licenses, permits, certificates and other authorisations for its business operations. If the Group is not in compliance with the relevant conditions and restrictions required for permits licenses, certificates or other authorisations issued by such PRC governmental authorities, its licenses, permits, certificates and other authorisations may be suspended or revoked, and the Group may be subject to fines or penalties, and may be required to suspend or cease part or all of its business operations. In addition, the Group cannot assure you that it will be able to maintain or renew its existing permits, licenses, certificates or other authorisations which it requires for its continued business operations. The Group's business operations, financial condition, results of operations and prospect and profits may be adversely affected as a result.

The Group may experience unexpected disruptions to the Group's manufacturing facility or manufacturing process.

The Group operates one manufacturing facility based in Longhai City, Zhangzhou City, Fujian Province, the PRC. The Group's business operations are heavily dependent on the operation of the manufacturing facility and any unexpected disruption to its manufacturing facility as a result of machine down-time due to maintenance, machine breakdown or malfunction or power failure may cause a production halt or delay in its production process, which may affect its production schedule and prevent it from completing its customers' purchase orders on time. The Group may lose customer loyalty, confidence and harm reputation as a result. Furthermore, the Group's production volume and the utilisation rate of its production facility may be materially and adversely affected, which may result in a decline in its gross profit margin and profitability. The Group cannot assure you that there will be no disruptions at its manufacturing facility in the future, and if any disruptions occur, its business performance and results of operations may be materially and adversely affected.

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In addition, the Group's manufacturing process may be disrupted due to natural disasters such as typhoons, earthquakes and floods, political instability, riots, civil unrest and terrorist attacks, outbreak of infectious diseases such as Severe Acute Respiratory Syndrome (SARS), Middle East Respiratory Syndrome (MERS) and other epidemics, or other events beyond its control. The Group may experience substantial loss as a result of disrupted manufacturing process and business operations, including loss of revenue. The Group may also need to incur additional cost to repair or replace any damaged machinery or equipment. In these circumstances, the Group's results of operations and financial condition may be materially and adversely affected.

The Group may be unable to maintain effective quality control.

The performance, quality and safety of the Group's products are critical to its business and development. Although the Group has established and currently maintains stringent quality control standards and internal inspection procedures, the effectiveness of its quality control system is determined by various factors, including the adherence by its employees to its quality control policies and guidelines.

In addition, the Group from time to time procures certain raw materials for the manufacturing of its products from various suppliers. The Group cannot assure you that such raw materials will be manufactured in accordance with its internal quality standards. Failure of such raw materials to meet the Group's internal quality standards may result in product defects in its finished product. The Group cannot assure you that it will not be subject to any claims related to product defects. If any such claims were to arise, the Group may incur significant costs and expenses to address such claims and the Group's business, results of operations, financial condition and reputation may be materially and adversely affected.

The Group exposes to uncertainty and potential volatility with respect to its cost of raw materials.

During the Track Record Period, the Group's cost of raw materials accounted for approximately 90.0%, 91.0% and 91.3%, respectively, of its costs of goods sold. As a result, the Group's production volume and production costs depend on its ability to source quality materials at competitive prices. Supplies of raw materials are subject to a variety of factors beyond the Group's control, including interruptions in the supplier's business operations, market supply and demand, industry conditions and overall economic conditions; whereas the quality of raw materials is dependent on the supplier's production capabilities, production facilities and quality control systems. The Group has not entered into any long-term agreements with any suppliers for raw materials nor has it entered into any hedging arrangements or transactions to reduce its exposure to fluctuations in the costs of raw materials. If the Group experiences an interruption, reduction or termination in the supply of or an increase in the cost of raw materials, it may not be able to obtain the raw materials needed for the production of its products. Any increase in the prices of the Group's major raw materials could result in additional costs to it and may lead to a reduction in its gross profit margin to the extent that it is unable to pass these increased costs on to its customers. Further, any delay

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in the delivery of raw materials or any defect in the raw materials supplied to the Group may materially and adversely affect or delay its production schedule and, if the Group cannot secure raw materials of similar quality and at reasonable prices from alternative suppliers in a timely manner or at all, it may not be able to deliver its products to its customers on time. In such circumstances, the Group may lose customer loyalty and confidence. As a result, the Group's business, reputation, financial condition, results of operations and growth prospect may vary from period to period and may fluctuate significantly in the future.

Failure to manage inventory at optimal levels could adversely affect the Group's business, results of operations, financial condition and prospects.

Maintaining an optimal level of inventory is critical to the success of the Group's business. For the two years ended 31 December 2015 and 2016 and six months ended 30 June 2017, the inventory of the Group amounted to approximately RMB10.1 million, RMB10.1 million and RMB11.5 million, respectively, and the average inventory turnover days were approximately 68.6 days, 60.6 days and 48.2 days, respectively. The Group is exposed to increased inventory risks as a result of a variety of factors beyond the Group's control, including, consumer needs and the inherent uncertainty of success of product launches. The Group cannot assure you that it can accurately predict these trends and events and avoid under-stocking or over-stocking inventory. Any unexpected change in demand for the Group's products may result in the Group having out-of-stock or over-stocked items, which will have a direct impact on the Group's sales and pricing strategies. Further, the Group cannot assure you that its inventory management measures will be implemented effectively so that it will not have significant levels of obsolete inventories. In the event that there is a sudden decrease in the market demand for the Group's products or in the event that the Group's new products do not successfully meet customer preference, the Group may experience slow movement of its inventories. The Group may not be able to utilise or sell its inventories swiftly, and may face the risk of inventory obsolescence. If the Group fails to manage its inventory at an optimal level, its business, results of operations, financial condition and prospects may be adversely affected.

The Group may not have adequate insurance coverage.

The insurance products offered in the PRC do not provide as much coverage as those offered in other countries. The Group has only obtained a limited scope of insurance coverage, and it may be exposed to the risk of uninsured financial or other losses, damages and liabilities, litigation costs, and losses arising from business or operation disruptions. Additionally, the Group's insurance policy may not cover losses arising from natural disasters, adverse weather, power disruptions, war, terrorist attacks or other similar events that are out of its control. If the Group's production and business operations are disrupted, it may incur material costs and losses that may materially and adversely affect its business, financial condition and results of its operations.

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The Group relies on third party logistics service providers to deliver its products, and their failure to provide timely and high quality logistics services to its customers may adversely affect its brand image and its financial condition.

The Group relies on various third party logistics service providers to deliver its products to its customers. Interruptions to the operations of the logistics service providers as a result of vehicle breakdown or labour strike may prevent the timely delivery of its products. In addition, inclement weather and natural disasters may result in a delay in delivery. There is no assurance that any such third party logistics service providers will be able to deliver the Group's products according to the delivery schedule or provide high quality services to its customers. If any such third party logistics service providers fail to deliver the Group's products to its customers on time or if its products are damaged in the course of delivery, its customers may refuse to accept its products and the Group's reputation and brand image may suffer as a result. The Group may also be required to bear additional costs in the event that the Group's products cannot be timely delivered in accordance with the terms of the sales and purchase contracts or damaged or defective products, which may materially and adversely affect its financial condition.

The Group is exposed to claims in respect of product liability which may affect its customers' loyalty and confidence.

Pursuant to the Product Quality Law of the PRC (中華人民共和國產品質量法), products are required to meet certain quality requirements, such as that the products shall be free of any unreasonable threats to personal safety or safety of property, and shall bear the functions they are supposed to bear, and manufacturers and sellers are liable for any defect in their products. Pursuant to the PRC Tort Liability Law (中華人民共和國侵權責任法), producers or sellers shall bear liability for damage caused to others by their defective products, and for such damage, the injured party may seek compensation from either the producer or the seller. Furthermore, pursuant to the Law on Protection of Consumers' Rights and Interests of the PRC (中華人民共和國消費者權益保護法), the rights of consumers in respect of personal and property safety in purchasing and using commodities are protected and consumers whose legitimate rights and interests are infringed as a result of purchasing and using such commodities may demand compensation from the sellers and/or suppliers. For further details, please refer to the section headed "Regulatory Overview" in this prospectus. A successful claim against the Group in respect of any defect in its products may result in legal costs incurred in connection with such claim or other adverse allegation or rectifying such defects, deterioration of the Group's brands and corporate image and material adverse effect on its sales, results of operations and financial conditions. The Group cannot assure you that it will not experience claims relating to any product defects in the future. Any such claim may have a material and adverse effect on the Group's financial condition, quality reputation and results of operations.

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The Group may be subject to fines and penalties as a result of non-compliance with PRC laws and regulations.

Pursuant to the relevant PRC laws and regulations, employers in the PRC are required to make social insurance contributions and housing provident fund contributions for their employees, and entities failing to make the above-mentioned contributions may be ordered to settle the outstanding contributions within a prescribed time limit and may be subject to penalties or fines. During the Track Record Period, the Group was not in strict compliance with due application for social insurance registration and did not set up housing provident fund accounts within the prescribed time period, and the requisite contribution requirements in relation to some of its PRC employees. Further, the Group did not obtain all of the construction related permits before commencement of construction of the Group's workshops during the Track Record Period as required under relevant PRC laws. For details of the non-compliance incidents and the remedial measures taken, please refer to the section headed "Business – Legal Proceedings and Compliance – Non-compliance incidents" in this prospectus.

The Group cannot assure you that it will not be subject to penalties, late fees or fines imposed by the relevant PRC authorities or orders to rectify such incidents of non-compliance in the future. Furthermore, the Group cannot assure you that there will not be any employee complaints against it in relation to its failure to apply for social insurance registration and set up housing provident fund account within the prescribed time period, or make full social insurance and housing provident fund contributions. Any such penalties, orders or complaints may harm the Group's brand image and reputation and may have an adverse effect on its financial condition and results of operations.

The workers employed by the Group may face risks of serious physical injury caused by the use of production machinery and equipment, which may result in a material and adverse effect on the Group's business, results of operations and financial condition.

In the course of production, workers employed by the Group operate machineries and equipment, which may potentially be dangerous. Any accident caused by the use of such equipment or machineries could result in physical injuries to the workers and interrupt the Group's operations. During the Track Record Period and up to the Latest Practicable Date, there were no cases of serious physical injury caused by the use of production machineries. However, the Group cannot assure you that there will not be any serious physical injury in the course of its production in the future. In accordance with relevant PRC labour laws and regulations, the Group has provided the employees with a social welfare scheme which includes work injury insurance, amongst others. However, the work injury insurance may not sufficiently cover, or cover at all, losses and liabilities the Group may encounter in respect of any personal injury claims from its employees. Therefore the Group may incur significant costs which could materially and adversely affect its business, results of operations and financial condition.

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The Group may face risks associated with foreign exchange due to the Group's intended expansion to overseas markets in the future.

For the two years ended 31 December 2015 and 2016, all operating revenues and expenses (including its purchases) of the Group have been denominated and settled in RMB. However, as the Group expanded its business operations to overseas markets since January 2017, certain operating revenues and expenses of the Group has since then been denominated in other currencies, which exposes the Group to foreign exchange risks. For the ten months ended 31 October 2017, the Group recorded a net foreign exchange loss of approximately RMB270,000 (unaudited). The Group will be exposed to foreign currency risks through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate and these various other currencies may result in losses for the Group and could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group may be subject to anti-dumping duties or trade quotas with respect to its direct overseas sales.

During the Track Record Period, the Group had commenced the direct export of its products to overseas customers and had since successfully sold its products directly to customers in India, Bangladesh, Thailand, South Korea, Turkey and Egypt. Any trade restrictions such as anti-dumping duties, tariffs or quota fees imposed by the countries to which the Group export its products, or a trade war involving the Group's products could significantly increase the prices of its products in such countries. If the Group is not able to pass such additional costs on to its customers, its profit margins could be adversely affected, which could adversely affect the Group's financial position, business or results of operations. As the Group cannot accurately predict whether any anti-dumping duties, tariffs or quota fees will be imposed in the future, the Group did not make any provision in its accounts for any anti-dumping duty payments, tariffs or quota fees.

RISKS RELATING TO THE GROUP'S INDUSTRY

The Group faces competition from existing and new domestic and international circular knitting machinery manufacturers.

During the Track Record Period, the Group generated the majority of its revenue from the sale of circular knitting machines. Such revenue accounted for approximately 99.1%, 93.3% and 99.1% of the Group's total revenue, respectively.

The Group faces competition from domestic and international manufacturers of circular knitting machinery. Some of the Group's competitors in this market, particularly PRC state-owned companies and multinational companies, may have better access to financing and better brand recognition with wider sales network coverage.

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The increased competition from other manufacturers of circular knitting machines may include price competition, which may create a downward pressure on the selling price of the Group's products. A decline in the Group's gross profit margin may adversely affect the Group's business, financial condition and results of operations. Moreover, if the Group fails to keep up with technological advancements, adapt to changing market conditions, maintain product quality, build brand recognition, and provide its products at competitive prices, the Group may not be able to compete with its competitors.

If there are changes in the PRC national and local government policies that are unfavourable to the Group's industry, its growth prospects, business, financial condition and results of operations may be materially and adversely affected.

The Group benefits from favourable policies adopted by national and local governments to promote and support the textiles machinery industry, including (i) the "Made in China 2025" policy, which highlights the application of information technology in manufacturing industry and aims to provide instructions for manufacturers about future growth; and (ii) the One Belt One Road (一帶一路) initiative, which promoted the trade and economic activities between China and over 50 countries in Central Asia and Southeast Asia. Textile machinery manufacturing industry had benefit from this policy as it provides convenience in communications between foreign customers and Chinese suppliers, transportation of products and even in processing payments.

The Directors expect the Group's business to continue to benefit from these favourable government policies and initiatives. However, there is no assurance that the PRC government will maintain these favourable policies in supporting the textiles machinery industry. Any unfavourable amendments to or discontinuation of such policies may materially and adversely affect the Group's growth prospects, business, financial condition and results of operations.

In addition, the Group cannot predict the effect of future developments in the PRC legal system, or the extent and effect of implementation and enforcement of new laws. The PRC government has extensive powers and wide discretion in dealing with violations of its laws, including imposing fines, requiring remedial actions for compliance with PRC law and revoking business licenses or permits. If the Group is forced to restructure its business or undergo corporate restructuring as a result of changes in government policy on foreign investment or changes in the interpretation or application of PRC regulations or laws, its business, financial condition and results of operations may be adversely affected.

The Group is subject to extensive environmental, health and safety laws, regulations, government policies and industry standards, and compliance with these laws, regulations, policies and standards may be costly.

The Group's business operations are subject to various environmental, health and safety laws, regulations, government policies and industry standards promulgated by the PRC Government, such as the *Environmental Protection Law of the PRC* (中華人民共和國環境保護法), the *Law of the PRC on the Prevention and Control of Water Pollution* (中華人民共和國水

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污染防治法), the *Law of the PRC the Prevention and Control of Atmospheric Pollution* (中華人民共和國大氣污染防治法), the *Law of the PRC on the Prevention and Control of Pollution from Environmental Noise* (中華人民共和國環境噪聲污染防治法), the *Prevention and Control of Environmental Pollution by Solid Waste Law of the PRC* (中華人民共和國固體廢物污染環境防治法), the *Law of the PRC on the Prevention and Treatment of Occupational Diseases* (中華人民共和國職業病防治法) and the *Work Safety Law of the PRC* (中華人民共和國安全生產法). In addition, the Group is subject to various industry standards imposed by the relevant authorities in the PRC or overseas jurisdictions on the products it produces, such as the general requirements for electrical safety of electrical equipment of machines and noise test code of textile machinery as set out in the *National Standards of the PRC* (中華人民共和國國家標準).

The environmental, health and safety laws, regulations, government policies and industry standards applicable to the Group's business operations and products are constantly evolving. The Group cannot predict when or how such laws, regulations, government policies or industry standards will be amended, nor the consequence or impact thereof. There is no assurance that the PRC Government or the relevant authorities in the PRC or overseas jurisdictions will not impose additional or more stringent laws, regulations, government policies or industry standards in the future, which may subject the Group to more onerous duties and obligations. Any change or amendment to these laws, regulations, government policies or industry standards may require the Group to incur substantial financial or other costs to adjust its production processes, introduce new preventive or remedial measures, purchase new pollution control equipment and update its compliance and monitoring systems in order to ensure compliance with such amended laws, regulations, government policies or industry standards. If the Group fails to adjust its production process, introduce new preventive or remedial measures, purchase new pollution control equipment or establish effective compliance and monitoring systems in a timely manner or at all, the Group may be subject to substantial penalties or heavy fines as a result of non-compliance and its business operations may be disrupted, which may materially and adversely affect its results of operations and financial condition.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

PRC economic, political and social conditions as well as government policies could adversely affect the Group's business and prospects.

The PRC economy differs from the economies of most developed countries in many aspects, including:

1. political structure;
2. the amount and degree of PRC government involvement and control;
3. level of corruption;
4. growth rate and degree of development;

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5. level and control of capital investment and reinvestment;
6. control of foreign exchange; and
7. allocation of resources.

The PRC economy has been transitioning from a centrally planned economy to a more market oriented economy. For over three decades, the PRC government has implemented economic reform measures to utilise market forces in the development of the PRC economy. The Group cannot predict whether changes in the PRC's economic, political and social conditions and in its laws, regulations and policies will have any adverse effect on its current or future business, financial condition or results of operations.

In addition, many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. This refining and adjustment process may not necessarily have a positive effect on the Group's operations and business development. For example, the PRC government has in the past implemented a number of measures intended to slow down certain segments of the economy, which the government believed to be overheating. These actions, as well as other actions and policies of the PRC government, could cause a decrease in the overall level of economic activity in the PRC and, in turn, have an adverse impact on the Group's business and financial condition.

Fluctuations in the value of the RMB may have a material adverse impact on your investment in the Company.

Substantially all of the Group's revenues and expenditures are denominated in RMB, while the net proceeds from the Share Offer and any dividends it pays on its Shares will be in Hong Kong dollars. Fluctuations in the exchange rate between the RMB and the Hong Kong dollar will affect the relative purchasing power in RMB terms of the proceeds from the Share Offer. Fluctuations in the exchange rate may also cause the Group to incur foreign exchange losses and affect the relative value of any dividend issued by its PRC subsidiaries. In addition, appreciation or depreciation in the value of the RMB relative to the Hong Kong dollar would affect the Group's financial results in Hong Kong dollar terms without giving effect to any underlying change in its business or results of operations.

There are limited hedging instruments available in the PRC to reduce the Group's exposure to exchange rate fluctuations between the RMB and other currencies. The cost of such hedging instruments may fluctuate significantly over time and can outweigh the potential benefit from the reduced currency volatility. As at the Latest Practicable Date, the Group has not entered into any hedging transactions in an effort to reduce its exposure to foreign currency exchange risks. In any event, the availability and effectiveness of these hedging instruments may be limited and the Group may not be able to hedge its exposure successfully, or at all.

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PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent the Group from using proceeds it receives from the Share Offer to make loans or additional capital contributions to its PRC subsidiaries.

Any loans to the Group's PRC subsidiaries are subject to PRC regulations and foreign exchange loan registrations. Any loans by the Group to its PRC subsidiaries to finance their activities, which cannot exceed statutory limits, must be registered with the local counterpart of SAFE. Any capital contributions by the Group to its PRC subsidiaries, must be approved or filed by the MOFCOM or its local counterpart. Further, if a foreign-invested enterprise converts foreign currency into RMB, it cannot use RMB funds converted from the foreign currency capital for securities investments or acquisitions within the PRC unless specifically provided for otherwise. For further information, please refer to the section headed "Regulatory Overview – PRC Laws and Regulations Relating To Taxation and Foreign Exchange" in this prospectus.

Violations of such measures will result in severe penalties, such as heavy fines set out in the relevant foreign exchange control regulations. The Group cannot assure you that it will be able to eventually obtain, renew or reacquire all or any of the approvals or filing required for making loans or additional capital contributions to its PRC subsidiaries using the proceeds from the Share Offer. Accordingly, the Group may not be able to make use of all or any of the proceeds from the Share Offer to extend loans or make additional capital contributions to its PRC subsidiaries.

The PRC government's control of foreign currency conversion may limit the Group's foreign exchange transactions, including dividend payments on the Shares.

Currently, RMB still cannot be freely converted into any foreign currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. It cannot be guaranteed that under a certain exchange rate, the Group will have sufficient foreign exchange to meet its foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by the Group, including the payment of dividends, do not require advance approval from SAFE, but it is required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within the PRC that have the licenses to carry out foreign exchange business. Foreign exchange transactions under the capital account conducted by the Group, however, must be approved in advance by SAFE.

Under existing foreign exchange regulations, following the completion of the Share Offer, the Group will be able to pay dividends in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, there is no assurance that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future. In addition, any insufficiency of foreign exchange may restrict the Group's ability to obtain sufficient foreign exchange for dividend payments to shareholders or to satisfy any other foreign exchange requirements. Furthermore, if the Group fails to complete filing with or obtain approval from the deposits bank of its PRC subsidiaries or local branches

RISK FACTORS

of SAFE to convert RMB into any foreign exchange for any of the above purposes, its capital expenditure plans, and even its business, operating results and financial condition, may be materially and adversely affected.

If SAFE determines that its foreign exchange regulations apply to the Group and its shareholding structure, a failure by the Shareholders who are PRC citizens or residents to comply with these regulations may curtail the Group’s ability to distribute profits, restrict its overseas and cross-border investment activities, or subject it to liabilities under PRC laws and regulations.

Pursuant to regulations promulgated by SAFE, PRC residents and citizens must register with the appropriate local banks prior to establishing or controlling an offshore entity for the purpose of offshore equity financing involving onshore assets or equity interests held by them onshore. They must also make filings with SAFE thereafter upon the occurrence of certain changes in the capital structure. These registration and filing procedures are prerequisites for other approval and registration procedures necessary for capital inflow from offshore entities, such as inbound investments or shareholders’ loans, or capital outflow to offshore entities, such as the payment of dividends, repayment of offshore shareholder loans, liquidation distributions, equity sale proceeds or refunds upon a capital reduction. For further information, please refer to the section headed “Regulatory Overview – PRC Laws and Regulations Relating to Taxation and Foreign Exchange” in this prospectus.

It cannot be assured that the the PRC resident Shareholders will be able to complete the necessary registration and filing procedures. Any failure by the Shareholders or beneficial owners of the Shares to comply with the applicable SAFE regulations may subject such Shareholder or beneficial owners to penalties under PRC foreign exchange administrative regulations, and may subject the Group to fines or other legal sanctions, restrict its cross-border investment activities, limit its subsidiaries’ ability to pay dividends or make other distributions, and adversely affect its business, financial condition, results of operations and liquidity.

Interpretation of PRC laws and regulations involves uncertainty and the current legal environment in the PRC could limit the legal protections available to you.

The Group’s business is substantially conducted in the PRC and is governed by PRC laws and regulations. All of the Group’s operating subsidiaries are located in the PRC and are subject to PRC laws and regulations. The PRC legal system is a civil law system based on written statutes, and prior court decisions have little precedential value which can only be used as a reference. Additionally, PRC written statutes are often principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. Since 1979, the PRC legislature has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commercial transactions, foreign exchange supervisions, taxation and trade, with a view to developing a comprehensive system of commercial law. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and the nonbinding nature of prior court decisions, interpretation of PRC laws and

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regulations involves a degree, sometimes a significant degree, of uncertainty. Depending on the judicial authority, legislature or administrative agency or how or by whom an application or case is presented to such agency, the Group may receive less favourable interpretation of laws and regulations than its competitors. Furthermore, intellectual property rights and confidentiality protections in PRC may not be as effective as in the United States or other countries. In addition, any litigation in the PRC maybe protracted and result in substantial costs and diversion of resources and management attention. All these uncertainties may limit the legal protections available to foreign investors, including you.

The Group may be deemed a PRC resident enterprise under the EIT Law and be subject to PRC taxation on its worldwide income.

Under the EIT Law, enterprises established outside the PRC whose “de facto management bodies” are located in the PRC are considered “resident enterprises” and their global income will generally be subject to the uniform 25% tax rate. Under the EIT Regulation, “de facto management bodies” are defined as the bodies that have material and overall management control over the business, personnel, accounts and real estate of an enterprise.

All of the executive Directors are currently based in the PRC and may remain in the PRC. In April 2009, the SAT promulgated a circular to clarify the definition of “de facto management bodies” for enterprises incorporated overseas with controlling shareholders being onshore enterprises or enterprise groups in the PRC. However, it remains unclear how the tax authorities will treat an overseas enterprise invested or controlled by overseas enterprises and ultimately controlled by PRC individual residents, as in the Group’s case. Therefore, the Group may be treated as a PRC resident enterprise for taxation purposes. The tax consequences of such treatment are currently unclear as they will depend on how PRC finance and tax authorities apply or enforce the EIT Law and the EIT Regulation.

Dividends payable by the Group to its foreign investors and gains on the sale of the Shares may become subject to withholding taxes under PRC tax laws.

Under the EIT Law and the EIT Regulation issued by the State Council, PRC enterprise income tax at the rate of 10% is applicable to dividends payable by a PRC “resident enterprise” to investors that are “non-resident enterprises” (those enterprises that do not have an establishment or place of business in the PRC, or those that have such an establishment or place of business but the relevant income of which is not effectively connected with the establishment or place of business) to the extent such dividends have their source within the PRC. Similarly, any gain realised on the transfer of shares by such enterprises is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. If the Group is regarded as a PRC “resident enterprise”, it is unclear whether the dividends it pays with respect to the Shares or the gain you may realise from the transfer of the Shares will be treated as income derived from sources within the PRC and be subject to PRC income tax. This will depend on how the PRC tax authorities interpret, apply or enforce the EIT Law and the EIT Regulation. One example of a limitation on the 10% withholding tax is that, pursuant to the *Agreement between the Mainland of China and the Hong Kong Special*

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Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Incomes (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) on 21 August 2006, a company incorporated in Hong Kong is subject to withholding tax at the rate of 5% on dividends it receives from a company incorporated in the PRC if it holds a 25% or greater interest in the PRC company, or 10% if it holds an interest of less than 25% in the PRC company. If the Group is required under the EIT Law to withhold PRC income tax on its dividends payable to its foreign Shareholders, or if you are required to pay PRC income tax on the transfer of the Shares, the value of your investment in the Shares may be materially and adversely affected.

The national and regional economies in the PRC and the Group's prospects may be adversely affected by natural disasters, acts of God, and occurrence of epidemics.

The Group's business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics and other acts of God which are beyond the Group's control may adversely affect the economy, infrastructure and livelihood of the people in the PRC. In addition, past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in the PRC. A recurrence of Severe Acute Respiratory Syndrome or an outbreak of any other epidemics in the PRC, such as the avian flu or the human swine flu may adversely affect the Group's financial condition and results of operations.

PRC laws and regulations require more complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

A number of PRC laws and regulations, including the *Provisions on the Merger and Acquisitions of Domestic Enterprises by Foreign Investors* (關於外國投資者併購境內企業的規定) adopted by six PRC regulatory agencies on 8 August 2006 and amended on 22 June 2009 (the "**M&A Provisions**"), the *Anti-monopoly Law* (反壟斷法), and the *Rules of Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* (商務部實施外國投資者併購境內企業安全審查制度的規定) promulgated by MOFCOM on 25 August 2011 (the "**Security Review Rules**"), have established procedures and requirements that are expected to make merger and acquisition activities in China by foreign investors more time-consuming and complex. These include requirements in some instances that MOFCOM be notified in advance of any change of control transaction in which a foreign investor takes control of a PRC domestic enterprise, or that the approval from MOFCOM be obtained in circumstances where overseas companies established or controlled by PRC enterprises or residents acquire affiliated domestic companies. PRC laws and regulations also require certain merger and acquisition transactions to be subject to merger control review or security review.

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It may be difficult to effect service of process upon us or our Directors or senior management who reside in China or to enforce non-PRC court judgments against them in China.

Most of our assets are situated in China and most of our Directors and officers reside in, and most of their respective assets are located in, China. As a result, it may be difficult to effect service of process outside China upon most of our Directors and officers, including with respect to matters arising under applicable securities laws. China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom and most other countries. Consequently, it may be difficult for you to enforce against us or our Directors or officers in China any judgments obtained from non-PRC courts.

On 14 July 2006, Hong Kong and the PRC entered into the *Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned* (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排) (the “**Arrangement**”), pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in the PRC. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in dispute have not agreed to enter into a choice of court agreement in writing. Although the Arrangement became effective on 1 August 2008, the outcome and effectiveness of any action brought under the Arrangement may still be uncertain.

RISKS RELATING TO THE SHARE OFFER

Historical dividends are not indicative of the Group’s future dividends.

Save for the declaration of dividends of RMB3.2 million for year ended 31 December 2016, the Group had not declared or paid any dividends during the Track Record Period. The value of dividends declared and paid in previous years should not be relied on by potential investors as a guide to the future dividend policy of the Group or as a reference or basis to determine the amount of dividends payable in the future. There is no assurance that dividends will be declared or paid in the future. The payment and the amount of any dividends will be at the discretion of the Directors and will depend upon the Group’s future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions (if any) and other factors which the Directors deem relevant. The Group does not have any predetermined dividend payout ratio.

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In any event, there is no assurance that the Company will receive sufficient distribution from its subsidiaries to support any future profit distribution to its Shareholders, or that the amounts of any dividends declared by the Company in the future, if any, will be of a level comparable to dividends declared and paid by other listed companies in the same industry as the Group.

No assurance of liquidity and possible price and trading volume volatility of the Shares.

Prior to the Listing, there has been no public market for the Shares. The Offer Price is the result of negotiations between the Company and the Underwriters, and may differ from the market price for the Shares after the Listing. However, there is no assurance that the Listing will result in the development of an active and liquid public trading market for the Shares. The pricing and trading volume of the Shares may be volatile. The market price of the Shares may fluctuate significantly and rapidly as a result of the following factors, among others, some of which are beyond control of the Group:

1. variations in the results of the Group's operations;
2. changes in securities analysts' analysis of the Group's financial performance;
3. announcement by the Group of significant acquisitions, dispositions, strategic alliances or joint ventures;
4. addition or departure of key management personnel;
5. fluctuations in market prices and trading volume of the Shares;
6. involvement in litigation; and
7. general economic and stock market conditions in the PRC and Hong Kong.

These broad market and industry fluctuations may adversely affect the market price of the Shares.

Investors may experience difficulties in enforcing their shareholders' rights as the laws of Cayman Islands may differ from those of Hong Kong or other jurisdictions where investors may be located.

The Company is incorporated in the Cayman Islands and its affairs are governed by the Articles, the Companies Law and common law applicable in the Cayman Islands. The laws of the Cayman Islands may differ from those of Hong Kong or other jurisdictions where investors may be located. As a result, minority Shareholders may not enjoy the same rights that are provided under the laws of Hong Kong or such other jurisdictions. A summary of the Cayman Companies Law on protection of minorities is set out in the paragraph headed "Protection of minorities and shareholders' suits" in Appendix IV to this prospectus.

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Additional equity fund raising may lead to dilution of Shareholders' interests and decrease in market price of the Shares and additional debt financing may restrict future dividend declaration and/or fund raising exercises of the Group.

The Group may find opportunities to grow through acquisitions that cannot currently be anticipated. Secondary issue(s) of securities after the Share Offer may be necessary to raise the required capital to capture these growth opportunities. If additional funds are raised by issuing new equity securities in the future to new and/or existing Shareholders after the Listing, such new Shares may be priced at a discount to the then prevailing market price. If existing Shareholders are not offered an opportunity to participate, their shareholding interest in the Company will be diluted. Also, if the Company fails to utilise the additional funds to generate the expected earnings, its financial results may be adversely affected and in turn exert pressure on the market price of the Shares. If additional funds are raised through debt financing, any additional debt financing may, apart from increasing interest expense and gearing ratio, contain restrictive covenants with respect to dividends, future fund raising exercises and other financial and operational matters.

Future sale of Shares or major divestment of Shares by the Controlling Shareholders may cause the market price of the Shares to fall.

The sale of a significant number of Shares in the public market after the Share Offer, or the perception that these sales may occur, could adversely affect the market price of the Shares. Except as otherwise described in the sections headed "Relationship with Controlling Shareholders" and "Underwriting" in this prospectus and the restrictions set out by the GEM Listing Rules, there are no restrictions imposed on the Controlling Shareholders or substantial shareholders to dispose of their shareholdings. Any major disposal of Shares by any of the Controlling Shareholders or substantial shareholders may cause the market price of the Shares to fall. In addition, these disposals may make it more difficult for the Group to issue new Shares, thereby limiting the Group's ability to raise capital.

Investors should not place any reliance on any information contained in press articles or other media regarding the Group and the Share Offer.

There may have been press and media coverage regarding the Group and the Share Offer, which may contain references to certain events, or information such as financial information, financial projections, and other information about the Group that do not appear in this prospectus. Potential investors should only rely on the information contained in this prospectus, and any formal announcements made by the Group in Hong Kong when making any investment decision regarding the Shares. Accordingly, prospective investors are cautioned against making their investment decisions in reliance on any other information, reports, or publications other than this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (WUMP) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

INFORMATION ON THE SHARE OFFER

The Offer Shares are offered solely on the basis of the information contained and the representations made in this prospectus and the Application Forms, on the terms and subject to the conditions set out herein. No person in connection with the Share Offer is authorised to give any information, or to make any representation not contained in this prospectus and the Application Forms, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Directors, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriters, and any of their respective directors, agents, employees or advisers or any other party involved in the Share Offer.

OFFER SHARES ARE FULLY UNDERWRITTEN

This prospectus is published solely in connection with the Public Offer, which forms part of the Share Offer, which is sponsored by the Sole Sponsor and bookrun and managed by the Sole Bookrunner, and the Joint Lead Managers. The Public Offer is fully underwritten by the Public Offer Underwriters subject to the terms and conditions of the Public Offer Underwriting Agreement. The Placing will be fully underwritten by the Placing Underwriters under the terms and conditions of the Placing Underwriting Agreement. For details of the Underwriters and the underwriting arrangement, please refer to the section headed "Underwriting" in this prospectus.

RESTRICTIONS ON OFFER AND SALE OF SHARES

Each person acquiring the Offer Shares will be required to confirm or by his/her/its acquisition of the Offer Shares will be deemed to confirm that he/she/it is aware of the restrictions on the offer of the Offer Shares described in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

Save as mentioned above, no action has been taken in any jurisdiction other than Hong Kong to permit the offering of the Offer Shares or the general distribution of this prospectus. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in relation to the Share Offer in any jurisdiction or, in any circumstance in which such an offer or invitation is not authorised, or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under any applicable laws, rules and regulations of such jurisdictions pursuant to registration with or authorisation by the relevant regulatory authorities as an exemption therefrom.

Prospective investors for the Offer Shares should consult their financial advisers and take legal advice as appropriate, to inform themselves of, and to observe the applicable laws, rules and regulations of any relevant jurisdictions.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Further details of the structure and conditions of the Share Offer including its grounds for termination are set out in the section headed “Structure and Conditions of the Share Offer” in this prospectus.

APPLICATION FOR LISTING ON GEM

Application has been made to the Listing Division for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus.

Under section 44B(1) of the Companies (WUMP) Ordinance, if the permission for the Shares offered under this prospectus to be listed on GEM has been refused before the expiration of three weeks from the date of the closing of the application lists or such longer period not exceeding six weeks as may, within the said three weeks, be notified to the Company for permission by or on behalf of the Listing Division, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at all times after the Listing, the Company must maintain the “minimum prescribed percentage” of 25% or such applicable percentage of the issued share capital of the Company in the hands of the public (as defined in the GEM Listing Rules).

No part of the Shares or the loan capital of the Company is listed, traded or dealt in on any other stock exchange. At present, the Company is not seeking or proposing to seek listing of, or permission to deal in, any part of the Shares or loan capital on any other stock exchange. Only securities registered on the branch register of members of the Company kept in Hong Kong may be traded on GEM unless the Stock Exchange otherwise agrees.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

PROFESSIONAL TAX ADVICE RECOMMENDED

If investors are unsure about the taxation implications of the subscription for, purchase, holding, disposal of or dealing in, or exercise of any rights in relation to, the Offer Shares, they should consult an expert. It is emphasised that none of the Company, the Directors, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, agents, representatives or any other persons or parties involved in the Share Offer accept responsibility for any tax effects on or liabilities of any persons resulting from the subscription for, purchase, holding, disposal of or dealing in, or the exercise of any rights in relation to, the Offer Shares.

HONG KONG SHARE REGISTRATION AND STAMP DUTY

The Company's fully-paid Shares are freely transferable. The Shares may be registered on the principal register of members of the Company in the Cayman Islands or on the branch register of members of the Company in Hong Kong. Dealings in the Shares registered on the principal register of members of the Company in the Cayman Islands will not be subject to Cayman Islands stamp duty unless the Company holds an interest in land in the Cayman Islands.

The Company's principal register of members will be maintained in the Cayman Islands by the Company's principal share registrar, Estera Trust (Cayman) Limited, and the Company's branch register of members will be maintained in Hong Kong by the Hong Kong Branch Share Registrar, Tricor Investor Services Limited.

Only Shares registered on the branch register of members of the Company maintained in Hong Kong may be traded on GEM, unless the Stock Exchange otherwise agrees. Dealings in the Shares registered on the branch register of members of the Company in Hong Kong will be subject to Hong Kong stamp duty.

Unless the Company determines otherwise, dividends payable in HK\$ in respect of the Shares will be paid by cheque sent at the Shareholder's risk to the registered address of each Shareholder or, in the case of joint holders, the first-named holder.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval of the listing of, and permission to deal in, the Shares on GEM and the compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or, under contingent situation, any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS. If investors are unsure about the details of CCASS settlement arrangement and how such arrangements will affect their rights and interests, they should seek the advice of their stockbrokers or other professional advisers.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM are expected to commence at 9:00 a.m. on Thursday, 4 January 2018. Shares will be traded in board lots of 12,000 each. The stock code for the Shares is 8506.

The Company will not issue any temporary documents of title.

LANGUAGE

If there is any inconsistency between this prospectus and the Application Forms and the Chinese translation of this prospectus and the Application Forms, the English version of the same shall prevail. Names of any laws and regulations, governmental authorities, institutions, natural persons or other entities which have been translated into English and included in this prospectus and for which no official English translation exists are unofficial translations for your reference only.

ROUNDING

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, total of rows or columns of numbers in tables may not be equal to the apparent total individual items. When information is presented in thousands or millions or units, amounts may have been rounded up or down.

EXCHANGE RATE CONVERSION

Unless otherwise stated, the conversion of Renminbi into HK dollars in this prospectus is based on the approximate exchange rate of *HK\$1.00 to RMB0.89*.

Such conversions shall not be construed as representations that amounts in HK dollars will be or may have been converted into Renminbi at such rates or any other exchange rates, or vice versa, or at all.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Ms. Yuan Yuan	Flat 2603, Wenyuan Yage 92 Wenta Road, Siming District Xiamen City Fujian Province China	Chinese
Mr. Chen Yihui	No. 198, Ma Ling Ma Ling Cun Jiu Hu Town Longhai City Fujian Province China	Chinese
Mr. Zheng Jiafu	No. 83, Qiao Shan Qiao Shan Cun Yan Cuo Town Longhai City Fujian Province China	Chinese
<i>Independent non-executive Directors</i>		
Dr. Hu Xudong	Room 702 Unit 1 Block 2 Erqudong Cuiyuan New Village Xihu District Hangzhou City Zhejiang Province China	Chinese
Mr. Shum Shing Kei	Room 3002, 30th Floor Block B Serenade Cove 623 Castle Peak Road Tsuen Wan New Territories Hong Kong	Chinese
Dr. Mu Zhirong	Room 303 No. 14, Haibin Xiamen University Siming District, Xiamen City Fujian Province China	Chinese

Further information of the Directors is disclosed in the section headed “Directors, Senior Management and Employees” in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Sole Sponsor	Essence Corporate Finance (Hong Kong) Limited 39/F, One Exchange Square Central, Hong Kong
Sole Bookrunner	Essence International Securities (Hong Kong) Limited 39/F, One Exchange Square Central, Hong Kong
Joint Lead Managers	Essence International Securities (Hong Kong) Limited 39/F, One Exchange Square Central, Hong Kong SBI China Capital Financial Services Limited Unit A2 32/F United Centre 95 Queensway Hong Kong
Legal advisers to the Company	<i>As to Hong Kong law</i> LF Legal Suites 1001-02, 10/F 135 Bonham Strand Trade Centre No. 135 Bonham Strand Sheung Wan, Hong Kong <i>As to PRC law</i> Jingtian & Gongcheng Suite 45F, K. Wah Centre 1010 Huaihai Road (M) Xuhui District Shanghai 200031, PRC <i>As to Cayman Islands law</i> Appleby 2206-19 Jardine House 1 Connaught Place Central, Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

	<p><i>As to Bangladesh law</i> DFDL Bangladesh 5th Floor, House #153, Road #11 Banani, Block-E Dhaka 1213, Bangladesh</p>
	<p><i>As to Indian law</i> IndusLaw 1002A, 10th Floor, Tower 2 Indiabulls Finance Centre Senapati Bapat Marg Elphinstone Road Mumbai 400 013, India</p>
Legal advisers to the Sole Sponsor and the Underwriters	<p><i>As to Hong Kong law</i> Mayer Brown JSM 16/F – 19/F, Prince’s Building 10 Chater Road Hong Kong</p>
	<p><i>As to PRC law</i> Tian Yuan Law Firm 10/F, China Pacific Insurance Plaza 28 Fengsheng Hutong Xicheng District Beijing 100032, PRC</p>
Auditors and reporting accountants	<p>RSM Hong Kong <i>Certified Public Accountants</i> 29/F, Lee Garden Two 28 Yun Ping Road Causeway Bay, Hong Kong</p>
Property Valuer	<p>Jones Lang LaSalle Corporate Appraisal and Advisory Limited 6/F, Three Pacific Place 1 Queen’s Road East, Hong Kong</p>
Compliance adviser	<p>Essence Corporate Finance (Hong Kong) Limited 39/F, One Exchange Square Central, Hong Kong</p>

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Industry consultant

**Frost & Sullivan (Beijing) Inc., Shanghai
Branch Co.**

Rooms 1014-1018, Tower B
Green Center
No. 500 Yunjin Road
Shanghai 200232, PRC

Receiving bank

**Industrial and Commercial Bank of China
(Asia) Limited**

33/F., ICBC Tower
3 Garden Road
Central, Hong Kong

CORPORATE INFORMATION

Registered office	P.O. Box 1350 Clifton House, 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
Headquarters and principal place of business in the PRC	Xiawei Village, Fugong Town Longhai City, Fujian Province PRC
Place of business in Hong Kong registered under Part 16 of the Companies Ordinance	Unit 2406, 24/F Bonham Trade Centre 50 Bonham Strand, Sheung Wan Hong Kong
Company's website	<u>www.kx-machine.com</u> (the information contained in this website does not form part of this prospectus)
Company secretary	Ms. Chan So Fong, <i>Certified Public Accountant</i> Unit 2406, 24/F Bonham Trade Centre 50 Bonham Strand, Sheung Wan Hong Kong
Authorised representatives (for the purpose of the GEM Listing Rules)	Ms. Yuan Yuan Zhangzhou Kaixing Machine Co., Ltd Xiawei Village, Fugong Town Longhai City, Fujian Province PRC Ms. Chan So Fong Unit 2406, 24/F Bonham Trade Centre 50 Bonham Strand, Sheung Wan Hong Kong
Compliance officer	Ms. Yuan Yuan Zhangzhou Kaixing Machine Co., Ltd Xiawei Village, Fugong Town Longhai City, Fujian Province PRC

CORPORATE INFORMATION

Audit committee	Mr. Shum Shing Kei (<i>Chairman</i>) Dr. Mu Zhirong Dr. Hu Xudong
Remuneration committee	Dr. Mu Zhirong (<i>Chairman</i>) Ms. Yuan Yuan Mr. Shum Shing Kei
Nomination committee	Ms. Yuan Yuan (<i>Chairlady</i>) Mr. Shum Shing Kei Dr. Mu Zhirong
Principal share registrar	Estera Trust (Cayman) Limited P.O. Box 1350 Clifton House, 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
Hong Kong Branch Share Registrar	Tricor Investor Services Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
Principal banker	Agricultural Bank of China (Longhai Jiuhu Sub-branch) Nandadaoshang Road Lingdou Village Jiuhu Town Longhai City Fujian Province China

INDUSTRY OVERVIEW

The information that appears in this section has been prepared by Frost & Sullivan and reflects the estimates of market conditions based on publicly available sources and trade opinion surveys, and is prepared primarily as a market research tool. References to Frost & Sullivan should not be considered as the opinion of Frost & Sullivan as to the value of any security or the advisability of investing in the Company. The Directors believe that the sources of information contained in this section are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. The Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading.

The information prepared by Frost & Sullivan and set out in this section has not been independently verified by us, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers or any other party involved in the Share Offer and neither they nor Frost & Sullivan give any representations as to its accuracy or correctness and accordingly it should not be relied upon in making, or refraining from making, any investment decision.

SOURCE OF INFORMATION

The Group had commissioned Frost & Sullivan to provide industry information on circular knitting machinery industry. The Group had agreed to pay a fee of RMB450,000 to Frost & Sullivan for the report. The Directors are of the view that the payment does not affect the fairness of the views and conclusions presented in the Frost & Sullivan Report.

RESEARCH METHODOLOGY

In compiling and preparing the research report, Frost & Sullivan conducted primary research including interviews with industry experts and participants and secondary research which involved reviewing the statistics published by the National Bureau of Statistics of China, International Trade Centre, industry publications, annual reports and data based on its own database. Frost & Sullivan presented the figures for various market size projections from historical data analysis plotted against macroeconomic data, as well as data with respect to the related industry drivers and integration of expert opinions. Frost & Sullivan assumed that (i) the social, economic and political environment is expected to remain stable; and (ii) key industry drivers are likely to continue to affect the market over the forecast period from 2017 to 2021.

Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Frost & Sullivan Report. The Directors confirm that after making reasonable enquiries, there is no adverse change in the market information since the date of the Frost & Sullivan Report which may qualify, contradict or have an impact on the information in this section.

INDUSTRY OVERVIEW

About Frost & Sullivan

Frost & Sullivan is an independent global consulting firm founded in 1961. It offers industry research, market strategies and provides growth consulting and corporate training. Its industry coverage includes industrial and machinery, automotive and transportation, chemicals, material and food, commercial aviation, consumer products, energy and power systems, environment and building technologies, healthcare, industrial automation and electronics and technology, media and telecom. The Frost & Sullivan Report includes information on data of the circular knitting machinery industry in the PRC, India, Bangladesh, Thailand and South Korea.

OVERVIEW OF CHINA KNITTING MACHINERY INDUSTRY

Definition and Classification

Textile machinery refers to all types of manufacturing equipment used in the process from yarn spinning to clothing production. According to the functions, textile machinery can be classified into four categories:

- Spinning machinery, which processes raw materials into yarn, such as cotton, chemical fiber, wool, linen, silk, etc.
- Weaving machinery, which is used to process yarn into fabrics by interlacing two or more sets of threads at right angles to each other. It is used to produce fabrics that are hard and heavy and with stable structure, such as canvas, denim and carpet fabric.
- Knitting machinery, in which the yarn follows a course, or a path, forming well-proportioned loops over and under the yarn's path. Fabrics processed by knitting machinery have soft texture, good permeability and can stretch more when compared to fabrics processed by weaving machinery.
- Dyeing and finishing machinery, which is used to bleach or dye fabrics or clothes.



Source: Frost & Sullivan

Knitting machinery includes circular knitting machinery, flat knitting machinery and warp knitting machinery. The knitting techniques applied and the fabrics produced by each type of knitting machinery are different, and therefore one type of knitting machinery cannot be used as a substitute to another.

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Circular knitting machinery is the type of knitting machinery that the Group produces, which knits yarn along a latitudinal direction. It has one or two cylinders where needles are placed as a circle. Fabrics produced by circular knitting machinery are normally used to produce T-shirts, underwear and knitted sweaters. Nowadays circular knitting machinery is also used to produce fabrics for trousers, suits, jackets and shoes, and such applications are expected to be more common in the future.

Domestic Retail Sales Value of Knitting Garment Products Made in China

The domestic retail sales value of knitting garment products in China grew steadily from RMB378.0 billion in 2011 to RMB631.8 billion in 2016, at a CAGR of 10.8% as a result of the increase in disposable income. Going forward, it is expected to continue the stable growth and increase from RMB631.8 billion in 2016 to RMB869.2 billion in 2021 with a CAGR of 6.6%, as consumers' preference for knitting garments will still remain strong in the coming five years, and the rising disposable income of residents will also make the knitting garment products more affordable for customers.

Export Value of Knitting Garment Products Made in China

The export value increased from RMB124.1 billion to RMB143.9 billion from 2011 to 2016 at a CAGR of 3.0% due to the fast development of OEM business in China and the solid demand from overseas markets. From 2016 to 2021, the export value is expected to grow at a CAGR of 3.9%. The mild growth compared with domestic sales is due to the shift of production base from China to Southeast Asian countries and other Asian countries, such as Bangladesh and India, as a result of increasing labour costs in China.

Market Size of Circular Knitting Machinery in China

The circular knitting machinery market took up about 15.0% of the entire knitting machinery market in terms of domestic and foreign sales value in 2016. The market demand for knitting garments and the popularity of different types of knitted fabrics have substantial impacts on the sales of circular knitting machinery. Over the past five years, the sales of circular knitting machinery in China experienced fluctuations due to the changes of market demand for garments produced by circular knitting machinery. From 2013 to 2015, there appeared decreases in the domestic sales value of circular knitting machinery. The reason was that textiles manufacturers shifted their production base from China to Southeast Asian countries and other Asian countries, such as Bangladesh and India, as a result of the increasing labour costs in China. The number of circular knitting machinery that is needed by customers in China decreased but the functions of such machinery were expected to be more advanced.

In 2016, the domestic sales value saw a slight increase as a result of the raise in average selling price due to the upgrading machinery models and increased price of steel in China in 2016. In the future, with decreasing sales volume and stable cost of raw materials, the domestic sales value of circular knitting machinery is expected to experience slight declines.

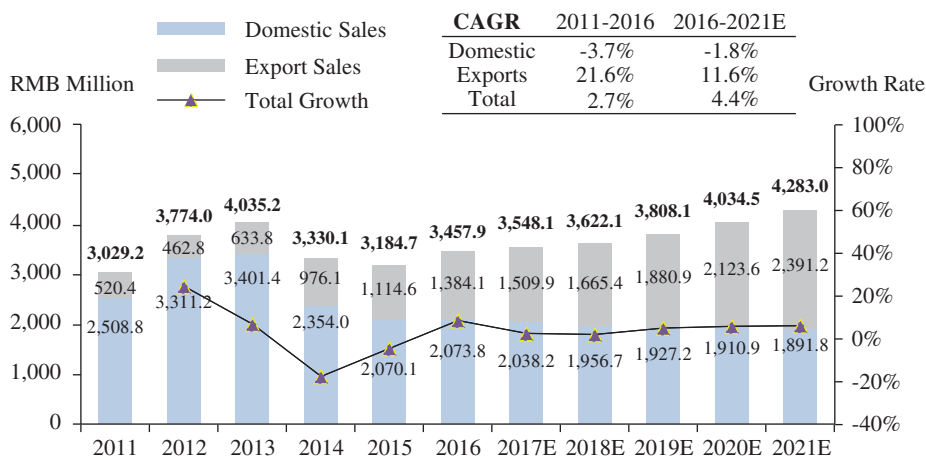
INDUSTRY OVERVIEW

This trend indicates that there has been forming a structural change where low level circular knitting machinery is being phased out of the China market and high level machinery is taking up the market.

For exports, due to the increasing labour costs in China, international garment products retailers have started to outsource the knitting garments production to manufacturers in Southeast Asian countries and other Asian countries, such as Bangladesh and India. As such, the demand for Chinese circular knitting machinery, which were of reasonable quality and sold at relatively cheaper prices compared to European machines, has been increasing significantly in those Southeast Asian and other Asian countries. From 2011 to 2016, the export value of Chinese circular knitting machinery increased from RMB520.4 million to RMB1,384.1 million, representing a CAGR of 21.6%.

Southeast Asian countries and other Asian countries are expected to become the main manufacturing bases for knitting garments in the future. Although China will still have a certain amount of textiles manufacturers, focus of textiles manufacturers is shifting to the production of more value-added knitting garments, and therefore the functions of circular knitting machinery are expected to be more advanced but less number of machines will be needed. As a result, domestic sales value of circular knitting machinery is expected to decrease slightly. However, driven by the growing export sales, the annual total sales value of circular knitting machinery made in China is estimated to increase from RMB3,457.9 million to RMB4,283.0 million, representing a CAGR of 4.4% from 2016 to 2021.

**Market Size of Circular Knitting Machinery in terms of Sales Value,
Domestic Sales and Export Sales, of Products Made in China, 2011-2021E**



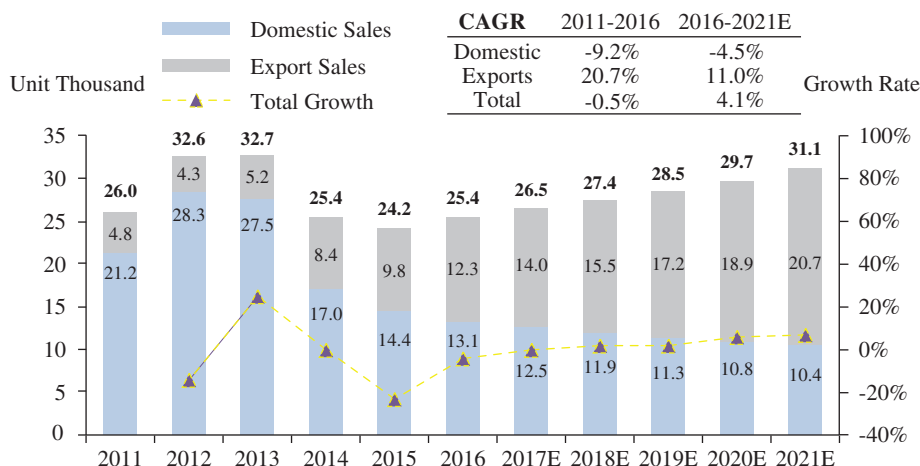
Source: International Trade Centre; Frost and Sullivan

In terms of sales volume, domestic sales decreased from 21,200 units in 2011 to 13,100 units in 2016, representing a CAGR of -9.2%. In the future, there are also expected decreases in each year at a CAGR of -4.5% from 2016 to 2021.

Export sales increased significantly in the past five years, from 4,800 units in 2011 to 12,300 units in 2016, representing a CAGR of 20.7%. Going forward the forecasted sales is also expected to grow on a yearly basis at a CAGR of 11.0% from 2016 to 2021.

INDUSTRY OVERVIEW

Market Size of Circular Knitting Machinery in terms of Sales Volume, Domestic Sales and Export Sales, of Products Made in China, 2011-2021E



Source: International Trade Centre; Frost and Sullivan

COMPETITIVE LANDSCAPE

Top 10 Circular Knitting Machinery Manufacturers in China

The circular knitting machinery market in China is fragmented with both domestic and foreign manufacturers. In terms of domestic and export sales value of circular knitting machinery manufactured in China in 2016, the top 10 players were listed below and they contributed an aggregate market share of 48.0% in PRC. Benefiting from growing demand in Southeast Asian countries and other Asian countries and improving product quality, domestically owned circular knitting machinery manufacturers have experienced rapid growth in terms of both domestic and export sales value. In 2016, generating total revenue of RMB94.3 million the Group ranked third among all domestic manufacturers, and seventh among all domestic, foreign owned and sino-foreign joint venture manufacturers.

Many China domestic circular knitting machinery manufacturers are engaged in, apart from manufacturing and selling product under their own independent brands, providing OEM service for other brands, which are mainly from Europe, Taiwan, for example, Santoni and Mayer & Cie. The OEM products are normally sold to overseas markets, such as India, Bangladesh and Thailand.

Among the top ten circular knitting machinery manufacturers in China, over 5 are engaged in OEM business. Generally in China, some manufacturers do not even have their own brands and purely provide OEM service.

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Ranking of the Top 10 Domestic, Foreign, Sino-Foreign Joint Venture Circular Knitting Machinery Manufacturers in China in terms of Domestic and Export Sales Value, 2016

Ranking	Company Name	Nature of Incorporation	2016 Sales Value (RMB Million)	2016 Market Share	Listed Company
1	A	Foreign	369.1	10.7%	No
2	B	Sino-Foreign Joint Venture	303.2	8.8%	No
3	C	Sino-Foreign Joint Venture	260.4	7.5%	No
4	D	Domestic	188.2	5.4%	No
5	E	Domestic	121.1	3.5%	No
6	F	Sino-Foreign Joint Venture	100.7	2.9%	No
7	The Group	Domestic	94.3	2.7%	No
8	H	Sino-Foreign Joint Venture	93.3	2.7%	No
9	I	Sino-Foreign Joint Venture	72.1	2.1%	No
10	J	Domestic	57.4	1.7%	No
		Top 10 Total	<u>1,659.8</u>	<u>48.0%</u>	
		Others Total	<u>1,798.1</u>	<u>52.0%</u>	

Source: Frost & Sullivan

MARKET TRENDS AND DRIVERS

Enlarging Overseas Market Demand

As the textiles manufacturers are currently transferring their manufacturing bases to Southeast Asian countries and other Asian countries where labour costs are cheaper than that in China, the demand for circular knitting machinery in those countries is expected to keep increasing, which will further stimulate the exports of circular knitting machinery made in China.

Improving Quality of Domestically Made Products

Due to the improvement in research and development capability, domestic circular knitting machinery manufacturers have successfully narrowed the gap of quality between their products and those made by foreign manufacturers. For example, partial chrome plating

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technique is being increasingly applied to knitting needles of circular knitting machinery, which extends the useful life of needles. Moreover, improvements in resolutions per minute and stability of production also indicate better quality of domestically made circular knitting machinery.

Government's Support for Exports

In recent years, several policies have been carried out by the national government of PRC in order to support the development of textile machinery manufacturing industry and to encourage export.

The Guiding Opinion on Textile Machinery Industry Development during the Thirteenth Five-Year 《紡織機械行業“十三五”發展指導性意見》) was issued in 2016, which listed 59 key technology research projects and 34 advanced and applicable technology promotion projects in textile machinery industry, aiming to elevate the quality of machinery made in China and attract more foreign customers. Moreover, the One Belt One Road policy officially published in March 2015 aims to promote the trade and economic activities between China and over 50 countries in Central Asia and Southeast Asia. Textile machinery manufacturing industry has been benefited from this policy as it provides convenience in the communications between foreign customers and Chinese suppliers, transportations of products and even in processing payments.

Application of More Advanced Technologies

Computerisation is becoming popular among circular knitting machinery in recent years. It mainly reflects in the use of computer programmes in all actions related to knitting, such as needle selection and shifts of the triangle, etc. Users then can control the production process through a specialised computer controller on the circular knitting machinery during production process. The application of computer technology in circular knitting machinery increases the number of fabric patterns available and the degree of automation that simplifies the production process. Currently in China, the penetration rate of computerised circular knitting machinery was around 12% in 2016, and it is expected to rise to 30%-40% in the near future.

Moreover, circular knitting machinery manufacturers have been increasing investments in the R&D of new machines that are equipped with more advanced technologies and can be used to produce fabrics in a wider usage range. For instance, after Nike launched the first Flyknit collection in 2012, knitted vamp running shoes have been warmly welcomed by consumers all over the world. Many sportswear brands have introduced similar products to the market. With increasing popularity of knitted vamp shoes, the market demand for knitting machinery that can produce vamp with efficiency and high-quality are rising. In China, many flat knitting machinery manufacturers have developed flat knitting machines that can be used to produce knitted vamp. For example, Nankai Textile introduced 3D flat vamp knitting machines, and Cixing launched the first computerised vamp knitting machinery in 2015. For circular knitting machinery, Santoni introduced a product that can knit vamp much faster than flat knitting machines currently available. However, this product is sold at a very high price around RMB680,000 per unit.

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With increasing market demand for knitted vamp shoes, but limited number of vamp knitting machines in China, many circular knitting machinery manufacturers have stepped into the R&D of new machines that are capable of producing high-quality vamp efficiently and more affordable for customers.

Increasing Market Concentration Level

In 2016, the investment spent in research and development by the Chinese knitting machinery industry was around 3.1% of sales value, and the circular knitting machinery industry shared the similar percentage, which was below the 5%-8% among European manufacturers who own many high technology patents and produce the best quality knitting machinery. With the increasing demand from the downstream textile industry and higher requirements such as product type and quality, some small circular knitting machinery suppliers with limited investments in research and development are being gradually eliminated due to the failure to satisfy the downstream industry. It is expected to further drive up the market concentration level.

ENTRY BARRIERS

Increasing Requirements on Technology

Large circular knitting machinery manufacturers in China generally have long operating history and are making continuous investment in research and development. Such companies usually master core technologies and have registered patents. The increasing requirements on technology and the gap of research and investment capacity therefore present a barrier for new entrants in the circular knitting machinery industry.

Brand Awareness Among Customers

The brand of circular knitting machinery generally indicates the product quality and aftersales services of the manufacturer. For users of circular knitting machinery, brand awareness and recognition is one of the key factors that influence customers' purchase decision. Moreover, as there are differences in operation and maintenance of the circular knitting machinery among different manufacturers' products, customers tend to purchase replacement machines from the same manufacturer in order to avoid additional employee training. Brand awareness and loyalty therefore presents another barrier for new entrants.

Large Capital Injection and Subsequent Investment

To enter the market of circular knitting machinery certain amount of capital is required to be injected. Moreover, in order to achieve the economies of scale and maintain a normal operation, new entrants also need significant subsequent investments. The industry's practice of offering installment payment or credit sales to customers also adds increasing cash flow pressures for circular knitting machinery manufacturers.

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Limited Channel Partner Resources and Brand Recognition in Overseas Markets

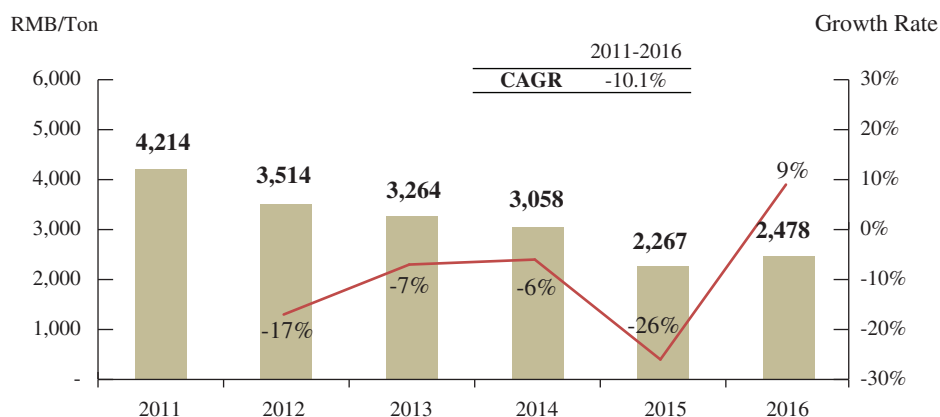
With increasing demand from overseas markets, exporting has become a major revenue generator for Chinese circular knitting machinery manufacturers. Currently, Chinese circular knitting machinery manufacturers make sales to customers in foreign markets mainly through channel partners. New entrants of the circular knitting machinery market might have limited channel partner resources. Moreover, overseas customers are more willing to purchase products with established brand recognition and reputation. It is therefore a barrier for new players to develop overseas markets.

PRICE TREND OF RAW MATERIALS

Steel Production and Average Price

The main raw materials of circular knitting machinery comprises (1) the Core; (2) metallic parts and components; and (3) accessories. These materials are all primarily made of steel, and therefore the price of steel has significant impact on the costs for circular knitting machinery manufacturers. Due to years of overcapacity in the steel industry combined with shrinking demand resulted from a downturn in real estate industry, the average price of steel has been decreasing severely since 2011. It decreased from RMB4,214 per ton in 2011 to RMB2,478 per ton in 2016, representing a negative CAGR of -10.1%. In 2016, the price increased slightly as a result of increasing mining cost. In the future, the steel price is expected to remain stable but with minor decreases as the problem of overcapacity is likely to remain unsolved in the near future.

Average Price of Steel in China, 2011-2016



Source: National Bureau of Statistics, Frost & Sullivan

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OVERVIEW OF OVERSEAS KNITTING MACHINERY INDUSTRY

Difference of Garment Products Produced In Different Countries

In India, traditional Indian garment products for women in the north and east regions are saris or ghagra cholis, while women in South India traditionally wear sari, and children usually wear pattu langa. The most popular garment products for Indian men are dhoti which is basically a rectangular piece of unstitched fabric of usually five yards in length and is draped around the waist and the legs. In India, domestic market is still much larger than export market; however, India is devoted to promoting the export of garment products.

In Bangladesh, traditional garment products for women are sari, while men usually wear collarless sleeved gown. Due to limited design and production capacity, garment products produced in Bangladesh mainly target low to medium end markets and are usually of simple and basic design. Garment industry in Bangladesh is mainly driven by export.

In Thailand, traditional garment products are sarong. Currently, majority of textiles manufacturers in Thailand are still operating as OEM mode, and a large portion of them provide manufacturing service for global famous brands. Due to the increasing popularity of Thai style garment products, original brand manufacturer mode begins to develop rapidly in Thailand.

In South Korea, traditional clothes are called “Han-bok”, which have exquisite harmony of straight and curved lines. The increasing popularity of South Korean modern design, featured as casual style, especially in Asia, also drives the development of Korean garment industry. Garment products produced in South Korea mainly target medium to high end markets. But the garment industry in South Korea still mainly satisfies the domestic needs.

Generally the macro-economic condition of a country has influence on the purchase decision of circular knitting machinery among textiles manufacturers. Developing countries, such as India, Bangladesh and Thailand, usually attract more investment in OEM services to produce end products of lower added value because of low labour cost, and thus textiles manufacturers tend to purchase circular knitting machinery with basic functions and sold at lower prices. However, the demand for more advanced circular knitting machinery in both developing countries and developed countries such as South Korea has been growing gradually as an increasing number of large textiles manufacturers are setting up production lines to produce garment products of higher quality, which requires circular knitting machinery with more advanced functions.

Domestic Retail Sales Value of Knitting Garment Products Made in India

Along with the rapid economic development and increasing disposable income in India, knitting garments are becoming increasingly popular and affordable for customers.

The domestic sales value of knitting garment products in India experienced a period of growth from USD9.6 billion in 2011 to USD14.7 billion in 2016, at a CAGR of 8.9%.

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Considering that the purchasing power of India's mass population is expected to improve with higher employment rate and growing disposable income level. The domestic sales value is estimated to grow from USD14.7 billion in 2016 to USD22.9 billion in 2021 at a CAGR of 9.3%.

Export Value of Knitting Garment Products Made in India

The export value of knitting garment products has increased from USD4.8 billion in 2011 to USD8.4 billion in 2016 with a CAGR of 11.8% due to the increasing demand in major overseas markets such as the United States and Europe.

As labour cost in China is expected to keep an upward trend, the Indian knitting garment industry is likely to exploit the comparative advantages with its export value growing to USD13.6 billion in 2021 at a CAGR of 10.1%.

Import Value of Circular Knitting Machinery in India

In 2016, in terms of import value, the circular knitting machinery took up 22.3% of total knitting machinery in India. The import value of circular knitting machinery in 2011 stood at USD56.8 million, which accounted for 62.8% of the total market of circular knitting machinery in India. In 2016, the import value grew to USD82.7 million, representing a CAGR of 7.8% from 2011 to 2016 and accounting for 57.7% of the total market of circular knitting machinery in India, because knitting garment products are becoming increasingly popular in India. However, in 2014, Indian government launched a policy known as "Make in India" to encourage both domestic and multinational companies to produce in India instead of relying on imports. This policy covers 25 sectors including garment product and textile machinery industries. With the implementation of "Make in India" taking major effects in 2016, the import value of circular knitting machinery in India decreased notably compared with 2015.

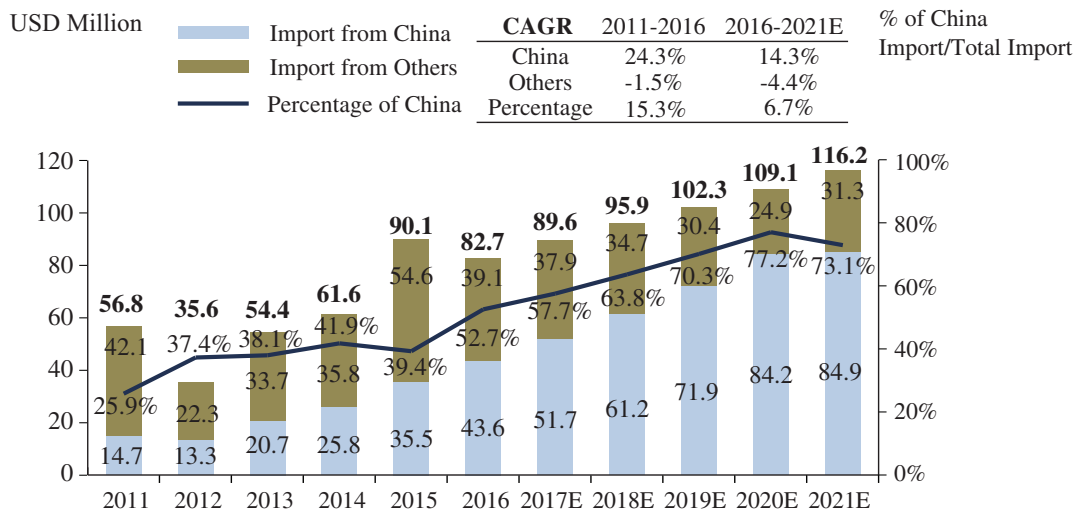
The import value of circular knitting machinery is estimated to reach USD116.2 million in 2021 at a CARG of 7.0% due to the solid demand from downstream knitting garment manufacturing industry.

The policy of "Make in India" launched at the end of 2014 did not show any significant influence on the circular knitting machinery market until 2016. However, it impacted more significantly on the import value of machinery made in Europe compared to the import value of machinery made in Asia because machines made in European countries are much more expensive and less price competitive. The proportion of circular knitting machinery imported from China increased from 25.9% to 52.7% during the period from 2011 to 2016 at a CAGR of 15.3%. Circular knitting machinery made in China is becoming popular in India' market, as the price is competitive compared with European manufacturers.

Going forward the proportion of circular knitting machinery imported from China is expected to continue the upward trend and reach around 73.1% in 2021 at a CAGR of 6.7% from 2016 to 2021.

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Market Size of Circular Knitting Machinery in India in terms of Import Value, 2011-2021E



Source: International Trade Center, Ministry of Statistics and Programme Implementation of India, Frost & Sullivan

Market Trends and Drivers of Circular Knitting Machinery Market in India

Government Regulatory Support

In September 2014, Indian government launched a policy “Make in India” to encourage companies to produce in India and reduce reliance on imports, which covers 25 sectors including garment product and textile machinery industries. Moreover, the Revised Restructured Technology Upgradation Fund Scheme which provides 5% interest reimbursement to textiles manufacturers on the specified types of textile machinery including circular knitting machinery was extended to 2017.

In addition, under the Scheme for Integrated Textile Parks launched in 2005 and extended to 2017, the government of India provides subsidy for construction of infrastructure in the textile parks with a limit up to approximately US\$6 million. Under this scheme the circular knitting machinery sector can also avail its benefits.

Long-term Reliance on Import

Circular knitting machinery manufacturers in India are mainly family enterprises with limited production and research and development capacity, as a result, compared to circular knitting machinery produced in Western countries and China, the products produced in India are generally of low quality. With growing demand on garment products of higher quality among consumers, there is an increasing need for more advanced machinery like computerised circular knitting machinery. Though India is dedicated to improving the domestic production capability and reducing reliance on imports, in the coming years, India has to still rely on imports of high end circular knitting machinery from other countries to satisfy domestic needs.

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Domestic Retail Sales Value of Knitting Garment Products Made in Bangladesh

Compared to export value, domestic retail sales value of knitting garment products only accounted for small portion of total sales in Bangladesh. From 2011 to 2016, the domestic retail sales value of knitting garment products grew from USD110.6 million to USD215.3 million with a CAGR of 14.3%.

With stable economic development, it is expected that domestic retail sales value of knitting garment products will continue to increase from USD215.3 million in 2016 to USD321.3 million in 2021 with a CAGR of 8.3%.

Export Value of Knitting Garment Products Made in Bangladesh

The textiles manufacturing industry in Bangladesh is mainly driven by export due to sufficient labour force with low cost. The key export destination is Europe, followed by the US. These two destinations accounted for more than 80% of the export in 2016, and export sales accounted for over 98% of total knitting garment products made in Bangladesh from 2011 to 2016.

The demand for knitting garment products in Europe has increased stably in recent years as knitting garment products have become very popular in Europe. Besides, as the manufacturing centers of knitting garments are being gradually transferred from China to Southeast Asian countries and other Asian countries such as Bangladesh due to lower labour costs, the export value for knitting garments produced in Bangladesh has increased. From 2011 to 2016, the export value of knitting garment products in Bangladesh grew from USD9,936.3 million to USD17,621.2 million with a CAGR of 12.1%.

From 2016 to 2021, the export value of knitting garment products is expected to increase from USD17,621.2 million to USD26,059.3 million at a CAGR of 8.1% due to the continuous influence of increasing demand for knitting garment products in Europe and transferring of manufacturing centres.

Import Value of Circular Knitting Machinery in Bangladesh

Circular knitting machinery in Bangladesh depends heavily on import, and the import value accounted for 92.8% of total sales value in 2016. In terms of import value, the circular knitting machinery took up about 31.4% of the entire knitting machinery market. Impacted by several strikes held by garments industry workers, many garment factories closed during 2012 to 2013. The import value of circular knitting machinery decreased during the same period. From 2011 to 2016, the import value of circular knitting machinery in Bangladesh increased from USD60.9 million to USD92.5 million at a CAGR of 8.7% due to the increase of special-purpose investment from the Export Development Fund (EDF) and other government support.

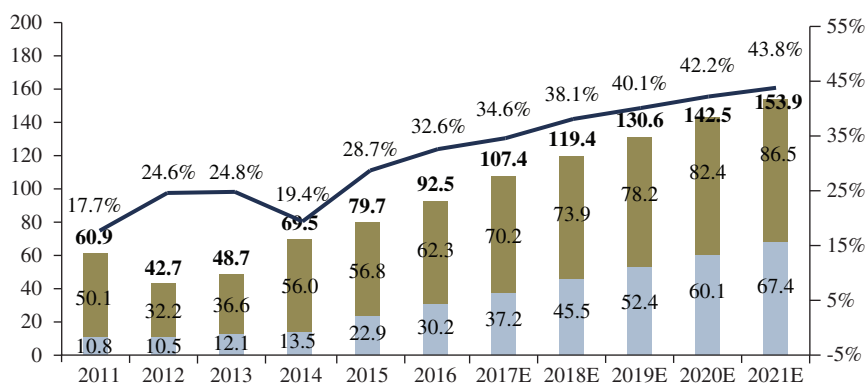
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As Bangladesh government has released several policies to support the knitting garments industry which will in turn stimulate the circular knitting machinery industry, the import value of circular knitting machinery in Bangladesh is expected to reach USD153.9 million in 2021 at a CAGR of 10.7% from 2016 to 2021.

The proportion of circular knitting machinery imported from China in Bangladesh increased from 17.7% to 32.6% during the period of 2011 to 2016 at a CAGR of 13.0%. The garment products produced in Bangladesh are generally of low added value but at large quantity, and therefore garment product manufacturers in Bangladesh tend to buy circular knitting machinery at low prices. However due to the shift of their focus to the production of more value-added garment products, the demand for circular knitting machinery of higher quality and advanced functions is gradually increasing. Going forward, the proportion of circular knitting machinery imported from China is estimated to reach around 43.8% in 2021 at a CAGR of 6.1%.

Market Size of Circular Knitting Machinery in Bangladesh in terms of Import Value, 2011-2021E

USD Million		CAGR		
		2011-2016	2016-2021E	
	Import from China	22.8%	17.4%	% of China
	Import from Others	4.5%	6.8%	
	Percentage of China	13.0%	6.1%	Import/Total Import



Source: International Trade Center, Frost & Sullivan

Market Trends and Drivers of Circular Knitting Machinery Market in Bangladesh

Sufficient Labour Force and Low Labour Cost

The population in Bangladesh is over 140 million, among which the workforce is more than 62 million in 2016. Besides, the labour costs is low in Bangladesh. As the knitting garments industry is a pillar industry for Bangladesh, a large percentage of its labour enters into this industry. The labour supply for knitting garments industry is abundant which attracts garments manufacturing enterprises to set up plants in Bangladesh. With the increase of the amount of garments manufacturing plants in Bangladesh, the demand for circular knitting machinery also increases.

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Continuous Large Demand for Imported Circular Knitting Machinery

Bangladesh is the second biggest export country of textile garment products in the world. Textile industry plays a very important role in the Bangladesh's economy, and the export of ready-made garments accounted for over 80% of the total export value in 2016. Thus, Bangladesh has huge demand for circular knitting machinery. However, due to the lack of production, research and development capabilities, circular knitting machinery produced in Bangladesh is not adequate for use and not up to international standards. Therefore there is still a large gap between domestic supply and demand. Moreover, with increasing number of textiles manufacturers shifting their focus to the production of more value-added garment products, the demand for more advanced circular knitting machinery, such as computerised machines, in Bangladesh is also increasing.

Domestic Retail Sales Value of Knitting Garment Products Made in Thailand

In Thailand, domestic sales of knitting garment products continued to increase due to the stable growth of economy and purchasing power. From 2011 to 2016, the domestic retail sales value of knitting garment products in Thailand grew from USD578.3 million to USD720.1 million with a CAGR of 4.5%.

The domestic retail sales value of knitting garment products is expected continue to increase due to the economic growth, from 2016 to 2021, it is expected to increase from USD720.1 million to USD795.1 million with a CAGR of 2.0%.

Export Value of Knitting Garment Products Made in Thailand

Knitting garment industry in Thailand is largely driven by export, and major overseas markets including Europe, the US, the PRC and Japan. Knitting garment products account for more than 60% of the total export of garment products from Thailand. From 2011 to 2016, the export value of knitting garment industry in Thailand suffered shrinkage, owing to the deluge, increased minimum wage in Thailand and debt crisis in Europe. The export value of knitting garment products decreased from USD2,063.8 million in 2011 to USD1,842.5 million in 2016 with a CAGR of -2.2%.

From 2016 to 2021, combining benefiting factors such as "The Seven-year Investment Promotion Strategies (2015-2021)" released by the Board of Investment (BOI) of Thailand, as well as the active support for textile garment industry using advanced technology and application by BOI, the export value of knitting garment industry is expected to grow from USD1,842.5 million in 2016 to USD2,267.3 million in 2021 at a CAGR of 4.2%.

Import Value of Circular Knitting Machinery in Thailand

In 2016, import value accounted for 89.8% of the total market size of circular knitting machinery in Thailand. In terms of import value, the circular knitting machinery took up about 23.7% of the entire knitting machinery market. Due to the deluge, increased minimum wage

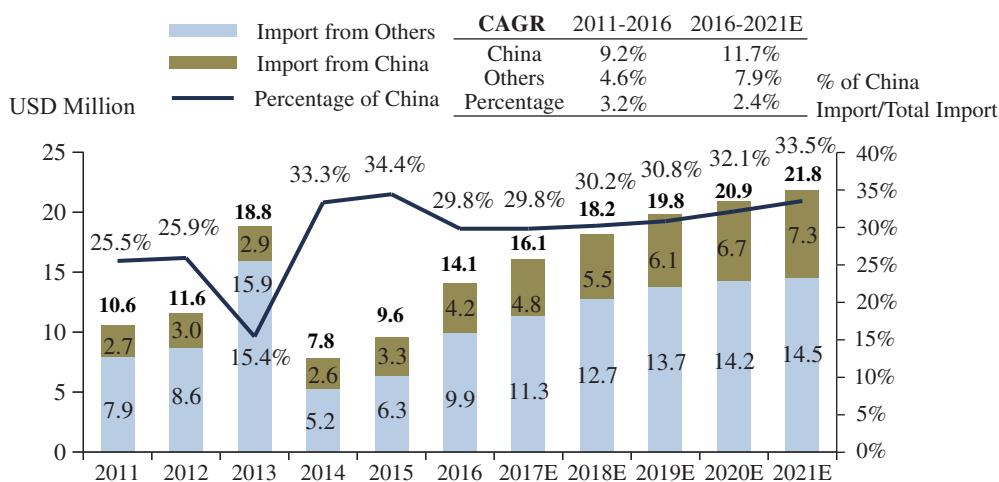
INDUSTRY OVERVIEW

and debt crisis in Europe from 2011 to 2014, the market size of circular knitting machinery was compressed. In 2013, due to the appreciation of the Thai Baht, circular knitting machinery import from abroad largely increased. From 2011 to 2016, the import value of circular knitting machinery rose from USD10.6 million to USD14.1 million at a CAGR of 5.9%.

Benefiting from several policies released by the government, such as “The Seven-year Investment Promotion Strategies (2015-2021)”, coupled with the recovery of textile garment industry in Thailand, the import value of circular knitting machinery is expected to increase from USD14.1 million to USD21.8 million at a CAGR of 9.1%.

In 2013, the value of circular knitting machinery imported from the PRC showed a minor decrease compared to that in 2012, but the percentage figure shrank notably as a result of increases in the machinery imported from other countries such as Germany and Taiwan. However, seen from the big picture, the import percentage of circular knitting machinery from the PRC showed an upward trend from 2011 to 2016, and the growth is expected to remain stable from 2016 to 2021.

Market Size of Circular Knitting Machinery in Thailand in terms of Import Value, 2011-2021E



Source: Thailand Textile Institute, Thai Garment Manufacturers Association, International Trade Center, Frost & Sullivan

Market Trends and Drivers of Circular Knitting Machinery Market in Thailand

Strong Support from Thai Government and Related Associations

In order to enhance competitiveness in the global textile garment market, large amount of investments from the government and related associations have been allocated to improve textile machinery and upgrade technological capabilities in Thailand. For example, Thailand Textile Institute launched a US\$9.7 million textile and apparel development plan for 2012-2016 to support the import of more advanced machineries and export of garment

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products. Thus, more medium-end and high-end textile machineries have been imported from abroad. Besides, the Thai government has also made long-term strategies, such as “The Seven-year Investment Promotion Strategies (2015-2021)” which can further support the development of textile garment and circular knitting machinery industry.

Enjoying the Advantages of Free Trade Zone

Thailand can enjoy the preferential tariff of the Association of Southeast Asian Nations (ASEAN) free trade area. On 1 January 2010, the zero tariff policy began to take effect, which made the relationship between ASEAN countries closer. Besides, as Thailand shares its borders with a number of ASEAN countries, the cross-border transportation costs are relatively low.

The cooperation of ASEAN countries will promote ASEAN to become the world’s textiles manufacturing and trade centre, which will further benefit Thailand in the future. The expansion of textile garment industry will also stimulate circular knitting machinery demand of Thailand.

Domestic Retail Sales Value of Knitting Garment Products Made in South Korea

The domestic retail sales value of knitting garment products in South Korea experienced a period of mild growth and increased from USD3,106.5 million in 2011 to USD4,085.1 million in 2016, at a CAGR of approximately 5.6%.

Going forward, the domestic retail sales value is estimated to grow from USD4,085.1 million in 2016 to USD4,610.3 million in 2021 at a CAGR of 2.4%.

Export Value of Knitting Garment Products Made in South Korea

In recent years, the acceptance of products and designs from South Korea greatly drove the export of knitting garment products from South Korea. Export sales value stood at USD869.3 million in 2011 and accounted for approximately 21.9% of total sales value. It grew to USD984.2 million in 2016 with a CAGR of 2.5%.

In the forecast period from 2016 to 2021, export sales value of knitting garment products made in South Korea is estimated to grow at a CAGR of 1.7% and reach USD1,072.6 million.

Import Value of Circular Knitting Machinery in South Korea

The import value of circular knitting machinery in South Korea increased from USD7.2 million in 2011, accounting for around 11.8% of the total imported knitting machinery, to USD17.5 million in 2016, accounting for 29.9% of the total imported knitting machinery, representing a CAGR of 19.4%. Due to the increasing popularity of knitting garment products made in South Korea, the import value of circular knitting machinery is expected to be driven by demand from domestic knitting garment manufacturers.

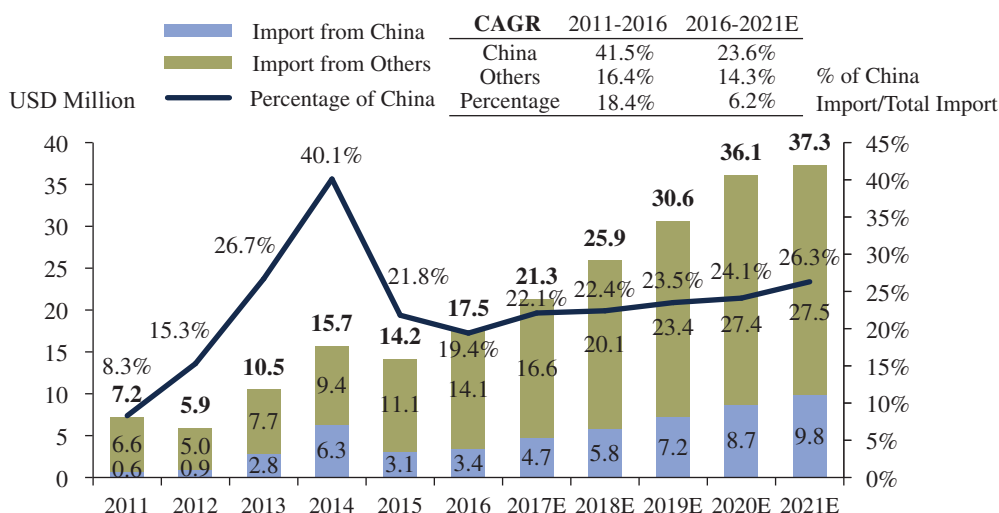
But due to the less developed production capability of circular knitting machinery sector in Korea, the import value is expected to grow from 2016 at a CAGR of 16.3% and reach USD37.3 million in 2021, accounting for 47.7% of the total imported knitting machinery.

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The import value of circular knitting machinery from China went through a period of rapid growth from 2011 to 2016, increasing from USD0.6 million in 2010 to USD3.4 million in 2016 at a CAGR of 41.5%. The proportion of circular knitting machinery imported from China increased from 8.3 % to 19.4% from 2011 to 2016.

Though the quality of machinery made in China falls behind the other two exporters, Japan and German, the price of circular knitting machinery made in China is competitive. Therefore, China is expected to remain as an important exporter for South Korea in the future.

Market Size of Circular Knitting Machinery in South Korea in terms of Import Value, 2011-2021E



Source: International Trade Center, Frost & Sullivan

Market Trends and Drivers of Circular Knitting Machinery Market in South Korea

Widespread Application of Computerised Circular Knitting Machinery

Computerised knitting machines were considered to be a revolutionary invention. Such machines are much more productive with the help of advanced computer technology, especially in the sector of circular knitting machinery. The widespread application of productive computerised circular knitting machinery will increase the production efficiency and thus greatly improve the market's performance. In addition, computerization can also decrease the labour demand of textiles manufacturers. Less labour demand greatly helps manufacturers to save costs in South Korea where labour costs are increasing.

Large Size of Textile Industry and Growing Textile Demand from Overseas Markets

Playing a vital role in South Korea's initial industrialisation, textile industry continues to contribute significantly in South Korea's export and economy, and nearly 8% employment in this country comes from the textile industry. More than 10 billion dollars of South Korean

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garment products are exported every year, and growth is expected to remain strong due to the growing demand from both domestic and overseas markets. Moreover, with the expanding popularity of Korean culture, products from South Korea's fashion industry are increasingly popular especially in Asian countries. Along with increasing disposable income and stronger willingness to seek for garment products that can provide more comfort, warmth and better quality knitting garment products are becoming increasingly popular in South Korea. These growth factors in the downstream industry is expected to continuously support the demand for more circular knitting machinery.

PRICE TREND OF CIRCULAR KNITTING MACHINERY

Driven by the economic development and increasing purchase power, consumers are having higher requirements on garment products globally including knitting garment products, which in turn stimulates the market demand for circular knitting machinery of better quality, with more number of feeders, computerised functions and also at higher price. As a result, the average domestic selling price of circular knitting machinery in China and import price in other major manufacturing countries of garment products such as India, South Korea and Thailand showed an increasing trend from 2010 to 2015. The average domestic selling price of circular knitting machinery sold in China increased from USD18,309.2 per unit in 2011 to USD23,840.8 in 2016, representing a CAGR of 5.4%. Machines made by large foreign or sino-foreign joint venture manufacturers, such as the top three market players in China, are sold at higher prices than machines made by domestic manufacturers, which raises the industry average selling price of circular knitting machinery in general. In 2015 and 2016, the selling price of circular knitting machinery made by foreign or Sino-foreign manufacturers ranged from RMB130,000 to RMB400,000 per unit. Machines made by domestic manufacturers were sold at lower prices ranging from RMB75,000 to RMB165,000 per unit. In India, South Korea and Thailand, the average import price of circular knitting machinery recorded CAGRs of 2.4%, 5.3% and 2.1% respectively from 2011 to 2016. Going forward the price of circular knitting machinery is expected to keep its upward trend due to the ongoing upgrades of machinery and the impact from inflation.

USD/Unit	2011	2012	2013	2014	2015	2016	CAGR
China	18,309.2	18,538.3	19,969.4	22,530.5	23,079.2	23,840.8	5.4%
YoY	5.5%	1.3%	7.7%	12.8%	2.4%	3.3%	
India	24,119.1	24,966.4	25,012.6	25,367.8	26,458.3	27,199.1	2.4%
YoY	1.4%	3.5%	0.2%	1.4%	4.3%	2.8%	
South Korea	20,654.8	22,456.8	23,823.5	25,932.1	26,428.7	26,719.4	5.3%
YoY	9.7%	8.7%	6.1%	8.9%	1.9%	1.1%	
Thailand	22,863.0	24,174.3	21,122.2	23,977.7	24,266.4	25,358.4	2.1%
YoY	13.4%	5.7%	-12.6%	13.5%	1.2%	4.5%	

Note: The average import price of circular knitting machinery in Bangladesh is not available due to the lack of import volume of circular knitting machinery in public sources including International Trade Centre, Bangladesh Bureau of Statistics and Bangladesh Custom.

Source: International Trade Centre; Frost & Sullivan

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PRC LAWS AND REGULATIONS RELATING TO FOREIGN INVESTMENT

Catalogue for the Guidance of Foreign Investment Industries

The *Catalogue for the Guidance of Foreign Investment Industries (2017 Revision)* (外商投資產業指導目錄(2017年修訂)) (the “**Catalogue**”) was issued by the NDRC and MOFCOM on 28 June 2017 and became effective from the same date. Pursuant to the Catalogue, foreign-invested industries are classified into two categories, namely (i) encouraged foreign-invested industries and (ii) foreign-invested industries which are subject to the special administrative measures for access of foreign investment (the “**Negative List**”), the latter of which is further divided into restricted foreign-invested industries and prohibited foreign-invested industries, setting out the restriction measures such as shareholding requirements and qualifications of the senior management. Any industry not listed in the Catalogue is a permitted industry. The Group’s principal business of manufacturing and trading of circular knitting machines falls within the encouraged and permitted industries in accordance with the Catalogue.

Laws of the PRC on Wholly Foreign-owned Enterprises

The establishment, operation and management of corporate entities in China are governed by the *PRC Company Law* (中華人民共和國公司法) (the “**PRC Company Law**”), which was adopted by the SCNPC on 29 December 1993 and with effect from 1 July 1994. It was last amended on 28 December 2013 and became effective on 1 March 2014. Under the PRC Company Law, companies are generally classified into two categories, namely, limited liability companies and joint stock limited companies. The PRC Company Law also applies to foreign-invested limited liability companies. According to the PRC Company Law, any stipulations by other PRC laws governing foreign investment shall prevail over the PRC Company Law.

Pursuant to the *Law of PRC Foreign-Capital Enterprises* (中華人民共和國外資企業法), which was adopted on 12 April 1986 and amended and effective on 31 October 2000, the establishment and subsequent changes of a wholly foreign-owned enterprise is subject to the approval by the authority in charge of commerce or foreign trade and investment and registration with the relevant administration for industry and commerce. The investor of the wholly foreign-owned enterprise must make payment or subscribe for the registered capital according to its articles of association.

On 3 September 2016, the Decision of the SCNPC on Revising Four Laws including the *Law of the PRC on Wholly Foreign-owned Enterprises* (全國人民代表大會常務委員會關於修改<中華人民共和國外資企業法>等四部法律的決定) (the “**Decision on Revision of Four Laws**”) was promulgated and took effect on 1 October 2016. The Decision on Revision of Four Laws revised relevant administrative approval provisions of the *Law of the People’s Republic of China on Wholly Foreign-owned Enterprises* (中華人民共和國外資企業法), the *Law of the People’s Republic of China on Sino-Foreign Equity Joint Ventures* (中華人民共和國中外合資經營企業法), the *Law of the People’s Republic of China on Sino-Foreign Cooperative Joint*

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Ventures (中華人民共和國中外合作經營企業法) and the *Law of the People's Republic of China on the Protection of the Investments of Taiwan Compatriots* (中華人民共和國臺灣同胞投資保護法), in which if the incorporation and change of foreign-invested enterprises and enterprises funded by Taiwan compatriots does not involve the Negative List, the examination and approval thereof has been changed to the record-filing administration.

Pursuant to the *Interim Administrative Measures for the Record-filing of the Incorporation and Change of Foreign-invested Enterprises* (外商投資企業設立及變更備案管理暫行辦法) (the “**Interim Measures**”) which was adopted by MOFCOM and amended on 30 July 2017, within the record-filing scope of the Interim Measures, the designated representatives or entrusted agents of foreign-invested enterprises shall fill in online and submit an Application for Record-filing of the Change of Foreign-invested Enterprises (the “**Application for Change**”) and the relevant documents within 30 days upon the occurrence of the change via the comprehensive administration system, and handle the record-filing procedures since 8 October 2016. Pursuant to Announcement No. 22, 2016 published by NDRC and MOFCOM (中華人民共和國國家發展和改革委員會、中華人民共和國商務部公告2016年第22號) on 8 October 2016, the Negative List shall be in line with the Catalogue.

Since the current business operation of Zhangzhou Kaixing, as the foreign-invested enterprises within the Group, does not fall within the scope of the Negative List, the Interim Measures shall apply and major changes of Zhangzhou Kaixing is subject to record-filing procedure under the Interim Measures. Based on the effective PRC laws and current business operation of the Group, our PRC Legal Advisers are of the view that these aforementioned amendments will not have material adverse effect on the Group's business operations.

PRC LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

The *Environmental Protection Law of the PRC* (中華人民共和國環境保護法) was adopted by the SCNPC on 26 December 1989, and amended on 24 April 2014 and became effective on 1 January 2015. Pursuant to the law, facilities for the prevention and control of pollution must be designed, built and put into operation simultaneously with the principal part of the construction project. Enterprises discharging pollutants must report to and register with the competent environmental protection administration authorities. Enterprises discharging pollutants in excess of the prescribed national or local discharge standards shall pay a fee for excessive discharge and assume responsibility for eliminating and controlling the pollution.

Enterprises in the PRC must comply with the *Law of the PRC on the Prevention and Control of Water Pollution* (中華人民共和國水污染防治法), which was adopted on 28 February 2008 and effective from 1 June 2008, the *Law of the PRC on the Prevention and Control of Atmospheric Pollution* (中華人民共和國大氣污染防治法) amended on 29 August 2015 and effective from 1 January 2016 and the *Law of the PRC on the Prevention and Control of Pollution from Environmental Noise* (中華人民共和國環境噪聲污染防治法), which was adopted on 29 October 1996 and effective from 1 March 1997. These laws regulate extensive issues in relation to the environment protection including waste water discharge, air pollution control and noise emission. Pursuant to these laws, all the enterprises that may cause

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environmental pollution in the course of their production and business operation shall introduce environmental protection measures in their plants and establish a reliable system for environmental protection. Enterprises are required to adopt effective measures to prevent and control the level of environmental pollution and hazards produced during the process of production, construction or other activities. Enterprises must obtain the licence for discharge of waste water and atmospheric pollutants and such pollutants shall meet the applicable national and local standards.

According to the amended *Prevention and Control of Environmental Pollution by Solid Waste Law of the PRC* (中華人民共和國固體廢物污染環境防治法), which was adopted on 30 October 1995, subsequently amended on 29 December 2004, 24 April 2015 and 7 November 2016, manufacturers, vendors, importers and users must seek to prevent and control the discharge of solid wastes.

The *Administrative Regulations on the Environmental Protection of Construction Projects* (建設項目環境保護管理條例) were promulgated by the State Council and amended on 16 July 2017 and effective on 1 October 2017. The *Law of the PRC on Environmental Impact Assessment* (中華人民共和國環境影響評價法) was adopted by the SCNPC on 28 October 2002 and amended on 2 July 2016 and effective from 1 September 2016. The law and regulations require an environmental impact assessment to be completed prior to the construction of a project and establish a three-tier system for the environmental impact assessments. In the case of a construction project that may cause significant environmental impacts, a report of environmental impacts shall be completed by a qualified institution and includes a full assessment of environmental impacts. In the case of a construction project that may cause mild environmental impacts, a report form shall be completed by a qualified institution and includes an analysis or special assessment of environmental impacts. In the case of a construction project that may cause minimal environmental impact, an environmental impact assessment is unnecessary and a registration form shall be completed. The catalogue for the classified management of environmental impact assessments for construction projects is formulated and issued by the environmental protection administration department of the State Council. The environmental impact assessment documents shall be submitted to the competent administrative department responsible for environmental protection for review and approval. In the absence of such approval, the permission for construction of the project will not be granted and the construction is not allowed to be commenced.

Pursuant to the *Administrative Regulations on the Environmental Protection of Construction Projects and the Administrative Measures on Environmental Protection Inspection and Acceptance for Completion of Construction Projects* (建設項目竣工環境保護驗收管理辦法) issued by the MEP, promulgated on 27 December 2001 and effective from 1 February 2002, once a construction project is completed, the entity responsible for the construction shall apply to the competent environmental protection administration authority for the inspection and acceptance of the project. The entity is required to provide the authority with an application report, application form or registration form, together with the applicable environmental protection monitoring or investigation document, depending on the type of the environmental impact assessment document applicable to it. The authority will carry out the

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inspection and accept within the prescribed time limit and grant its approval on the construction project upon satisfaction of the conditions for acceptance. In the absence of such approval, the construction project shall not be put into production or operation.

PRC LAWS AND REGULATIONS RELATING TO PRODUCT QUALITY, ANTI-MONOPOLY, COMPETITION AND PRICE

Product Quality Law of the PRC

The principal legal provisions governing product liability are set out in the *Product Quality Law of the PRC* (中華人民共和國產品質量法) (the “**Product Quality Law**”), which was last amended on and became effective from 27 August 2009. The Product Quality Law is applicable to all activities of production and sale of any product within the territory of the PRC, and the producers and sellers shall be liable for product quality in accordance with the Product Quality Law. According to the Product Quality Law, consumers or other victims who suffer personal injury or property loss due to product defects may demand compensation from the producer as well as the seller. Where the responsibility for product defects lies with the producer, the seller shall, after settling compensation, have the right to recover such compensation from the producer, and vice versa. Violations of the Product Quality Law may result in the imposition of fines. In addition, the seller or the producer may be ordered to suspend operation and its business licence may be revoked. Criminal liability may be incurred in serious cases.

On 26 December 2009, the SCNPC of the PRC promulgated the *PRC Tort Liability Law* (中華人民共和國侵權責任法), which became effective from 1 July 2010. Producers shall bear liability for damage caused to others by their defective products, and for such damage, the injured party may seek compensation from either the producer or the seller. Where the product defect is caused by the producer, the seller may, after paying compensation, claim against the producer for the same, and vice versa. With respect to the environment, the PRC Tort Liability Law highlighted the principle that polluters are to assume liability in respect of harm caused by their environmental pollution, irrespective of whether they have breached national environmental protection regulations or not.

According to the *Law on Protection of Consumers’ Rights and Interests of the PRC* (中華人民共和國消費者權益保護法), which was adopted on 31 October 1993, amended on 25 October 2013 and became effective from 15 March 2014, in purchasing and using commodities or receiving services, consumers shall have the right to require business operators to provide commodities and services meeting the requirements for personal and property safety. Consumers whose legitimate rights and interests are infringed as a result of purchasing and using such commodities may demand compensation from the sellers and/or suppliers.

Anti-Monopoly Law

Pursuant to the *Anti-Monopoly Law of the PRC* (中華人民共和國反壟斷法) (the “**Anti-Monopoly Law**”), which was promulgated on 30 August 2007 and effective from 1 August 2008, “dominant market position” shall refer to a position where an operator may manipulate the price, volume and other trade conditions of commodity on a relevant market, or may obstruct or otherwise affect the entrance of other operators into relevant markets. Operators who hold a dominant market position shall be prohibited from engaging in such practices which may be classified as an abuse of said position as: (a) selling products at unfairly high or unfairly low prices, (b) selling products at a price lower than cost without legitimate grounds, (c) refusing to trade with the other trading party without legitimate grounds, (d) forcing the other trading party to trade only with said operator or other operators specified by said operator without legitimate grounds, (e) conducting tie-in sales or adding other unreasonable conditions on a deal without legitimate grounds, (f) discriminating among trading parties of the same qualifications with regard to trade price, etc. without legitimate grounds, or (g) other practices recognised by the Anti-Monopoly Law enforcement authorities as abuse of dominant market position. Furthermore, where an operator violates the provisions of the Anti-Monopoly Law by abusing dominant market position, the Anti-Monopoly Law enforcement authorities shall order a halt to the offending behaviour, confiscate the illegal earnings, and impose a fine of 1% to 10% of the previous year’s sales revenue.

Anti-Unfair Competition Law

Competitions among the business operators are generally governed by the *Law of the PRC for Anti-Unfair Competition* (中華人民共和國反不正當競爭法) (the “**Anti-Unfair Competition Law**”), which was promulgated on 2 September 1993 and with effect from 1 December 1993. According to the Anti-Unfair Competition Law, when trading on the market, operators shall abide by the principles of voluntariness, equality, fairness, honesty and credibility, and observe generally recognised business ethics. Acts of operators which contravene the provisions of the Anti-Unfair Competition Law, with a result of damaging the lawful rights and interests of other operators, and disturbing the socio-economic order shall constitute unfair competition. When the lawful rights and interests of an operator are damaged by the acts of unfair competition, it or he may institute proceedings in a people’s court. In comparison, where an operator commits unfair competition in contravention of the provisions of the Anti-Unfair Competition law and causes damage to another operator, it or he shall bear the responsibility for compensating for the damages. Where the losses suffered by the injured operator are difficult to calculate, the amount of damages shall be the profit gained by the infringer during the period of infringement through the infringing act. The infringer shall also bear all reasonable costs paid by the injured operator in investigating the acts of unfair competition committed by the operator suspected of infringing its or his lawful rights and interests.

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Price Law

Pursuant to the *Price Law of the PRC* (中華人民共和國價格法) (the “**Price Law**”), which was promulgated on 29 December 1997 and with effect from 1 May 1998, the operators shall, in determining prices, abide by the principle of fairness, being in conformity with the law, honesty and credibility. And production and management costs and market supply and demand situation shall be the fundamental basis for the determination of prices by the operators.

The operators shall, in selling, procuring commodities and providing services, display the clearly marked price in accordance with the provisions of the competent departments of price of the government. And the operators shall not sell commodities with additional price besides the marked price and shall not collect any fee undisplayed. Furthermore, the operators shall not commit unfair price acts such as manipulating market price to the detriment of the lawful rights and interests of other operators or consumers and so on. Any operator who commits any of the unfair price acts prescribed in the Price Law shall be ordered to make a rectification, confiscated of the illegal gains and may be concurrently imposed with a fine of less than five times the illegal gains; where the circumstances are serious, an order shall be issued for the suspension of business operations for rectification, or revocation of the business licence by the agency of industry and commerce administration. In addition, any operator who causes consumers or other operators to pay more prices for illegal price acts should refund the portion overpaid; where damage has been caused, liability for compensation shall be borne according to law. Any operator who violates the provision of clearly marked prices shall be ordered to make a rectification, confiscated of the illegal gains and may be concurrently imposed a fine of less than RMB5,000.

PRC LAWS AND REGULATIONS RELATING TO INTELLECTUAL PROPERTY RIGHTS

Copyright Law of the PRC

According to the *Copyright Law of the PRC* (中華人民共和國著作權法) (the “**Copyright Law**”), which was amended in 26 February 2010 and with effect from 1 April 2010, copyrights include personal rights such as the right of publication and that of attribution as well as property rights such as the right of production and that of distribution. Reproducing, distributing, performing, projecting, broadcasting or compiling a work or communicating the same to the public via an information network without permission from the owner of the copyright therein, unless otherwise provided in the Copyright Law, shall constitute infringements of copyrights. The infringer shall, according to the circumstances of the case, undertake to cease the infringement, take remedial action, and offer an apology, pay damages, etc.

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Trademark Law of the PRC

According to the *Trademark law of the PRC* (中華人民共和國商標法) (the “**Trademark Law**”) which was amended on 30 August 2013 and with effect from 1 May 2014, the right to exclusive use of a registered trademark shall be limited to trademarks which have been approved for registration and to goods for which the use of trademark has been approved. The period of validity of a registered trademark shall be ten years, counted from the day the registration is approved.

Additionally, pursuant to the Trademark Law and other relevant PRC laws and regulations, in the event that a company uses trademarks in relation to production in the PRC without the required authorisation, the company may be asked by the infringer to cease the infringement, remove the obstacles, and compensate any losses suffered by the infringer; and in case that any party who uses the same trademark with a registered trademark in the same type of product without authorisation of the registered trademark owner, such party will be subject to the following criminal liabilities, namely, (i) up to three years of imprisonment or criminal detention, and/or a fine, if the circumstances are serious; and (ii) three to seven years of imprisonment and a fine, if the circumstances are exceptionally serious.

Patent Law of the PRC

Pursuant to the *Patent Law of the PRC* (中華人民共和國專利法) (the “**Patent Law**”), which was amended on 27 December 2008 and with effect from 1 October 2009, after the grant of the patent right for an invention or utility model, except where otherwise provided for in the Patent Law, no entity or individual may, without the authorisation of the patent owner, exploit the patent, that is, make, use, offer to sell, sell or import the patented product, or use the patented process, or use, offer to sell, sell or import any product which is a direct result of the use of the patented process, for production or business purposes. And after a patent right is granted for a design, no entity or individual shall, without the permission of the patent owner, exploit the patent, that is, for production or business purposes, manufacture, offer to sell, sell, or import any product containing the patented design.

Measures for the Administration of Internet Domain Names of China

Pursuant to the *Measures for the Administration of Internet Domain Names of China* (中國互聯網絡域名管理辦法), which was promulgated on 5 November 2004 and effective from 20 December 2004, “domain name” shall refer to the character mark of hierarchical structure, which identifies and locates a computer on the internet and corresponds to the Internet protocol (IP) address of that computer. And the principle of “first come, first served” is followed for the domain name registration service. After completing the domain name registration, the applicant becomes the holder of the domain name registered by him/it. Furthermore, the holder shall pay operation fees for registered domain names on schedule. If the domain name holder fails to pay the corresponding fees as required, the original domain name registrar shall write it off and notify the holder of the domain name in written form.

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PRC LAWS AND REGULATIONS RELATING TO PRODUCTION SAFETY, OCCUPATIONAL DISEASES, FIRE PROTECTION AND LABOUR

Production Safety Law of the PRC

The *Work Safety Law of the People's Republic of China* (中華人民共和國安全生產法) was promulgated by the SCNPC on 29 June 2002 and became effective on 1 November 2002. The said law was amended on 31 August 2014 with effect from 1 December 2014. Pursuant to the law, enterprises shall meet with the conditions for work safety as required by relevant laws and regulations. Enterprises having more than 100 employees shall establish a department to carry out work safety management or have personnel solely responsible for work safety management. Enterprises shall provide their employees with education and training on work safety to ensure that the employees have the necessary knowledge regarding work safety, are familiar with the relevant work safety rules and operating procedures, and acquire safe operation skills required for their respective positions. The employees performing special functions as defined by the work safety supervision department of the State Council must receive special training on work safety and hold the qualification certificate for performing such special functions.

Occupational Diseases Law of the PRC

The Law of the PRC on the *Prevention and Treatment of Occupational Diseases* (中華人民共和國職業病防治法) was promulgated by the SCNPC on 31 December 2011 and last amended on 2 July 2016, an employer shall: (i) establish and improve the responsibility system of occupational disease prevention and treatment, strengthen the administration and improve the level of occupational disease prevention and treatment, and bear responsibility for the harm of occupational diseases engendered there from; (ii) purchase social insurance for industrial injury; (iii) adopt effective protective facilities against occupational diseases, and provide protective articles to the labourers for personal use against occupational diseases; (iv) set up alarm equipment, allocate on-spot emergency treatment articles, washing equipment, emergency safety exits and safety zones for poisonous and harmful work places where acute occupational injuries are likely to take place; and (v) inform the employees, according to the facts, of the potential harm of occupational disease as well as the consequences thereof and the protective measures and treatment against occupational diseases when signing a labour contract with employees. Pursuant to the said law, for construction projects, including projects to be constructed, expanded or reconstructed, and projects for technical renovation and introduction which may incur occupational disease hazards, the unit responsible for the construction project shall: (i) during the period of feasibility study, conduct a preliminary assessment report on such hazards; and (ii) assess the effect of the control on occupational disease hazards before the construction project is completed for inspection and acceptance.

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Fire Protection Law of the PRC

The *Fire Protection Law of the PRC* (中華人民共和國消防法) was promulgated by the SCNPC on 29 April 1998 and was amended on 28 October 2008 with effect from 1 May 2009. The *Provisions on the Supervision and Administration of Fire Protection of Construction Projects* (建設工程消防監督管理規定) was promulgated on 30 April 2009 and was amended on 17 July 2012 with effect from 1 November 2012. Pursuant to these laws, the fire protection design or construction of a construction project must conform to the national fire protection technical standards for project construction. The employer, as well as the designing, construction, project supervision and other entities, shall be responsible for the quality of fire protection design and construction according to law. Where any construction project which shall be subject to fire protection design review in accordance with the law by the fire department of a public security authority fails to undergo fire protection design review and as-built fire protection inspection, and has been put into use without authorisation, penalties shall be imposed respectively, but executed on a consolidated basis.

Labour Law of the PRC

The *Labour Law of the PRC* (中華人民共和國勞動法) was promulgated by the SCNPC on 5 July 1994 and became effective on 1 January 1995 and amended with effect from 27 August 2009. The *Labour Contract Law of the PRC* (中華人民共和國勞動合同法) was promulgated by the SCNPC on 29 June 2007 and became effective as of 1 January 2008 and was amended on 28 December 2012 with effect from 1 July 2013. Pursuant to these laws, labour contracts shall be concluded in writing if labour relationships are to be or have been established between enterprises and employees. The salaries paid by enterprises to their employees shall not be lower than the local minimum salary standard. Overtime payments shall be made by enterprises in accordance with the relevant laws and regulations if they arrange for their employees to work overtime. Enterprises shall establish and perfect its system of work place safety and sanitation, strictly abide by national and local rules and standards on work place safety and sanitation, and educate employees for work place safety and sanitation. Enterprises shall maintain work place safety and sanitation conditions in compliance with relevant laws and regulations.

Social Insurance and Housing Provident Fund

Employers in the PRC are required to make contributions to various social insurances (including medical, pension, unemployment, work-related injury and maternity insurances) and the housing fund for employees in accordance with the *Social Insurance Law of the PRC* (中華人民共和國社會保險法) adopted by the SCNPC on 28 October 2010 and became effective on 1 July 2011, *Regulations on Work-Related Injury Insurance* (工傷保險條例) amended on 20 December 2010 and became effective on 1 January 2011, the *Interim Measures Concerning Maternity Insurance for Employees in Enterprises* (企業職工生育保險試行辦法) became effective on 1 January 1995, the *Interim Regulations on Levying Social Insurance Premiums* (社會保險費徵繳暫行條例) became effective on 22 January 1999, the *Order of the Ministry of Labour and Social Security on Promulgation of the Tentative rules for Administration of Social*

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Insurance Registration (社會保險登記管理暫行辦法) became effective on 19 March 1999 and the *Administrative Regulations on the Housing Provident Fund* (住房公積金管理條例) became effective on 3 April 1999 and amended and became effective on 24 March 2002.

Labour Union Law

Pursuant to the *Labour Union Law of the PRC* (中華人民共和國工會法), which was promulgated and effective on 27 October 2001 and amended with effect from 27 August 2009, any enterprise, governmental institution or authorities that have 25 or more members shall establish a grassroots labour union committee.

PRC LAWS AND REGULATIONS RELATING TO TAXATION AND FOREIGN EXCHANGE

Law of the PRC on EIT

According to the EIT Law promulgated on 16 March 2007 and the EIT Regulation promulgated on 6 December 2007, both of which became effective on 1 January 2008, enterprises in the PRC including domestic and foreign invested enterprises shall pay EIT at the unified rate of 25%. The High and New Technology Enterprise which needs support from the state is entitled to the preferential EIT rate of 15%.

EIT Law also provides that enterprises established under the laws of foreign jurisdictions with “de facto management body” located in PRC are treated as “resident enterprises” for PRC tax purposes, and will be subjected to PRC income tax on their worldwide income. Under the EIT Regulation, a “de facto management body” is defined as a body that has real and overall management control over the business, personnel, accounts and properties of an enterprise.

On 3 February 2015, the SAT issued the *Public Notice on Certain Issues for the Enterprise Income Tax on Incomes from Indirect Property Transfers between Non-resident Enterprises* (關於非居民企業間接轉讓財產企業所得稅若干問題的公告) (the “**Circular 7**”). In accordance with Circular 7, if a non-resident enterprise indirectly transfers assets (including equity interests) in a PRC resident enterprise by entering into arrangements without reasonable commercial purposes but to evade EIT, the nature of this indirect transfer shall be reclassified and recognised as a direct transfer of assets of a PRC resident enterprise. Assets include (i) properties of an establishment or place in the PRC, (ii) real estate in the PRC or (iii) equity investment in a PRC resident enterprise and other assets directly held by such non-resident enterprise and for which the proceeds from the transfer of such assets shall be subject to EIT as specified by the PRC tax laws (collectively the “**PRC Taxable Assets**”). An indirect transfer of the PRC Taxable Assets refers to transactions with the same or similar substantive results as a direct transfer of the PRC Taxable Assets arising from a transfer by a non-resident enterprise of equity interest or other similar interest in an overseas enterprise (excluding the PRC resident enterprises registered overseas) that directly or indirectly holds the PRC Taxable Assets, including a change in overseas enterprise’s shareholders as a result of reorganisation of such non-resident enterprise. The relevant provisions in Circular 7 are not applicable if the

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overall arrangement regarding the indirect transfer of the PRC Taxable Assets meets any of the following circumstance: (i) such non-resident enterprise obtains income from an indirect transfer of PRC Taxable Assets by acquiring and disposing of the equity interests of the same offshore listed company in a public market; or (ii) such non-resident enterprise directly holds and transfers the PRC Taxable Assets in accordance with applicable tax treaty or arrangement which exempts the transfer from relevant EIT in the PRC.

Pursuant to the *Circular on Improving the Policy on Extra Pre-tax Deduction of Research and Development Expenses* (關於完善研究開發費用稅前加計扣除政策的通知), which was promulgated on 2 November 2015 and effective from 1 January 2016, where the research and development expenses that are actually incurred in the research and development activities of enterprises and do not constitute intangible assets are recorded into the current profit or loss, such expenses shall be deducted from the taxable income for the current year at 50% of the actual amount incurred in the current year and on an actual basis as required; if intangible assets are constituted, such expenses shall be amortised at 150% of the costs of the intangible assets before tax.

Administrative Measures for Certification of New and High Technology Enterprises

Pursuant to the *Administrative Measures for Certification of New and High Technology Enterprises* (高新技術企業認定管理辦法), which was promulgated on 14 April 2008 and amended on 29 January 2016 with effect from 1 January 2016, the High and New Technology Enterprises, which are recognised in accordance with these Measures, may apply for preferential tax policy in accordance with the EIT Law and the EIT Regulation thereof, the *Law of the PRC Concerning the Administration of Tax Collection* (中華人民共和國稅收徵收管理法) and *Implementation Rules of the Law of the People's Republic of China Concerning the Administration of Tax Collection* (中華人民共和國稅收徵收管理法實施細則).

Value-added Tax

The *Interim Regulation of the PRC on Value-added Tax* (中華人民共和國增資稅暫行條例) was promulgated by the State Council on 13 December 1993 and came into effect on 1 January 1994 which was subsequently amended on 10 November 2008 and came into effect on 1 January 2009 and subsequently amended on 6 February 2016. The *Detailed Rules for the Implementation of the Interim Regulation of the PRC on Value-added Tax* (中華人民共和國增資稅暫行條例實施細則) was promulgated by the Ministry of Finance and SAT on 15 December 2008 which were subsequently amended on 28 October 2011 and came into effect on 1 November 2011 (collectively, the “VAT Law”). According to the VAT Law, all enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, and the importation of goods within the territory of the PRC must pay value-added tax (the “VAT”). For general VAT taxpayers selling or importing goods other than those specifically listed in the VAT Law, the VAT rate is 17%.

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Pursuant to the *Interim Regulation of the PRC on Business Tax* (中華人民共和國營業稅暫行條例), which became effective on 1 January 1994 and was subsequently amended on 19 February 1997 and 10 November 2008, and its implementation rules, all institutions and individuals providing taxable services, transferring intangible assets or selling real estate within the PRC must pay business tax. The scope of services which constitute taxable services and the rates of business tax are prescribed in the List of Items and Rates of Business Tax (營業稅稅目稅率表) attached to the regulation. On 1 January 2012, the State Council officially launched a pilot VAT reform program (the “**Pilot Program**”), applicable to business in selected industries. Businesses in the Pilot Program would pay VAT instead of business tax. The Pilot Program initially applied only to transportation industry and “modern service industries” (the “**Pilot Industries**”) in Shanghai. The research and development and technical services, information technology services included in the Pilot Industries are subject to the VAT tax rate of 6%. Subsequently, the Pilot Program has been expanded to ten additional regions, including, among others, Beijing and Guangdong province, and nationwide to the designated pilot industry. The *Trial Implementing Measures of the Conversion of Business Tax to Value-added Tax* (營業稅改徵增值稅試點實施辦法), which was promulgated on 23 March 2016 and became effective on 1 May 2016, set out that it collected VAT in lieu of business tax in all regions and industries.

Urban Land Use Tax

Pursuant to the *Interim Regulations on Urban Land Use Tax of the PRC* (中華人民共和國城鎮土地使用稅暫行條例) promulgated by the State Council on 27 September 1988 and amended on 31 December 2006 and 7 December 2013, the urban land use tax is levied based on the area of the relevant land, the amount tax of urban land shall be between RMB0.6 and RMB30.0 per square metre.

Real Estate Tax

Under the *Interim Regulations on Real Estate Tax of the PRC* (中華人民共和國房產稅暫行條例) promulgated by the State Council on 15 September 1986, effective from 1 October 1986 and amended on 8 January 2011, real estate tax is charged at the rate of 1.2% if it is calculated on the basis of the residual value of a building which is the original value of a building minus certain percentage ranging from 10% to 30%, and at the rate of 12% if it is calculated on the basis of the rental of the real estate.

Deed Tax

Under the *Interim Regulations on Deed Tax of the PRC* (中華人民共和國契稅暫行條例) promulgated by the State Council on 7 July 1997 and effective from 1 October 1997, a deed tax is chargeable to transferees (whether an individual or otherwise) of land (including grant of state-owned land use rights, grant of state-owned land use rights and etc.), building ownership within the territory of mainland China under the provisions of these regulations. Deed tax rate is from 3% to 5%, the applicable deed tax rate is subject to determination by local governments of provinces, autonomous regions and municipalities directly under the central government in light of the local conditions, within the aforesaid range and report their effective tax rates to the MOFCOM and SAT for the record.

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Administrative Regulations of the PRC on Foreign Exchange

Pursuant to the *Regulations on Foreign Exchange Control of the PRC* (中華人民共和國外匯管理條例) promulgated by the State Council on 29 January 1996, effective on 1 April 1996 and amended and became effective on 5 August 2008, Renminbi is freely convertible without the approval from the SAFE or its local counterpart for current account transactions, including payment of dividends to foreign investors, payment of interests, international trade of goods, service-related foreign exchange transactions, on a basis of true and lawful transactions, while capital account transactions including direct investments and repayment of foreign currency loans are subject to significant foreign exchange control and require the prior approval of the SAFE or its local counterpart and/or registration with the authority.

On 9 June 2016, the SAFE promulgated the *Circular on Reforming and Regulating Policies on the Management of the Settlement of Foreign Exchange of Capital Accounts* (國家外匯管理局關於改革和規範資本項目結匯管理政策的通知) (the “**Circular 16**”). The Circular 16 unifies the Discretionary Foreign Exchange Settlement for all the domestic institutions. The Discretionary Foreign Exchange Settlement refers to the foreign exchange capital in the capital account which has been confirmed by the relevant polices subject to the Discretionary Foreign Exchange Settlement (including foreign exchange capital, foreign loans and funds remitted from the proceeds from the overseas listing) can be settled at the banks based on the actual operational needs of the domestic institutions. The proportion of Discretionary Foreign Exchange Settlement of the foreign exchange capital is temporarily determined as 100%. Furthermore, Circular 16 stipulates that the use of foreign exchange incomes of capital accounts by foreign-invested enterprises shall follow the principles of authenticity and self-use within the business scope of enterprises.

Circular 37 and Circular 13

Pursuant to the *Circular on Issues Relating to the Administration of Foreign Exchange in Overseas Investment, Fund-raising and Round-trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies* (關於境內居民通過特殊目的公司境外投資及返程投資外匯管理有關問題的通知) (the “**Circular 37**”) promulgated by the SAFE and became effective on 4 July 2014, a “special purpose vehicle” means an overseas enterprise directly established or indirectly controlled by a domestic resident (including domestic institution and domestic individual residents) for the purpose of engaging in investment and financing with the domestic enterprise assets or interests he legally holds, or with the overseas assets or interests he legally holds. And the registration for and the relevant foreign exchange administration over a special purpose vehicle established by a domestic resident shall be subject to the Circular 37.

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According to the *Circular on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies* (關於進一步簡化和改進直接投資外匯管理政策的通知) (the “**Circular 13**”) promulgated by the SAFE on 13 February 2015 and became effective on 1 June 2015, the foreign exchange registration under domestic direct investment and the foreign exchange registration under overseas direct investment, including the registration of PRC residents who engage in overseas investment and financing and inbound investment via special purpose vehicles under the Circular 37, is directly reviewed and handled by banks, and the SAFE and its branches shall perform indirect regulation over the direct investment-related foreign exchange registration through local banks. The Circular 13 also simplified handling formalities for certain direct investment-related foreign exchange business, for example, simplifying the administration of the confirmation and registration of foreign investors’ contribution under domestic direct investment, cancelling the filing of overseas re-investment foreign exchange, and cancelling annual inspection of the direct investment-related foreign exchange.

Dividend Distribution

According to the EIT Law and the EIT Regulation, the profits of a foreign-invested enterprise that are distributed to its immediate holding company outside the PRC are subject to a withholding tax rate of 10%.

The PRC and the government of Hong Kong signed the *Agreement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Incomes* (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) on 21 August 2006 (the “Arrangement”). According to the Arrangement, the 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident, provided that such Hong Kong resident directly holds at least 25% of the equity interests of the PRC company. The 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if such Hong Kong resident holds less than 25% of the equity interests of the PRC company.

Furthermore, pursuant to the *Circular of the State Administration of Taxation on Relevant Issues Concerning the Implementation of Dividend Clauses in Tax Treaties* (國家稅務總局關於執行稅收協定股息條款有關問題的通知), which was promulgated on and with effect from 20 February 2009, all of the following requirements should be satisfied where a fiscal resident of the other party to the tax agreement needs to be entitled to such tax agreement treatment as being taxed at a tax rate specified in the tax agreement for the dividends paid to it by a PRC resident company: (a) such a fiscal resident who obtains dividends should be a company as provided in the tax agreement; (b) owner’s equity interests and voting shares of the PRC resident company directly owned by such a fiscal resident reaches a specified percentage; and (c) the equity interests of the PRC resident company directly owned by such a fiscal resident, at any time during the 12 months prior to the obtainment of the dividends, reaches a percentage specified in the tax agreement.

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In addition, according to the Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (Trial) (非居民享受稅收協定待遇管理辦法(試行)) which became effective on 1 October 2009, where a non-resident enterprise that receives dividends from a PRC resident enterprise wishes to enjoy the favorable tax benefits under the tax arrangements, it shall submit an application for approval to the competent tax authority. Without being approved, the non-resident enterprise may not enjoy the favorable tax treatments provided in the tax treaties. On 27 August 2015, the SAT promulgated the Announcement on Promulgating the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers (國家稅務總局關於發佈“非居民納稅人享受稅收協定待遇管理辦法”的公告), which became effective as of 1 November 2015 and the Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (Trial) was terminated on the same date. Under the Announcement on Promulgating the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers, any non-resident taxpayer meeting conditions for enjoying the convention treatment may be entitled to the convention treatment itself/himself when filing a tax return or making a withholding declaration through a withholding agent, subject to the subsequent administration by the tax authorities.

PRC LAWS AND REGULATIONS RELATING TO FOREIGN TRADE AND CUSTOMS

Foreign Trade Law of the PRC

The *Foreign Trade Law of the PRC* (中華人民共和國對外貿易法) was adopted by the SCNPC on 12 May 1994 and amended with effect on 7 November 2016. The law provides that any foreign trade business operator that is engaged in the import and export of goods or technologies shall be registered with the administrative department of foreign trade of the State Council or the institution entrusted by it. If the foreign trade business operator fails to complete such registration, the customs will not process the procedures of declaration, inspection and release for the import or export of goods.

Customs Law of the PRC

According to the *Customs Law of the PRC* (中華人民共和國海關法) adopted by the SCNPC, effective on January 22, 1987 and amended on 8 July 2000, 29 June 2013, 28 December 2013 and 7 November 2016 respectively and newly effective on 7 November 2016, and the *Administrative Provisions of the Customs of the People's Republic of China on the Registration of Customs Declaration Entities* (中華人民共和國海關報關單位註冊登記管理規定) effective as of 13 March 2014, the import and export of goods are subject to the customs' control. Consignees of import goods and consignors of export goods have the obligation to make true declarations to the customs. Duties shall be levied by the customs in respect of the goods allowed to be imported and exported. Consignees of import goods and consignors of export goods are required to be registered with the local customs.

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PRC LAWS AND REGULATIONS RELATING TO MERGER AND ACQUISITION

According to the *Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors* (the “**M&A Provisions**”) jointly issued by the MOFCOM, the State-Owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會), the SAT, the CSRC, the SAIC and the SAFE on 8 August 2006 and became effective on 8 September 2006 and subsequently amended on 22 June 2009, mergers and acquisitions of domestic enterprises by foreign investors must be reviewed and approved by the MOFCOM or its provincial branches.

Pursuant to the *Foreign Investment Access Management Guidance Manual* (外商投資准入管理指引手冊), which was issued and became effective on 18 December 2008 by the MOFCOM, notwithstanding the fact that (i) the domestic shareholder is connected with the foreign investor or not; or (ii) the foreign investor is the existing shareholder or the new investor, the M&A Provisions shall not apply to the transfer of an equity interest in an incorporated foreign-invested enterprise from the domestic shareholder to the foreign investor.

Pursuant to the *Several Provisions for the Alteration of Investors’ Equities in Foreign Investment Enterprises* (外商投資企業投資者股權變更的若干規定) (the “**Provisions**”), which was promulgated on 28 May 1997 and effective from 28 May 1997, alteration of investors’ equities in foreign investment enterprises as stated in these Provisions refers to the alteration of investors of Sino-foreign equity joint ventures, Sino-foreign contractual joint ventures, or foreign-funded enterprises established within the territory of the PRC or their shares of capital contribution in the enterprise (including conditions of cooperation they provide). The examination and approval authorities for the alteration of an investor’s equities in enterprises shall be the examination and approval authorities approving the establishment of the enterprise.

INDIAN AND BANGLADESH LAWS AND REGULATIONS

The Directors presently intend to apply the net proceeds of the Share Offer to, among others, setting up operations in India (“**Indian Subsidiary**”) and Bangladesh. A summary of the salient Indian and Bangladesh laws applicable to the setting up of such overseas operations are as follows:

OVERVIEW OF APPLICABLE LAWS IN INDIA

Formation of Company

When incorporating a company in India, the provisions of the (Indian) Companies Act, 2013 have to be complied with. The Companies Act, 2013 and certain un-repealed provisions of the Companies Act, 1956 are the primary laws that govern how a company should be set up in India and regulates its existence, operations, management and its dissolution and winding up. It has various requirements, compliances, filings to be made with the Registrar of Companies and also provides for penalties in the event of failure by a company to adhere to its provisions.

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A company may either be a private limited company or a public limited company.

Foreign Exchange Laws

- a. The Foreign Exchange Management Act, 1999 (“**FEMA**”) along with the rules and regulations made thereunder, regulates the inflow and outflow of foreign exchange in India. The Reserve Bank of India (“**RBI**”), which is the federal bank of India, acts as the regulator, overseeing compliance of the foreign exchange laws through authorised dealer banks in India.
- b. The Foreign Direct Investment Policy (“**FDI Policy**”) prescribed by the Department of Industrial Policy & Promotion, Ministry of Industrial Policy and Promotion, Government of India and the provisions of FEMA, in particular the Foreign Exchange Management (Transfer or issue of security by a person resident outside India) Regulations, 2000 (“**FEMA 20**”) contain the rules and framework for foreign direct investment (“**FDI**”) in India. FEMA 20 prescribes amongst other things, the mode of investments i.e. issue or acquisition of shares/convertible debentures and preference shares, manner of receipt of funds, pricing guidelines and reporting of the investments to the RBI.
- c. Under FEMA 20, investments can be made in shares, mandatorily and fully convertible debentures and mandatorily and fully convertible preference shares of an Indian company by non-residents through two routes:

Automatic Route: Under the Automatic Route, the foreign investor or an Indian company does not require any prior approval from the RBI or Government of India for FDI.

Government Route: Under the Government Route, the foreign investor or an Indian company should obtain prior approval of the concerned Administrative Ministry/Department of the Government of India governing the sector wherein the investment is to be made.

- d. Schedule 1 of FEMA 20 provides for sectoral caps on foreign investment in India. Annex A of Schedule 1 of FEMA 20 has a list of sectors which are absolutely prohibited from receiving FDI. Annex B of Schedule 1 of FEMA 20 has a list of sectors wherein either 100% FDI is permitted under the Automatic Route or there is a cap to a certain extent, whereby it falls within the automatic route up to a certain percentage and government approval is required beyond a certain percentage. Unless otherwise provided, sectors not listed under Annex A or Annex B are deemed to come under the Automatic Route. Certain conditions may also be provided for investments in certain sectors.
- e. Any FDI into the Indian Subsidiary shall be covered under the sector of ‘trading’ under the FDI Policy. Under the sector of ‘trading’, based on the proposed business of the Indian Subsidiary, FDI may be received by the Indian Subsidiary for the following two activities, (i) single brand product retail trading, and (ii) cash and carry wholesale trading/wholesale trading.

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- f. **Single brand product retail trading.** FDI in single brand product retail trading falls under the automatic route up to 49% and requires government approval if the FDI proposed is beyond 49%. Single brand retail trading means sales to consumers for the purpose of personal consumption and where the products to be sold are of a single brand only and are sold under the same brand internationally.
- g. **Cash & Carry Wholesale Trading/Wholesale Trading (“WT”).** WT would mean sale of goods/merchandise to retailers, industrial, commercial, institutional or other professional business users or to other wholesalers and related subordinated service providers. Wholesale trading would, accordingly, imply sales for the purpose of trade, business and profession, as opposed to sales for the purpose of personal consumption. The yardstick to determine whether the sale is wholesale or not would be the type of customers to whom the sale is made and not the size and volume of sales. Wholesale trading would include resale, processing and thereafter sale, bulk imports with ex-port/ex-bonded warehouse business sales and business to business (“B2B”) e-Commerce. If the business to be undertaken by the Indian Subsidiary falls under WT, FDI is permitted up to 100% under the automatic route and no prior approval is required.
- h. **Guidelines for FDI into WT**

The following are the guidelines provided by FEMA 20 for WT:

- A. For undertaking WT, requisite licenses/registration/permits, as specified under the relevant Acts/Regulations/Rules/Orders of the State Government/Government Body/Government Authority/Local Self-Government Body under that State Government should be obtained.
- B. Except in case of sales to Government, sales made by the wholesaler would be considered as WT with valid business customers, only when WT are made to the following entities:
- i. Entities holding sales tax/VAT registration/service tax/excise duty registration; or
 - ii. Entities holding trade licenses i.e. a license/registration certificate/membership certificate/registration under Shops and Establishment Act, issued by a Government Authority/Government Body/Local Self-Government Authority, reflecting that the entity/person holding the license/registration certificate/membership certificate, as the case may be, is itself/himself/herself engaged in a business involving commercial activity; or
 - iii. Entities holding permits/license etc. for undertaking retail trade (like tehbazari and similar license for hawkers) from Government Authorities/Local Self Government Bodies; or
 - iv. Institutions having certificate of incorporation or registration as a society or registration as public trust for their self-consumption.

Note: An entity, to whom WT is made, may fulfil any one of the above 4 conditions.

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- C. Full records indicating all the details of such sales like name of entity, kind of entity, registration/license/permit etc. number, amount of sale etc. should be maintained on a day to day basis.
- D. WT of goods would be permitted among companies of the same group. However, such WT to group companies taken together should not exceed 25% of the total turnover of the wholesale venture.
- E. WT can be undertaken as per normal business practice, including extending credit facilities subject to applicable regulations.
- F. A wholesale/cash & carry trader can undertake retail trading, subject to the conditions mentioned in FEMA 20 for retail trading. An entity undertaking wholesale/cash and carry as well as retail business will be mandated to maintain separate books of accounts for these two arms of the business and duly audited by the statutory auditors. Conditions of the FDI policy for wholesale/cash and carry business and for retail business have to be separately complied with by the respective business arms.

Licenses

All Indian entities that carry on business in India are required to obtain certain basic licenses and registrations with the relevant authorities depending on their business and the state in which the business is being carried on in India.

Some of the basic licenses that may be required are as below:

- a. Permanent Account Number (PAN): A permanent account number is a number allocated to all taxpayers in India from the Income Tax Department.
- b. Tax Deduction Account Number (TAN): A tax deduction account number is to be obtained by all persons who are responsible for deducting tax at source (TDS) or who are required to collect tax at source (TCS).
- c. Goods and Services Tax (GST) registration.
- d. Import-Export Code for the purposes of import of the Product.
- e. A license under the Maharashtra Shops and Establishments Act, 1948 (since the Indian Subsidiary is proposed to be established in the state of Maharashtra).
- f. Registration for Maharashtra Professional Tax (since the Indian Subsidiary is proposed to be established in the state of Maharashtra).

REGULATORY OVERVIEW

Employment Law

There are several labour and employment laws that are applicable to companies in India. The Indian Subsidiary will have to comply with central and state/local labour laws. The applicability of some of the labour laws depends on the number of employees that are hired and their salaries. Depending on the number of employees/their salaries, registrations under the relevant laws need to be obtained.

a. Some of the basic employment/social security laws registrations required are:

- **The Employees' Provident Fund and Miscellaneous Provisions Act, 1952**

The objective of this Act is to provide social security benefits to the workers and it becomes applicable once more than 20 employees are hired in an organisation. It requires registration.

- **Employees State Insurance Act, 1948**

The object of this Act is to provide certain benefits to employees in case of sickness, maternity and employment injury. This Act is applicable once more than 20 employees are hired. It requires registration.

b. An Indian company may appoint either Indian employees or expat employees. There are no restrictions on expat employees being appointed provided the appropriate immigration and visa requirements are met with. Further, expat employees also have to register with the Foreigner Regional Registration Offices, India.

Taxation Law

a. Indian Income Tax

Indian companies need to make necessary tax filings with the Income Tax Department of India.

Domestic companies are subject to a flat rate of 30% as corporate tax on their net earnings in India. Also, if the company has a taxable income of more than INR 10 million and up to INR 100 million, 7% surcharge is levied on the tax payable by the company. If the taxable income is more than INR 100 million, the surcharge is 12% of the tax. In addition, a 3% education cess is also payable on the tax and surcharge. The effective tax rates for companies with taxable income of up to INR 10 million, above INR 10 million but up to INR 100 million, and above INR 100 million are 30.90%, 33.063% and 34.608% respectively.

Dividends distributed by an Indian company are subject to payment of Dividend Distribution Tax by the company at 15% of the dividends (as grossed up for such tax). Further, a surcharge of 12% of the tax, and education cess at 3% of the tax and surcharge is payable.

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The effective tax rate on the actual dividend pay-out is 20.3576%. Such dividends which have been subjected to dividend distribution tax, are exempt in the hands of shareholders, other than resident shareholders having dividend income of more than INR 1 million.

The sale of goods by an overseas company to an Indian company would not be taxable in India, so long as the sale of goods takes place outside India. In case the profits on sale of the goods is taxable in India, only profits attributable to the activities of an Indian company will be taxed in India.

b. Transfer Pricing

Transfer pricing provisions are applicable in India for transactions with associate enterprises. The income has to be computed on the basis of the arms' length price, computed in accordance with one of the prescribed methods.

As regards the agency functions of the Indian company, it is essential that the Indian company is not regarded as a dependent agency of the foreign holding company or any of its affiliates, but that it acts as an agent of the importer in India. If the Indian company is regarded as a dependent agent of the foreign company from whom the goods are imported, there is a possibility that the Indian company may be regarded as a permanent establishment of the foreign company in India. This would trigger taxation of the profits of the foreign company on sale of the goods, to the extent attributable to the operations carried on in India. The Indian company can be taxed as a representative of the foreign company in respect of such profits. If the Indian company is paid an arms' length commission for the agency activity, a view is possible that payment of such arms' length commission extinguishes the tax liability of the foreign company.

c. Custom Duty

Custom duty is a variant of indirect tax and is applicable on all goods imported in the country. In India, Custom Duty has the following components:

- i. Basic Duty i.e. the duty which is applicable on imported items that fall under the ambit of the Customs Act, 1962.
- ii. Counter Vailing Duty (“CVD”) i.e. This duty is levied on imported items under Section 3 of Customs Tariff Act, 1975. It is equal to the Central Excise Duty that is levied on similar goods produced within India.
- iii. Special Counter Vailing Duty (“SAD”). SAD is a duty levied under Section 3(5) of the Custom Tariff Act 1975. This duty is levied in order to counter balance various internal taxes like Sales Tax, Value Added Tax, local tax or any other charges.
- iv. Education Cess i.e. This duty is levied at 2% and higher education cess at another 1% of aggregate of customs duties.

REGULATORY OVERVIEW

d. GST

Goods & Services Tax (“GST”) has been introduced with effect from 1st July 2017, to replace excise duty and VAT, besides some other taxes. GST is payable on sale of goods and services. The GST rate currently proposed for knitting machines is 18%. The input credit against GST payable on output will have to be computed State wise.

On import of goods, in place of SAD and CVD, Integrated GST of 18% would be charged in addition to the basic customs duty of 5%. Credit would be available against GST for such Integrated GST.

e. Double Tax Avoidance Agreement (“DTAA”)

Under Indian tax law, the provisions of a DTAA override domestic tax laws, to the extent that such provisions are more beneficial to the taxpayer. Benefit of a tax treaty is available to a resident of another country only if a tax residency certificate issued by the tax authorities of that country is furnished, along with the necessary declaration. Tax benefits may be availed in accordance with the DTAA between India and China.

Conclusion

There is no specific legislation/restriction/compliance in India on import and sale of single circular knitting machines, double circular knitting machines and parts and components of such machines and as such the office to be set up by the Company in India is not subject to any particular legal and regulatory controls (including laws and regulations, licences, import & export, and tax) that are not applicable to other companies carrying out business on a B2B basis for similar products.

OVERVIEW OF THE APPLICABLE LAW IN BANGLADESH

Formation of Company

The regulatory regime in relation to setting up and operating companies in Bangladesh are governed by a set of laws, rules, regulations and guidelines, which includes among others, the Bangladesh Investment Development Authority Act 2016, the Companies Act 1994, the Income Tax Ordinance 1984, Value Added Tax Act 1991, the Foreign Exchange Regulation Act 1947 (“**FERA**”), the Guidelines for Foreign Exchange Transaction 2009 (“**FX Guidelines**”), the Import Policy Order 2015-2018, Local Government (City Corporation) Act 2009 along with the rules, circulars and practices of the Bangladesh Investment Development Authority (“**BIDA**”) and the Bangladesh Bank which is the central bank of Bangladesh (“**BB**”).

Companies can generally be incorporated in Bangladesh as 100% foreign owned subsidiaries of foreign parent companies under the Companies Act 1994. Companies limited by shares are generally used by foreign entities for undertaking businesses in Bangladesh as they offer limited liability to its members. Limited liability means that members’ liability is limited to the unpaid amount of their respective shares in a company.

REGULATORY OVERVIEW

Incorporation of a company involves obtaining a range of regulatory approvals ranging from trade license, electronic tax identification number (“**TIN**”) registration certificate, VAT registration certificate, industrial registration with BIDA among others in accordance to the bodies of laws as mentioned above. The incorporation process is intricately linked with opening the bank account of a company. Once the bank account is opened and the initial equity contribution for capitalizing the company is deposited in the company’s bank account, the relevant constitutional and other documents are then filed at the RJSC initiating and completing the incorporation process at the RJSC. Companies are also required to make returns filing with the tax revenue offices and the RJSC.

Foreign Exchange Control

Due to the strict foreign exchange control regime, there are several restrictions in relation to the transactions that can be undertaken through local companies with a 100% foreign ownership in Bangladesh. The principal legislations in connection with the foreign exchange control regime are the FERA and the FX Guidelines, promulgated and enforced by BB. Dealings in foreign currency are strictly regulated by the BB and only certain authorised dealers, i.e. banks licensed under the BB, are allowed to remit foreign currency outside Bangladesh. Furthermore, no other person may deal in foreign exchange without the prior consent of the BB. Remittance of money outside Bangladesh is generally prohibited and is only allowed in specific circumstances subject to the approval of the BB. Under the FERA and FX Guidelines, no Bangladeshi person or entity is allowed to create a right to receive or transfer payments or acknowledge any debts in favour of any person residing outside Bangladesh. Additionally, the creation or transfer of security interest to any place outside of Bangladesh without a general or special permission from the BB is also restricted. However, there is no restriction on repatriation of after tax dividends by a local subsidiary to its parent company outside Bangladesh.

There are no restrictions on foreign owned locally incorporated companies to engage in any kind of business (apart from some reserved sectors) and earn in local currency. Further, companies are free to remit post-tax profits to its foreign parent without requiring approval of the BB. Additionally, local companies can remit their annual revenue as royalty, technical knowhow or technical assistance fees, operational services fees, marketing commission etc. with regulatory approvals from BIDA.

Sale and Import of Knitting Machines

There are no restrictions on importing and selling knitting machines in Bangladesh through local companies. Locally incorporated companies can easily import goods by only obtaining an Import Registration Certificate (“**IRC**”). IRCS are issued by the Chief Controller of Import and Export (“**CCIE**”) and are a pre-requisite for any entity importing anything into Bangladesh. It usually takes one to four weeks to obtain an IRC and requires submission of several documents such as constitutional documents, trade license, TIN certificate, membership certificate from a recognized chamber of commerce, among others. Apart from the licenses and regulatory requirements set out above, the Company, for the purpose of carrying

REGULATORY OVERVIEW

out the business of import and sale of knitting machines, is not subject in Bangladesh to any industry specific legal and regulatory controls that are not applicable to other companies carrying out business on a B2B basis.

Tax for Importing and Selling Knitting Machines

Bangladeshi companies are subject to tax in Bangladesh on their income. Private limited companies are subject to income tax at a rate of 35% on their annual income. Separately, companies importing goods in Bangladesh are subject to customs duties, regulatory duties, supplementary duties and other duties depending on the HS Code (Harmonized System Code) of such goods, and these duties are required to be paid before products are released by the customs authorities. The customs and other duties payable on the assessable value of imported goods are from time to time determined and published by the Bangladesh Customs Department. The following table contains the percentage of customs and other taxes payable, under the Customs Tariff Schedule 2017 – 2018, on the assessable value of imported goods:

HS CODE	Description	Customs		Value Added Tax (VAT) (%)	Advanced	Regulatory Duty (RD) (%)	Advanced	Total Tax Incidence (TTI) (%)	EXD (%)
		Duty (SD) (%)	Supplementary Duty (SD) (%)		Income Tax (AIT) (%)		Trade VAT (ATV) (%)		
84471100	Circular Knitting Machines, With Cylinder Diameter =<165mm	1.00	0.00	0.00	5.00	0.00	4.00	11.1175	0.0000
84471200	Circular Knitting Machines, With Cylinder Diameter >165mm	1.00	0.00	0.00	5.00	0.00	4.00	11.1175	0.0000

HISTORY, REORGANISATION AND GROUP STRUCTURE

BUSINESS HISTORY

The Group's history can be traced back to 2004 when Zhangzhou Kaixing was established.

For details of the key business development and major business milestones, please refer to the section headed "Business – Overview" in this prospectus.

KEY BUSINESS MILESTONES

Year	Event
2004	Establishment of Zhangzhou Kaixing in the PRC in March 2004 as a wholly foreign-owned enterprise.
2007	Zhangzhou Kaixing commenced manufacturing and sales of circular knitting machines in the Yangtze River Delta markets
2009	Zhangzhou Kaixing was recognised as a "High and New Technology Enterprise" (福建省高新技術企業) in Fujian.
2010	Establishment of Fujian Fufang in the PRC in November 2010 as a limited liability company.
2013	First sales made under the Company's "FUTEX 福紡" brand, which was registered as one of the Group's trademarks in the PRC in 2015, under which the Group produces its circular knitting machines.
2014	Sale of the Group's first Double Loop Transfer Rib Computerised Jacquard Knitting Machine. Sales of the Group's circular knitting machines under the Group's own brands to trading companies, who have in turn, exported the said products to India, Bangladesh and Thailand.
2015	Registration of invention patent in the PRC in relation to the Group's Double Loop Transfer Rib Computerised Jacquard Knitting Machine. Sales of the Group's circular knitting machines under the Group's own brands to trading companies, who have in turn, exported the said products to South Korea.
2016	Establishment of the Company in the Cayman Islands in July 2016 as an exempted company with limited liability. Sales of the Group's circular knitting machines under the Group's own brands to trading companies, who have in turn, exported the said products to Turkey and Vietnam. Establishment of Zhangzhou Fukai in October 2016, an indirect wholly-owned subsidiary of the Company which was established to focus on the direct sales of circular knitting machines to overseas countries such as India and Bangladesh.
2017	Direct sales of the Group's circular knitting machines under the Group's own brands to India, Bangladesh, Thailand, South Korea, Turkey and Egypt.

CORPORATE HISTORY

Zhangzhou Kaixing

Zhangzhou Kaixing was established in the PRC on 15 March 2004 as a wholly foreign invested enterprise with a registered capital of US\$300,000, of which 100% was contributed by Yu Shao Quan (余少荃) who is a businessman (“**Mr. Yu**”). The principal business activities of Zhangzhou Kaixing are manufacturing and trading of circular knitting machines.

On 11 April 2006, as Mr. Yu wanted to bring in a business partner to develop Zhangzhou Kaixing which has not yet commenced business operations, he transferred 75% equity interest in Zhangzhou Kaixing to 廈門龍懷物流有限公司 (Xiamen Longhuai Logistics Company Limited*) (“**Longhuai Logistics**”), at a consideration of US\$225,000 which was determined by reference to the registered capital of Zhangzhou Kaixing. At the time of the transfer, Longhuai Logistics was beneficially owned as to 51% by Zheng Ying (鄭滢), the sister of Ms. Y Zheng, and 49% by Zeng Huixiang (曾惠香). Upon completion of the equity transfer, Zhangzhou Kaixing became a limited liability company (joint venture between investors of Taiwan and the PRC) and was beneficially owned as to 25% by Mr. Yu and 75% by Longhuai Logistics. On 14 February 2007, (i) Longhuai Logistics transferred 75% equity interest in Zhangzhou Kaixing to Longhuai Import & Export at a consideration of US\$225,000 which was determined by reference to the registered capital of Zhangzhou Kaixing; and (ii) the registered capital of Zhangzhou Kaixing was increased from US\$300,000 to US\$1.2 million. At the time of the transfer, Longhuai Import & Export was beneficially owned as to 96% by Zheng Ying (鄭滢), 3% by Jiang Yequn (江葉群) & 1% by Zheng Xiaomei (鄭小梅). Both Longhuai Logistics and Longhuai Import & Export were then controlled by Ms. Zheng Ying (鄭滢) and the transfer was effected in light of the synergy that may be created between Longhuai Import & Export and Zhangzhou Kaixing. Upon completion of the equity transfer, Longhuai Logistics ceased to hold any equity interest in Zhangzhou Kaixing. The US\$900,000 increase in registered capital was contributed proportionally by Mr. Yu as to 25% and Longhuai Import & Export as to 75%, in accordance with their respective shareholdings.

In October 2013, at the age of 77, Mr. Yu planned for his retirement and agreed to transfer 25% of his equity interest in Zhangzhou Kaixing to Mr. Chen at a consideration of RMB1.84 million (equivalent to approximately US\$300,000) payable by Mr. Chen within 24 months. At the same time, Mr. Chen agreed to transfer 8.5% equity interest in Zhangzhou Kaixing to Mr. J Zheng at a consideration of RMB623,900 after he has acquired the aforesaid interest from Mr. Yu. The consideration for both proposed transfers was determined by reference to the registered capital of Zhangzhou Kaixing as it has accumulated loss at the time. Mr. Chen was then appointed as the chairman and general manager of Zhangzhou Kaixing. On 2 June 2015, Mr. Yu transferred 25% equity interest in Zhangzhou Kaixing to Mr. Chen and the consideration was fully paid on 29 May 2015. Upon completion of the equity transfer, Mr. Yu ceased to hold any equity interest in Zhangzhou Kaixing which became a domestic limited liability company and was beneficially owned as to 25% by Mr. Chen and 75% by Longhuai Import & Export.

* For identification purpose only


HISTORY, REORGANISATION AND GROUP STRUCTURE

On 15 June 2016, Mr. Chen transferred 8.5% equity interest in Zhangzhou Kaixing to Mr. J. Zheng pursuant to the arrangement mentioned above. The consideration of RMB623,900 was fully paid on 20 June 2016. Upon completion of the equity transfer, Zhangzhou Kaixing was beneficially owned as to 75% by Longhuai Import & Export, 16.5% by Mr. Chen and 8.5% by Mr. J Zheng.

As part of the Reorganisation, Zhangzhou Kaixing introduced four investors on 5 September 2016 in anticipation of the Share Offer (“**Onshore Pre-IPO Investments**”). For details of the Onshore Pre-IPO Investments, please refer to the paragraph headed “Onshore Pre-IPO Investments” in this section.

Fujian Fufang

Fujian Fufang was established in the PRC on 4 November 2010 under its initial name of Fujian Hengchuang Precision Machinery Co. Ltd (福建恒創精密機械有限公司) with a registered capital of RMB5 million. Upon establishment, Fujian Fufang was owned as to 95% by Mr. J Zheng and 5% by Ms. Zheng Lihong (鄭麗鴻) (“**Ms. L Zheng**”), both acted as nominees of Zhangzhou Kaixing and details of which are mentioned in the paragraph below. Ms. L Zheng is the wife of Mr. J Zheng. The principal business activities of Fujian Fufang are manufacturing and trading of circular knitting machines.

Pursuant to an entrustment agreement dated 28 October 2010 entered into amongst Mr. J Zheng, Ms. L Zheng and Zhangzhou Kaixing (“**Entrustment Agreement**”), the parties agreed that Mr. J Zheng and Ms. L Zheng shall act as the nominees of Zhangzhou Kaixing in respect of the RMB5 million contribution made by Zhangzhou Kaixing to the registered capital of Fujian Fufang and that Mr. J Zheng and Ms. L Zheng shall exercise the related shareholders’ rights on behalf of Zhangzhou Kaixing. Further, Mr. J Zheng and Ms. L Zheng would need to seek prior authorisation or consent from Zhangzhou Kaixing for the exercise of their voting rights as shareholders and the transfer or dealing of or creating any types of guarantees on their equity interests in Fujian Fufang. The RMB5 million contribution made by Zhangzhou Kaixing was a loan from its then shareholders i.e. Mr. Yu as to 25% and Longhuai Import & Export as to 75%. When Mr. Yu transferred his 25% equity interest in Zhangzhou Kaixing to Mr. Chen in 2015, details of which are set out in the paragraph headed “Corporate History – Zhangzhou Kaixing” in this section, the right to such loan was also assigned to Mr. Chen. During the time when Fujian Fufang was established, the Group has only developed the domestic market with its products sold under one brand “”. To expand the business of the Group and to capture a larger market share, Fujian Fufang was set up to explore the opportunity to develop more brands for the Group’s business. The trust arrangement was put in place for commercial reasons as the management did not want competitors to know about details of the Group’s business direction and plan to develop more brands at the relevant time. Although Mr. J Zheng was the sales manager of Zhangzhou Kaixing when Fujian Fufang was established in 2010, he was not the shareholder of Zhangzhou Kaixing at the time and he was also appointed as the executive director and manager of Fujian Fufang. Mr. J Zheng was primarily engaged in the operation of Fujian Fufang when it commenced business in 2013. Over the years, Fujian Fufang has developed and sold products under two brands, namely “**FUTEX 福紡**” and “**FUFANG 福紡**”.

HISTORY, REORGANISATION AND GROUP STRUCTURE

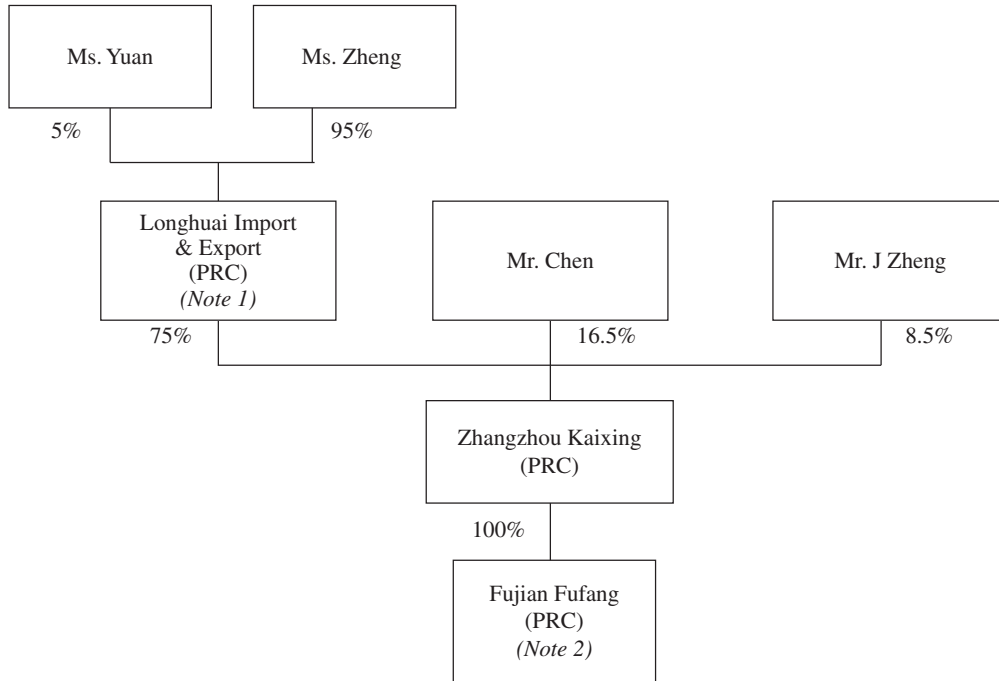
On 5 September 2013, Fujian Fufang changed its name to Fujian Futex Machinery Co., Ltd (福建福紡精密機械有限公司).

On 3 November 2015, as the Group has established a position in the market and to formalise the structure of the Group, Mr. J Zheng, Ms. L Zheng and Zhangzhou Kaixing entered into a termination agreement to terminate the trust arrangement. On 16 December 2015, Mr. J Zheng and Ms. L Zheng transferred 95% and 5% equity interest in Fujian Fufang respectively to Zhangzhou Kaixing, at a consideration which was determined by reference to the registered capital of Fujian Fufang. A consideration was paid for the transfer even though Mr. J Zheng and Ms. L Zheng were only nominees of Zhangzhou Kaixing and did not contribute any capital when Fujian Fufang was set up because under the relevant specific requirements of competent authority of administration for industry and commerce, and taxation bureaus, all transfer of equity interests are required to be done at a consideration. The consideration of RMB5 million was fully paid on 31 December 2015 by Zhangzhou Kaixing to Mr. J Zheng and Ms. L Zheng and such sum was subsequently paid back to the then shareholders of Zhangzhou Kaixing, i.e. Mr. Chen as to 25% and Longhuai Import & Export as to 75%, at its direction on 4 January 2016. Since the completion of the equity transfer, Fujian Fufang has been wholly owned by Zhangzhou Kaixing.

HISTORY, REORGANISATION AND GROUP STRUCTURE

THE REORGANISATION

Immediately prior to the Reorganisation, the shareholding structure of the Group was as follows:



Note 1: The Controlling Shareholders, Ms. Zheng and Ms. Yuan held their interests in the Group through Longhuai Import & Export (in the proportion of 95% and 5% respectively) prior to the Reorganisation. Longhuai Import & Export was beneficially owned as to 96% by Zheng Ying (鄭滢) and 4% by Jiang Yequn (江葉群) in March 2011 when Ms. Yuan acquired 4% equity interest from Jiang Yequn (江葉群) at a consideration of RMB400,000 which was determined by reference to the registered capital of Longhuai Import & Export. Having worked at Longhuai Import & Export since 2005, Ms. Yuan was confident with the future prospect of the company and therefore decided to acquire the 4% equity interest in Longhuai Import & Export when Jiang Yequn (江葉群) disposed of her interests due to personal financial needs. In May 2011, the registered capital of Longhuai Import & Export was increased from RMB10 million to RMB40 million and the additional capital was contributed as to RMB28.4 million by Zheng Ying (鄭滢) and RMB1.6 million by Ms. Yuan. Ms. Yuan funded her investments in Longhuai Import & Export by personal funds. Subsequent to the capital increase, Longhuai Import & Export was beneficially held as to 95% by Zheng Ying (鄭滢) and 5% by Ms. Yuan. Ms. Zheng acquired 95% equity interest in Longhuai Import & Export in December 2011 from Zheng Ying (鄭滢) at a consideration of RMB38 million which was determined by reference to the registered capital of Longhuai Import & Export. When Zheng Ying (鄭滢) expressed her intention to dispose of her interests in Longhuai Import & Export as she needed the funds for personal financial needs, Ms. Yuan introduced her friend Ms. Zheng to acquire such interests. After conducting some due diligence work on Longhuai Import & Export and considering it a solid investment, Ms. Zheng decided to acquire the 95% equity interest of Zheng Ying (鄭滢). Ms. Zheng's father, Zheng Qingshui (鄭清水) who is an Independent Third Party, provided her with the acquisition funds as a gift. Since Longhuai Import & Export has accumulated loss in 2011, the consideration for the acquisitions by Mr. Yuan and Ms. Zheng were determined by reference to its registered capital. Despite Longhuai Import & Export has recorded accumulated loss in 2011, Ms. Zheng decided to invest in it since she held positive view towards the future prospect of the import and export industry in the PRC and thus the potential of Longhuai Import & Export. There was no change in the shareholding of Longhuai Import & Export since then until 6 November 2017 when Ms. Zheng and Ms. Yuan entered into equity transfer agreements to dispose of their entire interests in Longhuai Import & Export to an Independent Third Party as Ms. Zheng decided to devote more time to her personal and family commitments. Subsequent to the Reorganisation, Ms. Zheng and Ms. Yuan held their interests in the Group through Azure Wealth in the same proportion of 95% and 5% respectively.

Note 2: Upon its establishment in November 2010, Fujian Fufang was owned as to 95% by Mr. J Zheng and 5% by Ms. L Zheng, both acted as nominees of Zhangzhou Kaixing pursuant to a trust arrangement. In November 2015, the trust arrangement was terminated and Mr. J Zheng and Ms. L Zheng transferred all their interests in Fujian Fufang to Zhangzhou Kaixing.

HISTORY, REORGANISATION AND GROUP STRUCTURE

In preparation for the Share Offer, the Group carried out a series of restructuring steps for the purpose of establishing and streamlining the corporate structure for listing and to facilitate the growth and expansion strategy of the Group. The principal steps involved in the Reorganisation are summarised below:

(a) Offshore Reorganisation

(i) Incorporation of the Company

The Company was incorporated under the name of “CHINA Precision Machinery Limited” in the Cayman Islands as an exempted company with limited liability on 28 July 2016. At the time of incorporation, the authorised share capital of the Company was US\$100,000 divided into 100,000 shares of US\$1.00 each. On the day of incorporation, one share was issued and allotted as fully paid share at par to the initial subscriber, NovaSage Incorporations (Cayman) Limited, which was then transferred to Azure Wealth, one of the Controlling Shareholders, at par.

On 28 July 2016, the Company further allotted and issued 49,999 shares of US\$1.00 each at par as fully paid to the parties set out in the table below which were also the shareholders of or owned by an individual who directly/indirectly held an interest in Zhangzhou Kaixing prior to the acquisition of the entire equity interests in Zhangzhou Kaixing by Futex Machinery. Details of the acquisition are set out in the paragraph headed “Acquisition of Zhangzhou Kaixing by Futex Machinery” in this section. Upon completion of the share transfer and issuance, the shareholding structure of the Company was as follows:

Shareholder	Number of shares held	Approximate percentage of shareholding (%)
Azure Wealth	28,125	56.25
Sheen Vision	6,185	12.37
Apex Green	3,190	6.38
Green Fountain	3,250	6.50
Palm Voyage	3,250	6.50
Palm Fortune	3,000	6.00
Fortunate Times	3,000	6.00

On 25 October 2016, the Company passed a special resolution to change its name from “CHINA Precision Machinery Limited” to “China Precision Machinery Limited” and adopt its Chinese name “中國精密機械有限公司”.

On 2 February 2017, the Company issued 3,322 shares of US\$1.00 each to PAM Global Opportunities Fund pursuant to a share subscription agreement dated 27 January 2017. For details of the subscription of shares by PAM Global Opportunities Fund, please see the paragraph headed “Offshore Pre-IPO Investment” in this section.

HISTORY, REORGANISATION AND GROUP STRUCTURE

On 7 March 2017,

- (a) the authorised share capital of the Company increased to the aggregate of US\$100,000 and HK\$200,000,000 by the creation of an additional 20,000,000,000 shares with a par value of HK\$0.01 each;
- (b) the following shares of HK\$0.01 each were allotted to the shareholders of the Company as fully paid shares in consideration of the repurchase of the shares of US\$1.00 (“**USD Shares**”) each from each of the shareholders by the Company:

Shareholder	Number of Shares issued	Approximate percentage of shareholding held after the issue (%)
Azure Wealth	21,937,500	52.746
Sheen Vision	4,824,300	11.599
Apex Green	2,488,200	5.983
Green Fountain	2,535,000	6.095
Palm Voyage	2,535,000	6.095
Palm Fortune	2,340,000	5.626
Fortunate Times	2,340,000	5.626
PAM Global	2,591,160	6.230

- (c) all the 53,322 Shares of US\$1.00 each in issue were repurchased by the Company from each of the shareholders, and the repurchase price was settled by a fresh issue of a total of 41,591,160 shares with a par value of HK\$0.01 each set out in the above table; and
- (d) the authorised but unissued share capital of the Company was then diminished by the cancellation of 100,000 USD Shares, so that the authorised share capital of the Company became HK\$200,000,000 divided into 20,000,000,000 Shares.

On 28 April 2017, the Company passed a special resolution to change its name to “China Futex Holdings Limited” and adopt its Chinese name “中國福紡控股有限公司”.

(ii) Incorporation of Ace Progress

Ace Progress was incorporated in the BVI with limited liability on 4 July 2016 with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On 9 August 2016, 50,000 shares were allotted and issued as fully paid to the Company at par value.

HISTORY, REORGANISATION AND GROUP STRUCTURE

(iii) Incorporation of Futex Machinery

Futex Machinery was incorporated in Hong Kong on 29 July 2016, with an issued and fully paid share capital of HK\$10,000 divided into 10,000 shares. Upon its incorporation, 10,000 shares were allotted and issued to Ms. Y Zheng which were then transferred to Ace Progress at HK\$10,000 on 6 September 2016. Upon completion of the transfer, Futex Machinery became an indirect wholly owned subsidiary of the Company.

(b) Onshore Reorganisation

(i) Onshore Pre-IPO Investments

On 5 September 2016, (i) Longhuai Import & Export transferred 0.25%, 6.5%, 6% and 6% equity interest in Zhangzhou Kaixing to Green Fountain, Palm Voyage, Palm Fortune and Fortunate Times respectively; (ii) Mr. Chen transferred 4.125% equity interest in Zhangzhou Kaixing to Green Fountain; and (iii) Mr. J Zheng transferred 2.125% equity interest in Zhangzhou Kaixing to Green Fountain. Set out below is the summary of the Onshore Pre-IPO Investments:

Name of investor	Green Fountain	Palm Voyage	Palm Fortune	Fortunate Times
Beneficial Owner	Ms. Guo	Ms. Y Zheng	Mr. Cheng	Mr. Lam
Date of transfer of equity interest in Zhangzhou Kaixing	5 September 2016	5 September 2016	5 September 2016	5 September 2016
Amount of consideration paid	(i) US\$51,834.19 (equivalent to approximately RMB350,000) paid to Longhuai Import & Export	US\$1,351,807.47 (equivalent to approximately RMB9,100,000) paid to Longhuai Import & Export	US\$1,241,603.10 (equivalent to approximately RMB8,400,000) paid to Longhuai Import & Export	US\$1,241,603.10 (equivalent to approximately RMB8,400,000) paid to Longhuai Import & Export
	(ii) US\$855,264.13 (equivalent to approximately RMB5,775,000) paid to Mr. Chen			
	(iii) US\$440,590.61 (equivalent to approximately RMB2,975,000) paid to Mr. J Zheng			

HISTORY, REORGANISATION AND GROUP STRUCTURE

Settlement date	4 November 2016	20 October 2016	25 October 2016	25 October 2016
Effective cost per Share paid <i>(Note 1)</i>	Approximately HK\$0.2396	Approximately HK\$0.2396	Approximately HK\$0.2396	Approximately HK\$0.2396
Use of proceeds	The consideration for the sale was paid by Green Fountain to Longhuai Import & Export, Mr. Chen and Mr. J Zheng (in respect of their own portion) and there was no cash inflow to the Company	The consideration for the sale was paid by Palm Voyage to Longhuai Import & Export and there was no cash inflow to the Company	The consideration for the sale was paid by Palm Fortune to Longhuai Import & Export and there was no cash inflow to the Company	The consideration for the sale was paid by Fortunate Times to Longhuai Import & Export and there was no cash inflow to the Company
Shareholding in Zhangzhou Kaixing immediately after the transfer	6.5%	6.5%	6%	6%
Shareholding in the Company before Listing	6.095%	6.095%	5.626%	5.626%
Shareholding in the Company after Listing	4.267%	4.267%	3.938%	3.938%
Number of Shares held upon Listing	42,665,316	42,665,316	39,383,369	39,383,369
Lock-up after Listing <i>(Note 2)</i>	12 months	12 months	12 months	12 months

Notes:

- For illustration purpose only. Calculated based on the amount of consideration paid and 1,000,000,000 Shares expected to be in issue upon the Listing. The effective cost per Share paid represents a premium of approximately 4% to HK\$0.23, being the mid-point of the indicative Offer Price of HK\$0.18 to HK\$0.28 per Offer Share.
- Since Green Fountain, Palm Voyage, Palm Fortune and Fortunate Times are not Controlling Shareholders of the Company, they are not subject to the mandatory lock-up under Rule 13.16A(1) of the GEM Listing Rules. The lock-up undertaking is given by each of them on a voluntary basis.

The aggregate consideration of US\$5,182,702.6 (equivalent to approximately RMB35 million) for the Onshore Pre-IPO Investments was determined by reference to the then future prospect of Zhangzhou Kaixing. No special rights were granted to the investors under the Onshore Pre-IPO Investment.

HISTORY, REORGANISATION AND GROUP STRUCTURE

To the knowledge of the Directors, the principal business activity of each of Green Fountain, Palm Voyage, Palm Fortune and Fortunate Times is investment holding. Ms. Guo and Ms. Y Zheng are businesswomen and are personal friends of Ms. Yuan. Ms. Y Zheng is the sister of Zheng Ying (鄭滢), a shareholder of each of Longhuai Import & Export for the period July 2005 to December 2011 and Longhuai Logistics. Mr. Cheng and Mr. Lam are businessmen and were introduced to the Group by Ms. Zheng, one of the Controlling Shareholders. Upon introduction of the potential listing of the Group to the investors, the investors expressed interests in investing in the Group. After conducting due diligence work on the Group, the investors decided to invest in the Group. Green Fountain, Palm Voyage, Palm Fortune and Fortunate Times and their respective beneficial owner are independent from each other. The Directors believe that the Onshore Pre-IPO Investments would strengthen the shareholder base of the Group and a more diversified shareholding structure of the Group is expected to promote accountability of the management to shareholders, thereby facilitate and strengthen internal control. The Onshore Pre-IPO investors are not involved in the management and daily operations of the Group.

Upon completion of the equity transfer, Zhangzhou Kaixing became a sino-foreign equity joint venture and was held as to 56.25% by Longhuai Import & Export, 12.375% by Mr. Chen, 6.375% by Mr. J Zheng, 6.5% by Green Fountain, 6.5% by Palm Voyage, 6% by Palm Fortune and 6% by Fortunate Times.

As each of Green Fountain, Palm Voyage, Palm Fortune and Fortunate Times will hold less than 10% of the total issued share capital of the Company immediately following completion of the Capitalisation Issue and the Share Offer, none of Green Fountain, Palm Voyage, Palm Fortune and Fortunate Times will be a substantial Shareholder upon the Listing and consequently none of them will be a connected person of the Company. Accordingly, all the Shares held by Green Fountain, Palm Voyage, Palm Fortune and Fortunate Times shall be counted as part of the public float for the purposes of 11.23 of the GEM Listing Rules.

The Sole Sponsor considers that the Onshore Pre-IPO Investments are in compliance with the “Interim Guidance on Pre-IPO Investments”, “Guidance on Pre-IPO Investments” and “Guidance on Pre-IPO Investments in Convertible Instruments” issued by the Listing Committee in January 2012 (updated in March 2017), October 2012 (updated in March 2017) and October 2012 (updated in March 2017), respectively, for reasons that: (i) the consideration under the Onshore Pre-IPO Investments were irrevocably settled by the transferees and received by the transferors on or before 4 November 2016, which was more than 28 clear days before the date of the first submission of the listing application form to the Stock Exchange in respect of the Listing on 17 March 2017; and (ii) there are no special rights granted to the Onshore Pre-IPO investors.

(ii) *Incorporation of Zhangzhou Fukai*

Zhangzhou Fukai was established in the PRC on 12 October 2016 as a limited liability company with a registered capital of RMB5 million. Upon establishment, Zhangzhou Fukai was owned as to 100% by Zhangzhou Kaixing. The principal business activities of Zhangzhou Fukai are wholesale, retail and export of circular knitting machines.

HISTORY, REORGANISATION AND GROUP STRUCTURE

(iii) Acquisition of Zhangzhou Kaixing by Futex Machinery

On 5 November 2016, the then shareholders of Zhangzhou Kaixing, namely Longhuai Import & Export, Mr. Chen, Mr. J Zheng, Green Fountain, Palm Voyage, Palm Fortune and Fortunate Times entered into seven equity transfer agreements with Futex Machinery, respectively, pursuant to which the then shareholders of Zhangzhou Kaixing agreed to transfer their entire equity interests in Zhangzhou Kaixing to Futex Machinery for a total consideration of RMB4,130,000, RMB910,000, RMB460,000, RMB480,000, RMB480,000, RMB440,000 and RMB440,000, respectively, determined based on the registered capital of Zhangzhou Kaixing. As a result of the transfers which were completed on 9 November 2016, Zhangzhou Kaixing became a wholly foreign owned enterprise and an indirect wholly-owned subsidiary of the Company.

The total consideration for the acquisition of Zhangzhou Kaixing by Futex Machinery in the aggregate amount of approximately RMB7.3 million was settled on or before 26 January 2017 and was funded by loans from (i) owners of the Company and (ii) third parties.

(c) Offshore Pre-IPO Investment

On 27 January 2017, the Company entered into a share subscription agreement (“**Subscription Agreement**”) with PAM Global Opportunities Fund (“**PAM Global**”) pursuant to which PAM Global subscribed for 3,322 shares of US\$1.00 each of the Company (“**Offshore Pre-IPO Investment**”). Set out below is the summary of the Offshore Pre-IPO Investment:

Date of issue of shares:	2 February 2017
Amount of consideration paid:	HK\$12,000,000
Settlement date:	2 February 2017
Effective cost per Share paid (Note):	Approximately HK\$0.2752
Use of proceeds:	The proceeds of the Offshore Pre-IPO Investment were fully utilised for repayment of debts and payment of other payables.
Shareholding in the Company before Listing:	6.23%
Shareholding in the Company after Listing:	4.361%
Number of Shares held upon Listing:	43,610,518
Lock-up after Listing (Note):	6 months

Note: Since PAM Global is not a Controlling Shareholder of the Company, it is not subject to the mandatory lock-up under Rule 13.16A(1) of the GEM Listing Rules. The lock-up undertaking is given by PAM Global on a voluntary basis.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Note: For illustration purpose only. Calculated based on the amount of consideration paid and 1,000,000,000 Shares expected to be in issue upon the Listing. The effective cost per Share paid represents a premium of approximately 19.65% to HK\$0.23, being the mid-point of the indicative Offer Price of HK\$0.18 to HK\$0.28 per Offer Share.

The consideration of HK\$12,000,000 was determined based on arm's length negotiation between the Company and PAM Global after taking into account the prospects of the Group and its value as determined by using approximately a price to earnings ratio of 10 times and the Group's forecasted profit after tax and before Listing expenses for the financial year ended 31 December 2016.

Pursuant to the Subscription Agreement, the Company will need to seek the consent of PAM Global before it may carry out the following actions: (i) the issue of new Shares at a value based on a price to earnings ratio of less than 10 times and the Group's forecasted profit after tax and before Listing expenses for the financial year ended 31 December 2016 (ii) the amendment of the Articles of Association (iii) the commencement of winding up, dissolution or cessation of business of any member of the Group and (iv) to carry out any material change to the business scope of the Group. Under the Subscription Agreement, the Company has also undertaken to provide PAM Global with quarterly financial reports of the Group. All such rights granted to PAM Global have ceased upon the submission of the listing application to the Stock Exchange in respect of the Listing on 17 March 2017. In addition, in the event the Listing does not take place within 12 months of the date of the Subscription Agreement, PAM Global would have the right to (i) request the Company to procure a third party to purchase the Shares held by it within 30 days of the expiry of the 12 month period together with payment of interest calculated at an annual rate of 8% or (ii) extend the deadline for the Listing to no more than an additional 180 days.

PAM Global is a discretionary fund incorporated in the Cayman Islands and is principally engaged in investment of securities and instruments issued in, or related to the markets in the PRC, Hong Kong, Taiwan, South Korea and member countries of the Association of Southeast Asian Nations. Platform Asset Management Ltd, ("**PAM**"), a corporation licensed to carry on type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO, is the investment manager of PAM Global. PAM is owned as to approximately 19% by Ms. Zee Alice, an Independent Third Party, and as to approximately 81% by Mr. Cheng Ngai Fai ("**Mr. Kelvin Cheng**") who is the son of Mr. Cheng, the beneficial owner of one of the investors of the Onshore Pre-IPO Investments. PAM Global was introduced to the Group by Mr. Cheng. Upon introduction of the potential listing of the Group to PAM Global, it expressed interest in investing in the Group. After conducting due diligence work on the Group, PAM Global proceeded with its investment in the Company. Apart from its investment in the Company and the relationship between Mr. Kelvin Cheng and Mr. Cheng, PAM Global and PAM are Independent Third Parties. To the best of the Directors' knowledge, PAM Global has not participated in other IPOs as pre-IPO investor. The Directors are of the view that the Company can benefit from the additional capital provided by PAM Global and leverage on the financial and investment experience of PAM Global. Neither PAM Global nor PAM is involved in the management and daily operations of the Group.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Upon completion of the issuance of the new shares of the Company to PAM Global, the shareholding structure of the Company was as follows:

Shareholder	Number of shares of US\$1.00 each held	Approximate percentage of shareholding (%)
Azure Wealth	28,125	52.746
Sheen Vision	6,185	11.599
Apex Green	3,190	5.983
Green Fountain	3,250	6.095
Palm Voyage	3,250	6.095
Palm Fortune	3,000	5.626
Fortunate Times	3,000	5.626
PAM Global	3,322	6.230

As PAM Global will hold less than 10% of the total issued share capital of the Company immediately following completion of the Capitalisation Issue and the Share Offer, PAM Global will not be a substantial Shareholder upon the Listing and consequently will not be a connected person of the Company. Accordingly, all the Shares held by PAM Global shall be counted as part of the public float for the purposes of 11.23 of the GEM Listing Rules.

The Sole Sponsor considers that the Offshore Pre-IPO Investment is in compliance with the “Interim Guidance on Pre-IPO Investments”, “Guidance on Pre-IPO Investments” and “Guidance on Pre-IPO Investments in Convertible Instruments” issued by the Listing Committee in January 2012 (updated in March 2017), October 2012 (updated in March 2017) and October 2012 (updated in March 2017), respectively, for reasons that: (i) the consideration under the Offshore Pre-IPO Investments were irrevocably settled by PAM Global and received by the Company on 2 February 2017, which was more than 28 clear days before the date of the first submission of the listing application form to the Stock Exchange in relation to the Listing on 17 March 2017; and (ii) the special rights granted to the Offshore Pre-IPO investor have ceased upon the submission of the listing application to the Stock Exchange in respect of the Listing.

COMPLIANCE WITH PRC LAWS

PRC Regulatory Requirements

The Group’s PRC legal adviser, Jingtian & Gongcheng, has confirmed that all the share transfers and increase in registered capital of the Group’s subsidiaries established in the PRC as described in this section were legal and valid and all material approvals and permits have been obtained and are valid as at the Latest Practicable Date and all procedures involved are, in all material respects, in compliance with PRC laws and regulations.

HISTORY, REORGANISATION AND GROUP STRUCTURE

M&A Provisions

According to the *Provisions on the Merger and Acquisitions of Domestic Enterprises by Foreign Investors* (關於外國投資者併購境內企業的規定) (the “**M&A Provisions**”) jointly issued by the MOFCOM, the State-Owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會), the SAT, the CSRC, the SAIC and the SAFE on 8 August 2006, effective as of 8 September 2006 and amended on 22 June 2009, a foreign investor is required to obtain necessary approvals when it (i) acquires the equity of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (ii) subscribed the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; (iii) establishes a foreign-invested enterprise through which it purchases the assets of domestic enterprise and operates these assets; or (iv) purchases the assets of a domestic enterprise, and then invests such assets to establish a foreign-invested enterprise. The M&A Provisions, among other things, further purport that a special purpose vehicle, formed for overseas listing purposes and controlled directly or indirectly by PRC companies or individuals, shall be approved by the MOFCOM prior to its establishment and obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange.

Meanwhile, according to the *Manual of Guidance on Administration for Foreign Investment Access* (外商投資准入管理指引手冊) promulgated by the MOFCOM on 18 December 2008, notwithstanding the fact that (i) the domestic shareholder is connected with the foreign investor or not; or (ii) the foreign investor is the existing shareholder or the new investor, the M&A Provisions shall not apply to the transfer of an equity interest in an incorporated foreign-invested enterprise from the domestic shareholder to the foreign investor. On the basis that Zhangzhou Kaixing has been a foreign-invested enterprise since 9 November 2016, the legal nature of the transfer to Futex Machinery of 100% equity interest in Zhangzhou Kaixing was a transfer of equity in a foreign-invested enterprise rather than a domestic enterprise as defined in the M&A Provisions. Therefore, the acquisition of 100% equity interest in Zhangzhou Kaixing did not fall under the M&A Provisions and instead falls under the *Provision for the Alteration of Investors’ Equities in Foreign Invested Enterprises* (外商投資企業投資者股權變更的若干規定).

Furthermore, as all requisite approvals, permits and licences required in all material aspects under the PRC laws and regulations in connection with the Reorganisation and the equity interests transfers of our subsidiaries in the PRC as set forth in this section have been obtained, and the Reorganisation has in all material aspects complied with all applicable PRC laws and regulations, and that the acquisition of Zhangzhou Kaixing’s equity interest by Futex Machinery does not fall within the scope of such acquisition of special purpose vehicles as stipulated under the M&A Provisions, our PRC Legal Adviser is of the opinion that no approval of the CSRC or the MOFCOM is required for the Group and its subsidiaries in PRC for the purpose of the Listing. However, our PRC Legal Adviser cannot exclude the possibility that the CSRC or the MOFCOM may issue any interpretation or clarification of the M&A Provisions or introduce any new rules, regulations, guidelines or otherwise, which require the Group and its subsidiaries in PRC to obtain its approval for the Listing. In such case, the Group and its subsidiaries in PRC shall apply for and obtain such approval mentioned above according to the then requirements accordingly.

SAFE Registration in the PRC

The *Circular on Issues Relating to the Administration of Foreign Exchange in Overseas Investment, Fund-raising and Round-trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Companies* (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the “**Circular 37**”), which was promulgated by the SAFE and became effective on 14 July 2014, requires a PRC individual resident (the “**PRC Resident**”) to register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (the “**Offshore SPV**”) that is directly established or indirectly controlled by the PRC Resident for the purpose of conducting investment or financing. Following the initial registration, upon changes in basic information including (amongst others) PRC Resident shareholder, name or term of operation, or changes in material issues including (amongst others) capital increase or capital decrease, equity transfer or swap, merger or split, the offshore SPV shall complete the registration procedures for the changes in a timely manner.

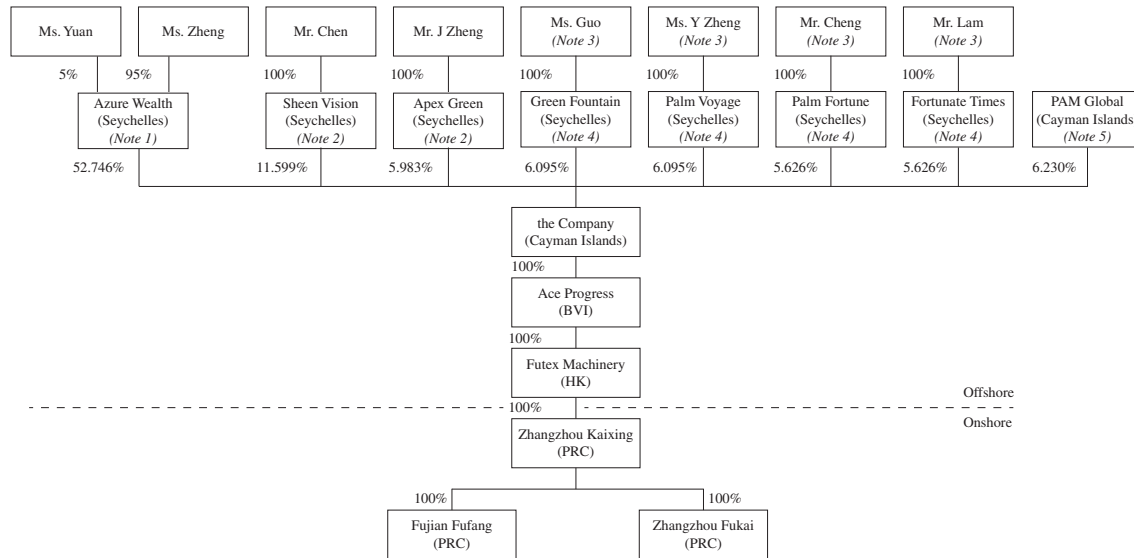
Failure to comply with the registration procedures of Circular 37 may result in penalties and sanctions, including the imposition of restrictions on the ability of the Offshore SPV’s PRC subsidiary to distribute dividends to its overseas parent.

The SAFE released the *Circular on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies* (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) (the “**Circular 13**”), which was promulgated by the SAFE and came into effect on 1 June 2015. The Notice replaces the foreign direct investment (the “**FDI**”) and offshore direct investment (the “**ODI**”) registrations at the SAFE with FDI and ODI registrations at qualified banks, which the SAFE and its local branches will supervise indirectly. The registration under Circular 37 is under the catalogue of FDI and it shall be registered at such qualified banks mentioned above. Our PRC Legal Adviser has confirmed that each of Mr. Chen, Mr. J Zheng, Ms. Yuan and Ms. Zheng, being PRC Residents and beneficial owners of our Group, has registered in Longhai Sub-branch of Agricultural Bank of China in respect of their foreign investment in our Group on or before 7 September 2016 in accordance with Circular 37, and as Mr. Cheng, Mr. Lam, Ms. Guo, Ms. Y Zheng are not PRC Resident under Circular 37, none of them is subject to Circular 37 nor required to go through the foreign exchange registration procedures of overseas investment.

HISTORY, REORGANISATION AND GROUP STRUCTURE

GROUP STRUCTURE

Set out below is the shareholding structure of the Group immediately after completion of the Reorganisation and prior to the Capitalisation Issue and the Share Offer:

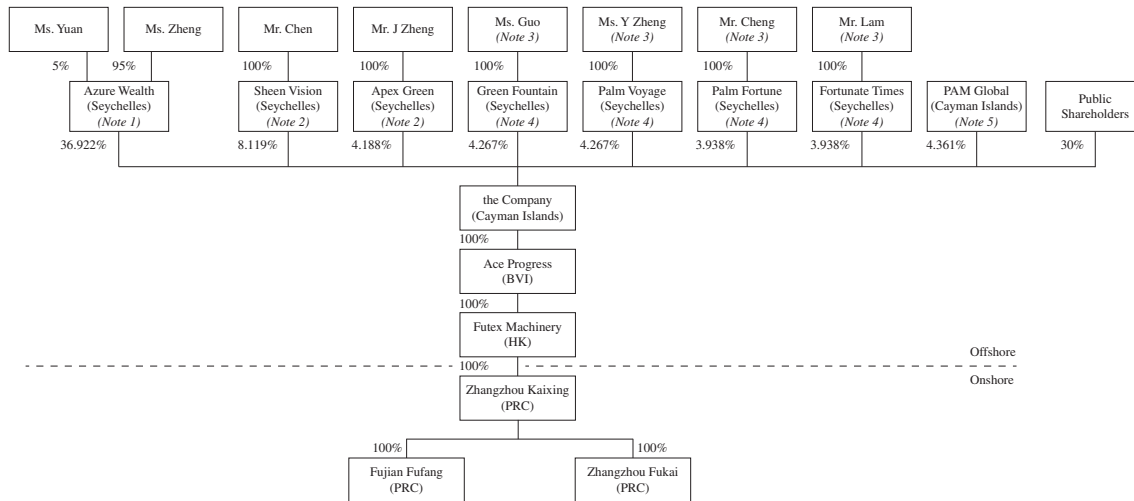


Notes:

- (1) The Shares held by Azure Wealth are subject to a 24-month lock-up period and will not be counted towards public float after the Listing for the purpose of Rule 11.23 of the GEM Listing Rules since Azure Wealth is a Controlling Shareholder.
- (2) The Shares held by each of Sheen Vision and Apex Green are subject to a 12-month lock-up period and will not be counted towards public float after the Listing for the purpose of Rule 11.23 of the GEM Listing Rules since each of Sheen Vision and Apex Green is wholly owned by Mr. Chen and Mr. J Zheng respectively, who are executive Directors. Since Sheen Vision and Apex Green are not Controlling Shareholders of the Company, they are not subject to the mandatory lock-up under Rule 13.16A(1) of the GEM Listing Rules. The lock-up undertaking is given by each of them on a voluntary basis.
- (3) Each of Ms. Guo, Ms. Y Zheng, Mr. Cheng and Mr. Lam is an Independent Third Party save for his/her shareholding interest in the Company held through his/her respective wholly owned company. Mr. Cheng is the father of Mr. Kelvin Cheng who owns approximately 81% of PAM, the investment manager of PAM Global (i.e. the investor under the Offshore Pre-IPO Investment).
- (4) The Shares held by Green Fountain, Palm Voyage, Palm Fortune and Fortunate Times are subject to a 12-month lock-up period after the Listing. Since Green Fountain, Palm Voyage, Palm Fortune and Fortunate Times are not Controlling Shareholders of the Company, they are not subject to the mandatory lock-up under Rule 13.16A(1) of the GEM Listing Rules. The lock-up undertaking is given by each of them on a voluntary basis. The Shares held by Green Fountain, Palm Voyage, Palm Fortune and Fortunate Times will be counted towards public float after the Listing for the purpose of Rule 11.23 of the GEM Listing Rules.
- (5) PAM Global is a discretionary fund incorporated in the Cayman Islands with PAM acting as its investment manager. PAM is owned as to approximately 19% by Ms. Zee Alice, an Independent Third Party, and approximately 81% by Mr. Kelvin Cheng, an Independent Third Party and the son of Mr. Cheng. The Shares held by PAM Global are subject to a 6-month lock-up period after the Listing and will be counted towards public float after the Listing for the purpose of Rule 11.23 of the GEM Listing Rules. Since PAM Global is not a Controlling Shareholder of the Company, it is not subject to the mandatory lock-up under Rule 13.16A(1) of the GEM Listing Rules. The lock-up undertaking is given by PAM Global on a voluntary basis.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Immediately following completion of the Capitalisation Issue and the Share Offer, the shareholding structure of the Group will be as follows:




Notes:

- (1) The Shares held by Azure Wealth are subject to a 24-month lock-up period and will not be counted towards public float after the Listing for the purpose of Rule 11.23 of the GEM Listing Rules since Azure Wealth is a Controlling Shareholder.
- (2) The Shares held by each of Sheen Vision and Apex Green are subject to a 12-month lock-up period and will not be counted towards public float after the Listing for the purpose of Rule 11.23 of the GEM Listing Rules since each of Sheen Vision and Apex Green is wholly owned by Mr. Chen and Mr. J Zheng respectively, who are executive Directors. Since Sheen Vision and Apex Green are not Controlling Shareholders of the Company, they are not subject to the mandatory lock-up under Rule 13.16A(1) of the GEM Listing Rules. The lock-up undertaking is given by each of them on a voluntary basis.
- (3) Each of Ms. Guo, Ms. Y Zheng, Mr. Cheng and Mr. Lam is an Independent Third Party save for his/her shareholding interest in the Company held through his/her respective wholly owned company. Mr. Cheng is the father of Mr. Kelvin Cheng who owns approximately 81% of PAM, the investment manager of PAM Global (i.e. the investor under the Offshore Pre-IPO Investment).
- (4) The Shares held by Green Fountain, Palm Voyage, Palm Fortune and Fortunate Times are subject to a 12-month lock-up period after the Listing. Since Green Fountain, Palm Voyage, Palm Fortune and Fortunate Times are not Controlling Shareholders of the Company, they are not subject to the mandatory lock-up under Rule 13.16A(1) of the GEM Listing Rules. The lock-up undertaking is given by each of them on a voluntary basis. The Shares held by Green Fountain, Palm Voyage, Palm Fortune and Fortunate Times will be counted towards public float after the Listing for the purpose of Rule 11.23 of the GEM Listing Rules.
- (5) PAM Global is a discretionary fund incorporated in the Cayman Islands with PAM acting as its investment manager. PAM is owned as to approximately 19% by Ms. Zee Alice, an Independent Third Party and approximately 81% by Mr. Kelvin Cheng, an Independent Third Party and the son of Mr. Cheng. The Shares held by PAM Global are subject to a 6-month lock-up period after the Listing and will be counted towards public float after the Listing for the purpose of Rule 11.23 of the GEM Listing Rules. Since PAM Global is not a Controlling Shareholder of the Company, it is not subject to the mandatory lock-up under Rule 13.16A(1) of the GEM Listing Rules. The lock-up undertaking is given by PAM Global on a voluntary basis.

OVERVIEW

The Group is one of the top ten manufacturers of circular knitting machines in the PRC engaging in the research and development, manufacturing and sale of circular knitting machines. According to the Frost & Sullivan Report, the circular knitting machinery market in China is fragmented and the Group ranked third amongst all domestic circular knitting machinery manufacturers and seventh amongst all domestic, foreign owned and sino-foreign joint venture manufacturers in the PRC, based on the sales value of circular knitting machines in 2016. In terms of domestic and export sales value of circular knitting machinery manufactured in China in 2016, the Group contributed a market share of 2.7% in the PRC. Further, the Group continually invests much effort into technological innovation through its own research and development department and currently owns one invention patent and various utility model patents in relation to its circular knitting machines.

The Group's products are sold either directly by the Group to textiles manufacturers in both the domestic market and the overseas market under one of the Group's own brands, namely “”, “**FUTEX 福紡**” and “**FUFANG 福紡**” or indirectly through trading companies to overseas markets. During the Track Record Period, the Group's revenue under the Group's own brands amounted to approximately RMB61.1 million, RMB65.7 million, RMB40.1 million (unaudited) and RMB52.4 million for the two years ended 31 December 2015 and 2016 and the six months ended 30 June 2016 and 2017, representing an increase of approximately 7.6% and 30.8% in the corresponding year/period and a satisfactory growth in the recognition of the Group's own brands.

As mentioned in the section headed “Industry Overview” of this prospectus, the overseas circular knitting machinery market has a better business prospect than the domestic market. To capitalise the business opportunity afforded by such industry trend, during the Track Record Period, the Group sold its products indirectly through trading companies to overseas markets such as India, Bangladesh, Thailand, South Korea, Turkey and Vietnam and directly to India, Bangladesh, Thailand, South Korea, Turkey and Egypt. The Group's revenue derived from overseas sales increased from approximately RMB19.6 million (unaudited) for the six months ended 30 June 2016 to approximately RMB30.2 million for the six months ended 30 June 2017 and from RMB16.3 million for the year ended 31 December 2015 to approximately RMB36.5 million for the year ended 31 December 2016, representing an increase of approximately 54.6% and 123.2% respectively. Based on the unaudited management accounts for the ten months ended 31 October 2016 and 2017, the Group's revenue contribution from overseas sales was approximately RMB28.9 million and RMB55.4 million, respectively, which represents an increase of approximately 92.0%. As such, the Directors expects the revenue contribution from overseas sales will continue to increase going forward.

In order to further develop the Group's overseas business and enhance the Group's brand recognition in overseas countries, the Group established an indirect wholly-owned subsidiary in the PRC, namely Zhangzhou Fukai, to engage in the direct sales of its products to overseas markets under its own brands. The Group plans to further develop the Group's brand recognition and expand its customer base by setting up local sales offices in overseas countries with a fast-growing circular knitting machinery market such as India and Bangladesh, maintaining and establishing long-term strategic business relationships with trading companies, exploring new sales platforms and approaching new customers.

BUSINESS

The Group is dedicated to developing quality and innovative products to meet evolving market demand. In order to maintain its competitiveness within the circular knitting machinery industry, the Group aims to steadily increase its investment in and further strengthens its research and development efforts. According to the Frost & Sullivan Report, in 2016, the investment spent on research and development by the Chinese circular knitting machinery industry was around 3.1% of sales value. For the year ended 31 December 2016, the Group's expenditure on research and development was 5.3% of its total revenue, which was above the average domestic circular knitting machinery manufacturer, and the Group has since then been strengthening its research and development capabilities. With the Group's research and development and product design capabilities, the Group currently owns 15 utility model patents and one invention patent in total, of which one utility model patent and one invention patent relates to its Double Loop Transfer Rib Computerised Jacquard Knitting Machine, which is one of the Group's most technologically advanced product, and has a significant sales growth in 2016. The Group is also currently applying for six utility model patents. For further details of the Group's registered patents, please refer to the section headed "Statutory and General Information" in Appendix V to this prospectus.

The Group owns one manufacturing facility based in Longhai City, Zhangzhou City, Fujian Province, the PRC with a maximum annual production capacity of 754 units. For each of the two years ended 31 December 2015 and 2016 and six months ended 30 June 2017, the actual production volume of circular knitting machines was approximately 538 units, 611 units and 385 units, representing an average utilisation rate of approximately 71.4%, 81.0%, and 102.1% respectively, based on assumptions as further elaborated in the paragraph headed "Manufacturing Facility and Processes" in this section.

The table below illustrates the financial performance recorded by the Group during the Track Record Period:

	Year ended		Six months ended	
	31 December		30 June	
	2015	2016	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(unaudited)	
Revenue	73,162	94,302	56,811	63,185
Gross Profit	22,586	33,420	20,525	22,674
Profit for the year/period	11,337	10,797	10,365	9,866

The Group's revenue amounted to approximately RMB73.2 million, RMB94.3 million and RMB63.2 million for the two years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively. The Group's gross profit amounted to approximately RMB22.6 million, RMB33.4 million and RMB22.7 million for the two years ended 31 December 2015 and 2016 and six months ended 30 June 2017 respectively. The Group's profit for the year/period amounted to approximately RMB11.3 million, RMB10.8 million and RMB9.9 million for the two years ended 31 December 2015 and 2016 and six months ended 30 June 2017 respectively. The decrease in the Group's profit for the year from approximately RMB11.3 million for the year ended 31 December 2015 to approximately RMB10.8 million for the year ended 31 December 2016 was mainly attributable to the Listing expenses of approximately RMB6.2 million incurred in the year ended 31 December 2016, whereas the Listing expenses only amounted to RMB150,000 in the year ended 31 December 2015.

COMPETITIVE STRENGTHS

The Directors believe that the Group possesses the following competitive strengths:

Established brand recognition

The Group is one of the top ten manufacturers of circular knitting machines in the PRC selling its circular knitting machines to both domestic and overseas markets. The Group commenced manufacturing of circular knitting machines in 2007 and have since established stable and long-term relationships with its major customers by providing quality products and efficient after-sales services to its customers. These have provided a solid foundation for the Group's brand building, reflected in the Group's ranking in terms of sales value in 2016 in the circular knitting machinery industry within the PRC. According to the Frost & Sullivan Report, the Group ranked third amongst wholly domestic circular knitting machinery manufacturers and seventh amongst all domestic, foreign owned and sino-foreign joint venture manufacturers, based on the sales value of circular knitting machines in 2016.

In addition, Zhangzhou Kaixing has been recognised as a "High and New Technology Enterprise" since 2009. The Directors believe that the Group's history, track record and commitment to improve and innovate, will allow it to achieve strong brand recognition and facilitate rapid customer acceptance.

The revenue derived from domestic and overseas sales under the Group's own brand increased from approximately RMB61.1 million to approximately RMB65.7 million for the years ended 31 December 2015 and 2016 and increased from approximately RMB40.1 million (unaudited) to approximately RMB52.4 million for the six months ended 30 June 2016 and 2017, representing an increase of approximately 7.6% and 30.8%, respectively and a satisfactory growth in the recognition of the Group's own brands.

Strong research and development capabilities

The circular knitting machinery industry is characterised by technological advancements and is susceptible to changes in market trends and demands. In order to maintain the Group's competitiveness amongst not only domestic manufacturers, but amid foreign owned and sino-foreign joint venture manufacturers as well, the Group has kept abreast of the evolving technological advancements to meet international standards by enhancing its efforts and increasing its investment in research and development, which has enabled it to respond and adapt to continuously changing market demands within the industry in a timely manner and can be seen from the diverse range of circular knitting machines offered by the Group. The Directors believe that the Group's research and development efforts and capabilities will enhance its competitiveness in the market and are beneficial to its continuous business growth and development.

BUSINESS

The Group has consistently allocated resources to technological innovation through research and development. Since 2009, the Group has established its own research and development department based in Longhai City, Zhangzhou City, Fujian Province, the PRC. The Group's research and development department is led by Mr. J Zheng, an executive Director who is actively involved in corporate research and development work of the Group with over 11 years of management experience in the machinery manufacturing industry. The research and development department focuses on developing, upgrading and improving its products and production technologies. With the Group's research and development capabilities, the Group currently owns 15 utility model patents and one invention patent in total, of which one utility model patent and one invention patent relates to its Double Loop Transfer Rib Computerised Jacquard Knitting Machine, which experienced a significant sales growth in 2016. The Group is also currently applying for six utility model patents.

In addition, in order to keep up-to-date on market trend, the Group has also engaged a technology consultant, to advise the Group on its research and development, technological innovation and improvement, protection and management of technology in accordance with any updates in technology arising in the circular knitting machinery industry or that may be in demand from time-to-time and to assist the Group in the registration of intellectual property rights. For further details of the agreement entered into between the Group and its technology consultant, please refer to the paragraph headed "Research and Development" in this section.

According to the Frost & Sullivan Report, investment in research and development within the domestic knitting machinery industry was around 3.1% of sales value in 2016 and the percentage was similar in the circular knitting machinery industry. The Group's investment in research and development during the Track Record Period was above the average domestic circular knitting machinery manufacturer and has been steadily increasing. For each of the two years ended 31 December 2015 and 2016 and six months ended 30 June 2017, the Group's research and development expenditure amounted to approximately RMB2.7 million, RMB5.0 million and RMB2.8 million, respectively, representing approximately 3.6%, 5.3% and 4.4% of its total revenue, respectively.

The Group's research and development efforts have allowed it to accumulate expertise and knowledge in the circular knitting machinery industry, thus enabling it to anticipate changes in an ever-changing market environment, continuously expand its product portfolio, and explore and seize new business opportunities. The Group is able to improve its existing products and develop new products to cater for its customers' different preferences and requirements on product specifications.

The Directors believe that the Group's established research and development capabilities, coupled with its experience and expertise in the circular knitting machinery industry, have allowed it to retain existing customers, attract new customers and remain competitive within the market, thus supporting its business growth and development.

Proven quality control system over its products

The Directors believe that the quality of the Group's products is one of the key factors in retaining customers and maintaining the reputation of the Group. To this end, the Group had adopted a quality control system covering its entire manufacturing process, from procurement of raw materials to maintenance of production equipment and machineries. In order to improve the efficiency and reliability on quality control, the Group has set up a quality control department which inspects raw materials prior to the commencement of the manufacturing process and all the products which the Group produces prior to them being delivered to customers. The Group has also put in place quality checking process at each stage of the manufacturing process by its quality control personnel prior to advancing to the next stage of the manufacturing process. For further details of the Group's quality control procedures, please refer to the paragraph headed "Quality Control" in this section.

The quality of the Group's products has been well-recognised by the market and its customers. The Group obtained the "National Product Quality Top Ten Brands" (全國產品質量公證十佳品牌) award in 2006, 2008 and 2009, the China's Quality Products (Key Promotion Unit) (中國優質產品(重點推廣單位)) in 2008, the ISO 9001 certification in 2014 and 2017 and the CE Mark in 2014 and 2016. For further details of the major awards and accreditations received by the Group, please refer to the paragraph headed "Awards and Accreditations" in this section. The Directors believe that the Group's quality control system helps maintain the quality of its products, allowing the Group to enhance customers loyalty and its competitiveness.

Experienced and dedicated management with in-depth industry knowledge

The Group's management team comprises experienced and dedicated individuals with an in-depth knowledge of the manufacturing industry. Most of the executive Directors and senior management have at least ten years of experience in the manufacturing and trading industry and possess strong business skills and operational experience, enabling the Group to understand and respond to its customers' needs, accommodate their requests and deliver a range of quality products, which attributes to the Group's stable relationships with its major customers. For further details of the qualifications and experience of the Directors and senior management, please refer to the section headed "Directors, Senior Management and Employees" in this prospectus.

The Group's management team's vision and in-depth industry knowledge have enabled the Group to formulate and implement sound business strategies, evaluate and manage risks, anticipate changes in industry trends and capture significant market opportunities. The Directors believe that the Group's management team's sound technical knowledge, extensive commercial experience, with its leadership, vision and drive had been key to its success in the past and will continue to contribute to its future growth.

BUSINESS

In order to capitalise on the opportunities afforded by textiles manufacturers shifting their production bases to Southeast Asian and other Asian countries and the One Belt One Road policy of the PRC, the Group has spent a lot of effort to explore overseas markets either by itself or indirectly through trading companies. As a result, the Group has successfully penetrated into India, Bangladesh, Thailand, South Korea, Turkey and Vietnam and achieved a significant growth in its overseas sales of circular knitting machines. For the two years ended 31 December 2015 and 2016 and six months ended 30 June 2016 and 2017, revenue from overseas sales was approximately RMB16.3 million, RMB36.5 million, RMB19.6 million (unaudited) and RMB30.2 million, respectively representing an increase of approximately 123.2% and 54.6% in the corresponding period.

Established sales coverage in China and in overseas countries

According to the Frost & Sullivan Report, textiles manufacturers have been gradually shifting their production bases to Southeast Asian and other Asian countries such as India and Bangladesh, which are countries that are able to offer comparatively lower labour costs than China. The sales of circular knitting machines to these countries have been correspondingly increasing over the past five years and is anticipated to continue to grow and expand in the future.

Leveraging the quality and functionality of the Group's products, and through marketing strategies (such as attending domestic and international industry exhibitions, visiting and communicating with customers to better understand their needs and advertising the Group's products through the Alibaba.com online platform), the Group has rapidly expanded its customer base during the Track Record Period and has established an extensive sales coverage in the domestic market (such as Shaoxing, Hangzhou, Jiujiang, Shenzhen, etc.) and the overseas market, focusing on countries with a rapidly growing circular knitting machinery industry, such as India and Bangladesh.

The Directors believe that the Group's track record together with its strategic expansion into overseas markets will enable it to further diversify its customer base by establishing business relationships with customers in various geographical locations and enhance the Group's success and future development.

BUSINESS STRATEGIES

The Group intends to strengthen its position as one of the top ten circular knitting machinery manufacturers in the PRC by enhancing its overall competitiveness in the circular knitting machinery industry. The Group intends to achieve this by focusing on the following strategies:

Expand customer base in overseas markets

In view of the shifting of the manufacturing base of textile manufacturers to Southeast Asian and other Asian countries with a lower labour costs than the PRC, the Group plans to expand the geographical coverage of its products and adopt a more proactive approach in the expansion of its overseas business.

In addition to promoting its products overseas indirectly through trading companies, the Group established an indirect wholly-owned subsidiary, namely Zhangzhou Fukai, in October 2016 to engage in the direct sales of the Group's products under its own brands only to overseas countries such as India and Bangladesh, which show a rapid growing demand for circular knitting machines according to the Frost & Sullivan Report. In order to further strengthen the Group's overseas sales network and presence, the Group also plans to set up overseas sales offices in India and Bangladesh to focus on further expanding its overseas business and to better understand the market needs and to improve the after-sales services for its overseas customers. Further, the Group attends both local and international industry exhibitions, such as China Keqiao International Textiles Expo (中國柯橋國際紡織品展覽會), China International Textile Machinery Exhibition (中國國際紡織機械展覽會) and ITMA Asia Exhibition (ITMA亞洲展覽會) and promotes its products through the Alibaba.com online platform. The Group's participation in industry exhibitions and trade fairs also presents it with the opportunity to promote brand awareness, showcase its product portfolio to potential customers and increase the Group's opportunities to cooperate with other players in the circular knitting machinery industry.

The Directors believe that by pursuing more proactive sales and marketing campaigns to overseas customers, strengthening its international sales network and enhancing its overseas presence, the Group can develop a close business relationship with its overseas customers.

Expand the Group's production capacity

In view of the Group's sales growth in recent years and to cope with the expected sales growth in the future, the Group plans to expand its production capacity by expanding the scale of production of its existing manufacturing facility and installing new automated processing equipment and machineries (such as CNC machineries).

As at the Latest Practicable Date, the Group owns and operates one manufacturing facility located in Longhai City, Zhangzhou City, Fujian Province, the PRC. The Group's manufacturing facility came into operation in 2007. The manufacturing facility operates one production line. During the Track Record Period, the utilisation rate of the Group's manufacturing facility was 71.4%, 81.0% and 102.1%, respectively. In order to better cope with the anticipated increase in the Group's sales and production volume, the Group had, during the Track Record Period, constructed a warehouse on the same piece of land that is owned by the Group and where its current manufacturing facility is located for more storage space. The Group further intends to increase the level of automation in its production line by purchasing machineries and upgrading and enhancing its existing equipment and machineries and installing more automated equipment in its production facilities, which will, the Directors believe, increase the Group's capabilities to produce quality products, lower the Group's production costs and increase the Group's profit margins due to an increase in the efficiency in its manufacturing process.

After the Listing, the Group plans to enhance production capacity to meet growing business needs and to achieve more economies of scale to its operations.

Expand the Group's production capabilities upstream

The Group intends to expand its production capabilities upstream of the manufacturing chain by purchasing a machinery for the manufacturing of Hearts, a core component of circular knitting machines. This will enable the Group to exert more control over the quality of its circular knitting machines, reduce the risks tied to any loss of its suppliers and reduce the costs incurred by the Group in procuring raw materials for its circular knitting machines. The Group plans to continue to explore and evaluate opportunities for the expansion of its production capabilities upstream with a view to complementing the Group's existing operations, aligning with its expansion strategies and increasing its revenue and profit.

Enhance customer loyalty and brand awareness

The Group intends to strengthen its domestic sales, particularly in Guangdong Province, Zhejiang Province and Jiangsu Province. The Directors believe that word-of-mouth, and maintaining a close relationship with the Group's customers, is an important marketing strategy in the circular knitting machinery industry. The Directors believe that it is important to procure more orders from the Group's long-term customers while at the same time explore orders from new customers through utilising various channels to reach out to its customers, such as promoting its products on the Alibaba.com online platform and attending both local and international industry exhibitions. Further, the Group's sales and marketing personnel visit its customers from time to time to maintain close communication and better understand their needs and requirements relating to product design, capability and functionality and advertises the Group's brands on platforms which they may from time to time deem appropriate. In order to meet business development demands, the Group plans to construct one new office building (on the piece of land owned by the Group) to be used for sales and marketing and research and development.

The Directors also believe that in order to enhance customer loyalty and brand awareness, it is crucial to maintain its stringent quality control system. As a result, the Group plans to continue to strengthen its quality control system such as providing continuous training to its existing staff, the cost of which is expected to be financed by internal resources. Further, through attending industry exhibitions and maintaining close communication with its customers, the Group aims to keep itself abreast of the latest market intelligence and gain insights on the latest market trend and development, which will allow it to better respond to its customers' requests, increase its customers' satisfaction and explore new market opportunities.

Continue to maintain and enhance the Group's research and development capabilities

The Group's research and development department, led by Mr. J Zheng, an executive Director who is actively involved in corporate research and development work of the Group with over 11 years of management experience in the machinery manufacturing industry, focuses on developing new products and production technologies as well as improving existing products and production technologies. As at the Latest Practicable Date, the Group owns 15 utility model patents and one invention patent in total, of which one utility model patent and one invention patent relates to the Group's Double Loop Transfer Rib Computerised Jacquard Knitting Machine. The Group is also currently applying for six utility model patents. The Directors believe that the Group's strong research and development capabilities and focus on technology and product innovation will continue to drive its success. The Group intends to closely monitor customer preferences and industry trends and devote resources accordingly to improve the technical specifications of its existing products and developing new products that meet evolving industry standards and specific customer requirements. The Group plans to collaborate with its suppliers to further develop the Group's products and form strategic collaborations with higher education institutions to better keep track and collect information on the production technology industry and provide training to the Group's research and development personnel. The Directors believe that this will enable the Group to keep abreast of the latest technological developments and enable it to better fine tune its research to improve its products.

The Group will further improve the efficiency of its research and development by encouraging its technical personnel to reach their full potential and to facilitate their research and development activities, including but not limited to the construction of one new office building (on the piece of land owned by the Group) to be used for sales and marketing and research and development and the provision of more training to relevant personnel. In line with the Group's overall expansion strategy, it intends to incur more research and development expenditure on product design and development. The Group also intends to carry out recruitment for experienced research and development personnel in order to enhance the strengths and expertise of its research and development team. Through these efforts, the Group seeks to better understand and explore the latest technologies relating to circular knitting machines so as to strive to gear its research and development to the forefront of technologies pertaining to circular knitting machines.

BUSINESS

BUSINESS MODEL

The Group derives its revenue mainly from the sale of circular knitting machines (i) domestically under the Group's own brands; and (ii) overseas either under the Group's own brands or the brands specified by trading companies purchasing on OEM basis.

The table below sets out a breakdown of the Group's revenue attributable to domestic and overseas sales of circular knitting machines for the periods indicated:

	For the year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
					(unaudited)			
Domestic sales								
– own brands	56,569	78.1	51,557	58.6	31,737	61.9	32,506	51.9
Overseas sales								
– own brands	4,503	6.2	14,162	16.1	8,340	16.3	19,905	31.8
– OEM	11,412	15.7	22,266	25.3	11,164	21.8	10,213	16.3
Total	<u>72,484</u>	<u>100.0</u>	<u>87,985</u>	<u>100.0</u>	<u>51,241</u>	<u>100.0</u>	<u>62,624</u>	<u>100.0</u>

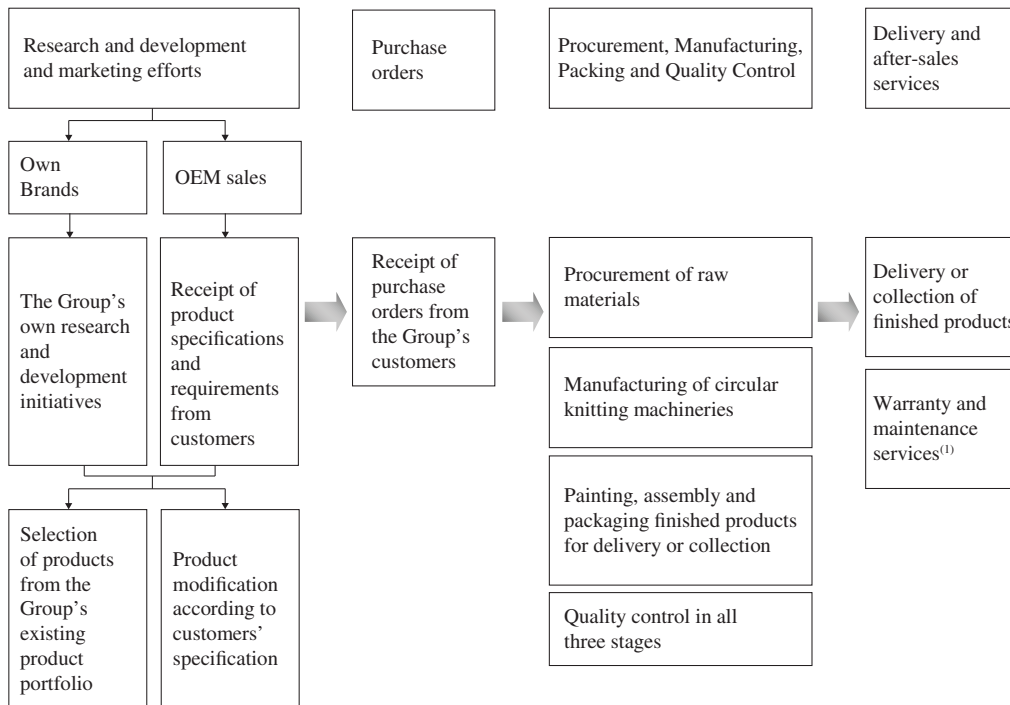
Sales of parts and consumables were neither made under the Group's own brands nor on OEM basis, which caused the total sales made under the Group's own brands and on OEM basis to be different to the total revenue of the Group.

During the Track Record Period, the Group's domestic sales only comprised of circular knitting machines produced under the Group's own brands and such sales were made directly to domestic textiles manufacturers in the PRC.

During the Track Record Period, the Group's overseas sales was conducted directly by Zhangzhou Fukai under the Group's own brands and indirectly through trading companies under the Group's own brands or the brands specified by trading companies purchasing on OEM basis.

BUSINESS

The following diagram illustrates the Group's operations:



Note:

- (1) The Group is not required to provide any warranty and maintenance services for products sold to trading companies.

Research and Development and Marketing Efforts

The Group conducts its own research and development initiatives, primarily focusing on developing, upgrading and improving its products and production technologies. In addition to having successfully developed a range of circular knitting machinery, where the Group's customers provide the Group with their desired specification and requirements, the Group will modify and alter its existing products to provide a circular knitting machine which satisfies the customers' requests.

The Group's marketing strategies contribute to the Group's research and development initiatives. Through attendance at both local and international industry exhibitions from time to time and maintaining close communication with its major customers, the Group is able to better understand the needs and requirements of its customers relating to product design, capability and functionality of circular knitting machines, enabling the Group's research and development department to effectively develop, upgrade and improve the Group's products to keep abreast of the ever changing needs of the customers.

Purchase Orders

The Group's customers may choose to purchase a circular knitting machine from the Group's existing product portfolio, or alternatively, provide the Group with their desired specification and requirements and the Group will modify its existing products to provide a circular knitting machine which satisfies the customers' requests. The Group will draw up a sales and purchase agreement, with a list of configurations appended thereto, which will be sent to the Group's customers for approval and signing.

Procurement, Manufacturing, Packing and Quality Control

Upon receipt of the signed sales and purchase agreement from the Group's customers, the procurement department will procure from its suppliers the necessary raw materials required for manufacturing. The Group will also utilise its existing inventories in fulfilling its purchase orders. In order to ensure the quality standards of the Group's products, quality checks will be conducted on raw materials sourced from its suppliers and inspect any existing inventories being utilised on a sampling basis.

After acquiring the necessary raw materials, the Group will begin processing such raw materials and manufacture the circular knitting machinery according to its customers' specifications. The Group's quality control staff will check and document the quality of products moving through the production line and ensure conformity between practical operation and internal production requirements and standards.

The semi-finished product will be sent to the Group's painting workshop for painting works to be carried out. After painting, the finished product will be assembled for reliability testing, and the Group's quality control staff will carry out reliability testing for approximately 12 hours. Upon satisfactory completion of the reliability testing, the finished product will be disassembled and packed for delivery or collection by customers.

Delivery and after-sales services

For domestic sales, the Group engages third party logistic providers to deliver the finished products to its customers. Further, the Group will provide in-person technical guidance on the installation of the circular knitting machinery or offer installation and testing for its domestic customers. Acceptance of the circular knitting machine is assumed if domestic customers do not raise any objections as to the product quality within seven days of completion of the testing of the circular knitting machine. The Group offers a one year free product warranty for domestic sales and maintenance services and replacement of parts and components thereafter continue to be available upon payment of the relevant fees.

BUSINESS

During the Track Record Period, for overseas sales made to trading companies, the Group did not offer delivery services and collection of finished products was arranged at the Group's facility. However, upon the commencement of Zhangzhou Fukai's business operations in January 2017, the Group has significantly increased its efforts in the sale of its products under its own brands to overseas markets. For overseas sales made by Zhangzhou Fukai, the Group will arrange for the delivery of finished products to its customers on FOB or CIF basis depending on negotiation between the parties. For all of the Group's overseas sales, installation of the circular knitting machines will not be offered by the Group. Further, acceptance of the circular knitting machine is assumed if the customers of the Group's overseas sales do not raise any objections as to the product quality within one month of collection of the finished products from the Group's facility. The Group does not offer any free warranty period for such customers but maintenance services and replacement of parts and components are available upon payment of the relevant fees.

PRODUCTS

The Group engages in the research and development, manufacturing and sale of circular knitting machines which can be classified into (i) single circular knitting machines; and (ii) double circular knitting machines. The Group also sells parts and consumables of circular knitting machines to its customers.

The table below sets out the revenue by product type and the approximate percentage contribution of each product to the Group's total revenue during the Track Record Period:

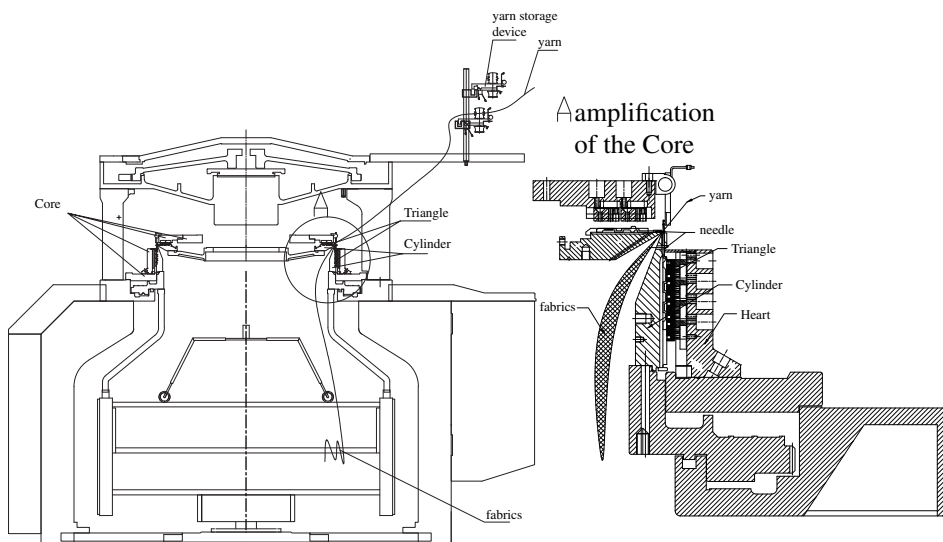
	For the year ended 31 December				Six months ended			
	2015		2016		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
					(unaudited)			
Products								
Single circular knitting machine	28,509	39.0	32,208	34.2	16,578	29.2	16,498	26.1
Double circular knitting machine	43,975	60.1	55,777	59.1	34,663	61.0	46,126	73.0
Others ^(Note)	678	0.9	6,317	6.7	5,570	9.8	561	0.9
Total	73,162	100.0	94,302	100.0	56,811	100.0	63,185	100.0

Note: The revenue segment "Others" includes parts and consumables of circular knitting machines, which are used for the manufacture and maintenance of circular knitting machines.

A circular knitting machine is a knitting machine with either one or two cylinders where needles are placed in a circle, which knits yarn along a latitudinal direction.

One of the key features of circular knitting machines is the feeder number, which determines the quantity of wool, yarn or other materials that can be fed into the circular knitting machines at the same time and accordingly affecting the productivity of the circular knitting machine in the production of fabrics.

The Group's circular knitting machines consist of three major components, which are integral to the operation of the circular knitting machines, namely, the Heart, the Cylinder and the Triangle. The diagram below illustrates the core parts of a computerised double circular knitting machine and the process from feeding of wool, yarn or other materials into the circular knitting machine to the production of fabrics:



Note: The Core of a circular knitting machine comprises of three components, namely the Heart, the Cylinder and the Triangle.


In order to reduce the cost of manufacturing, minimise the risk of instability in supply and to ensure a standardised quality of the Group's circular knitting machines, the Group plans to purchase a machinery for the manufacturing of Hearts in the future, which will further enhance its production capabilities upstream. The process of the manufacturing of Hearts involves (i) lathe milling and processing; (ii) drilling; (iii) grinding and (iv) assembly.

BUSINESS

The Directors believe that the self-production of Hearts will enable the Group to better control the quality of one of the core components of circular knitting machines and better maintain and control the supply of Hearts. For each of the two years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, the Group's cost of goods sold of approximately RMB6.6 million, RMB7.2 million and RMB4.8 million, respectively arose from the Hearts. Further, the Directors expect that the self-production of Hearts will lead to a reduction in the cost of goods sold for the Group of approximately RMB3.8 million assuming a production volume of 1,000 units, which will in turn increase its profitability. Should the Group had undertaken the self-production of Hearts, the Group's cost of goods sold would have been reduced by approximately RMB2.4 million, RMB2.5 million and RMB1.7 million for the years ended 31 December 2015 and 2016, and the six months ended 30 June 2017. In addition, the Group's procurement department and quality control department had been working together in ascertaining the quality of raw materials procured by the Group. The Directors believe that together with the staff that the Group intends to recruit specifically for the manufacturing of Hearts, the Group's management and staff has sufficient experience and expertise to manage the production of Hearts. For further details of the Group's future plans, please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus.

Single Circular Knitting Machines

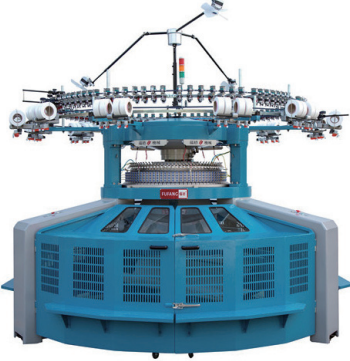
A single circular knitting machine is a circular knitting machine characterised by having one cylinder. A single circular knitting machine is able to produce single-sided fabrics. The table below sets out the specifications and features of single circular knitting machines manufactured by the Group:

Product	Key end products and areas of application	Feeder Number	Image
Single Circular Knitting Machine	<ul style="list-style-type: none">Clothing fabric for intimates, t-shirts, sportswear, lace, light curtains, towels etc.	34 to 156	

BUSINESS

Double Circular Knitting Machines

A double circular knitting machine is a circular knitting machine characterised by having two cylinders, one being the upper cylinder and the other being the lower cylinder, set perpendicular to each other. In contrast to a single circular knitting machine, this setting allows for double circular knitting machines to produce reversible fabrics. The table below sets out the specifications and features of double circular knitting machines manufactured by the Group:

Product	Key end products and areas of application	Feeder Number	Image
Double Circular Knitting Machine	<ul style="list-style-type: none">• Clothing fabric for luxury suits, bedding, home decoration textiles, shoes textiles, luggage textiles etc.	28 to 124	

For details about the average selling price and price range of the Group’s products, please refer to the section headed “Financial Information” in this prospectus.

The Directors are of the view that the Group’s business is not affected by seasonal fluctuations. Further, the product life cycle of a circular knitting machine depend on the technological advancement in the industry. The Group continuously focuses on research and development in order to keep up with evolving market demand and technological advancement.

BUSINESS

MANUFACTURING FACILITY AND PROCESSES

Manufacturing facility

The Group operates one production line at its manufacturing facility located at Longhai City, Zhangzhou City, Fujian Province, the PRC. As at the Latest Practicable Date, the Group's manufacturing facility occupies a total gross floor area of approximately 9,629.0 square metres. The table below sets out the designed production capacity of the Group's manufacturing facility, actual production volume and utilisation rate during the Track Record Period for the Group's products:

	For the year ended		Six months
	31 December	31 December	ended 30 June
	2015	2016	2017
Designed production capacity (<i>units</i>) ⁽¹⁾	754	754	377
Actual production volume (<i>units</i>)	538	611	385
Utilisation rate (%) ⁽²⁾	71.4	81.0	102.1 ⁽³⁾

Notes:

- (1) The calculation of the annual production capacity is based on the following:
 - a. The designed production capacity is calculated by the maximum machinery operation hours per year multiplied by the number of machinery available and divided by the weighted average machinery operation hours required to produce one circular knitting machine taking into account the production mix of single circular knitting machines and double circular knitting machines manufactured in 2015 and 2016 and the six months ended 30 June 2017.
 - b. In calculating the designed production capacity, it was assumed that the production line is in operation for one shift of 8 hours per day with 288 working days per year after taking into account statutory holidays and machine down time for maintenance.
- (2) The average utilisation rate is calculated by dividing the actual production volume of a year/period by the designed production capacity of that year/period.
- (3) The utilisation rate for the six months ended 30 June 2017 was over 100% due to the Group's manufacturing staff working overtime. None of the Group's manufacturing process were outsourced.

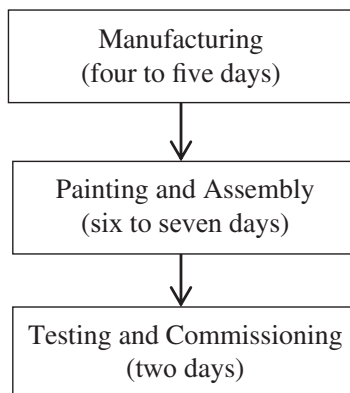
The increase in the average utilisation rate for the year ended 31 December 2016 was mainly due to an increase in sales of circular knitting machines as compared to the same period in 2015. The utilisation rate of the Group's production line is affected by a number of factors, including the number of purchase orders received from the Group's customers, the production schedule and the type of products manufactured.

The major assets and equipment used in the manufacturing process include four lathes, two grinding machines, two CNC machines and three radial drilling machines. As at 30 June 2017, all of the Group's major assets and equipment used in the production process were owned by it with ages ranging from three to thirteen years and are subject to regular inspections and maintenance if and when required. The Group replaces, purchases or upgrades its assets and equipment from time to time as assets and equipment with better technical capabilities become available.

BUSINESS

Manufacturing Process

The diagram below illustrates the general manufacturing process of the Group's circular knitting machines and the approximate time required:



Generally, the Group's manufacturing process for circular knitting machines can be broadly categorised into three steps:

- (i) *Manufacturing*: Receipt of purchase orders which may include specifications from customers and procurement of raw materials from the Group's suppliers or utilisation of existing inventory according to such specifications. The raw materials are processed according to the necessary technical specifications to form the specified components. The manufacturing process involves lathe processing, grinding and drilling.
- (ii) *Painting and Assembly*: These processes are carried out at the Group's manufacturing facility. The components will be trial-assembled in order to assess the structural safety of the circular knitting machines. The Group will then assemble and carry out inspection on each component and surface treatment on the components of the circular knitting machines.
- (iii) *Testing and Commissioning*: After trial assembly of the circular knitting machines, the Group runs reliability tests to determine if the finished products comply with the requisite standard. Upon passing the tests, the finished products will be disassembled, packed and either stored or delivered to the Group's customers. The Group believes that the trial-assembly and testing of its circular knitting machines for approximately 12 hours before delivery or collection can help improve the reliability of the circular knitting machines when they are delivered to or collected by its customers and identifying the potential risks in the assembly of the circular knitting machines at customers' site prior to delivery or collection, thereby creating a smoother assembly and installation process at the Group's customers' site.

In general, approximately 12 to 14 days from the commencement of manufacturing to the completion of reliability testing is required in the manufacturing process of one circular knitting machine.

RESEARCH AND DEVELOPMENT

Research and development capabilities are critical and necessary to enhance the production process in order to meet the evolving needs of the Group's customers and maintain the competitiveness of the Group within the circular knitting machinery industry. The Group strives to enhance its research and development capabilities in order to respond to and anticipate changes in the market and enhance the Group's competitiveness. The Group's research and development department is mainly responsible for the development of new products and technology and the improvement of existing production technologies.

As at the Latest Practicable Date, the Group owns 15 utility model patents and one invention patent in total, of which one utility model patent and one invention patent relates to its Double Loop Transfer Rib Computerised Jacquard Knitting Machine. The Group is also currently applying for six utility model patents. For further details, please refer to "Appendix V – Statutory and General Information – 8. Intellectual Property Rights of the Group" in this prospectus.

During the Track Record Period and up to the Latest Practicable Date, the Group has entered into a memorandum of understanding with one higher education institution, pursuant to which the Group and the said higher education institution agreed to collaborate research efforts in relation to the development of a new model of circular knitting machine. Pursuant to the terms of collaboration between the Group and the said higher education institution, in the event that technology developed as a result of the collaboration with the higher education institution becomes commercialised, all rights to application for patents and corresponding intellectual property rights shall belong to the Group. As of the Latest Practicable Date, a definitive agreement has not been entered into.

As at 30 June 2017, the Group's research and development department comprised of eight personnel led by Mr. J Zheng, an executive Director who is actively involved in corporate research and development work of the Group with over 11 years of management experience in the machinery manufacturing industry and who is assisted by Mr. Ji Qingsong (暨青松先生), who has over 13 years of relevant experience in research and development in the circular knitting machine manufacturing industry. The majority of the Group's research and development personnel possess over five years of relevant experience.

In addition, in order to stay up to date on market trends, the Group has engaged a technology consultant. Pursuant to the agreement entered into between the Group and its technology consultant (the "**Consultant Agreement**") effective from 1 January 2013 for a term of four years subject to renewal by mutual agreement, the technology consultant shall advise the Group on its research and development, technological innovation and improvement, protection and management of technology in accordance with any updates in technology arising in the circular knitting machine industry or that may be in demand from time-to-time and to assist the Group in the registration of intellectual property rights. The Group may fully utilise any inventions, software, technology or other trade secrets developed and/or obtained with the assistance of its technology consultant, including the application for registration of

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intellectual property rights. After the termination of the agreement between the Group and its technology consultant, the technology consultant do not have any rights to use or transfer any such inventions, software, technology or other trade secrets. As of the Latest Practicable Date, the Group had not applied for registration of any intellectual property rights arising from the Consultant Agreement. The Consultant Agreement was renewed effective from 1 January 2017 for a term of two years subject to renewal by mutual agreement. According to the Consultant Agreement, the Group shall pay its technology consultant an annual consultancy fee of RMB600,000. During the Track Record Period, the Group paid a total of RMB1.5 million to its technology consultant.

According to the Frost & Sullivan Report, investment in research and development within the domestic knitting machinery industry was around 3.1% of sales value in 2016 and the percentage was similar in the circular knitting machinery industry. The Group's investment in research and development in the year ended 31 December 2016 was above the average domestic circular knitting machinery manufacturer and has been steadily increasing during the Track Record Period. For each of the two years ended 31 December 2015 and 2016 and six months ended 30 June 2017, the Group's research and development expenditure amounted to approximately RMB2.7 million, RMB5.0 million and RMB2.8 million, respectively, representing approximately 3.6%, 5.3% and 4.4% of its total revenue, respectively.

During the Track Record Period, the research and development expenses incurred mainly for eleven projects related to improvement of certain parts and related technology of circular knitting machines, such as a type of position fixing mechanism of cam box seat deck and main plate for circular knitting machines (一種大圓機馬座與大盤的定位系統), a type of press plate structure for double linking computerized knitting machines (一種對筒機的壓板結構) and a type of yarn adjusting device (一種喂紗調節裝置). As the research and development expenses incurred do not relate to one specific project, such expenses could not be reliably measured for each project, the research and development expenses were not capitalized during the Track Record Period. The Group plans to continue to enhance its research and development capabilities and further details are set out in the section headed "Future Plans and Use of Proceeds" in this prospectus.

As a result of the Group's research and development efforts, the Group has developed new products and systems which enhances the Group's products, such as the Double Loop Transfer Rib Computerised Jacquard Knitting Machine. Further, owing to the Group's technological capabilities, Zhangzhou Kaixing has been recognised and certified as a "High and New Technology Enterprise" since 2009 by relevant governmental authorities.

For details of the Group's products, please refer to the paragraph headed "Products" in this section.

QUALITY CONTROL

Quality control is critical to the Group's business and the Group's quality control team is responsible for ensuring that all finished products have satisfactorily passed the quality control tests in place and meets the quality standard imposed by the Group. Quality control tests are conducted at different stages of the manufacturing process, including inspection of raw materials, work-in-progress and reliability testing on finished products to ensure that they meet the requirements of the Group's customers to ensure customer satisfaction. The Group has put in place a manufacturing process checklist which states the quality control procedures and quality control standards to be adopted by its quality control team. The Group had obtained ISO 9001 certification and the CE Mark, recognising the Group's quality integrated management system.

The Group's quality control personnel has, on average, more than five years of experience in the circular knitting machine manufacturing industry, and the Group provides regular in-house and on the job training to its quality control team.

Quality Control on Raw Materials

The Group's quality control team is responsible for carrying out pre-storage inspection on raw materials. Samples of raw materials procured will be tested to ensure that the Group's quality standard and specifications are met. Raw materials that fall short of the such standards and specifications will be returned to the relevant supplier for replacement or refund. The Group assesses its suppliers in accordance with specified criteria on pricing and quality of raw materials prior to entering into any supplier contracts with them.

In-process Quality Control

The Group's on-site quality control staff are responsible for conducting inspections and sign off on each stage of the Group's manufacturing process to ensure that it conforms to the customers' specifications. For example, relevant staff will check that equipment do not exceed the standard deviation of measurements.

Outgoing Quality Control

Qualified personnel from the manufacturing department will test items including feeder specifications of the circular knitting machine to ensure that it meets the customer's requirements and specifications. Such inspections will be carried out on-site for approximately 12 hours. The quality control team will supervise and oversee the conducting of reliability testing on the Group's finished products prior to delivery to its customers. The appearance of the circular knitting machine will also be inspected.

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The Group has established an internal control system to handle customer complaints relating to the quality of the Group's products. Details of any complaints are recorded and investigated in order to rectify any issues and prevent future quality issues from arising. During the Track Record Period, there were no return of the Group's products and the Group did not receive any material customer complaints relating to the quality of the Group's products, nor was the Group subject to any material claims, litigation or investigation due to product liability.

SALES AND MARKETING

The sales and operating department is responsible for the sales and promotion of the Group's products, maintaining customer relationships and following up with sales orders. For example, the Group offers its customers in-person technical guidance on the installation of its circular knitting machines in the PRC. The Directors believe that maintaining a close relationship with its customers after sales is important to creating brand loyalty and strives to provide prompt response to any problems relating to its products.

The Group's marketing strategy involves direct marketing to approach existing and potential customers. The Group's sales personnel maintain close relationships with the Group's customers in order to leverage its relationship with existing customers for referrals of new customers. From time to time, the Group's sales personnel conduct various forms of marketing activities such as attending both domestic and international industry exhibitions, such as China Keqiao International Textiles Expo (中國柯橋國際紡織品博覽會), China International Textile Machinery Exhibition (中國國際紡織機械展覽會) and ITMA Asia Exhibition (ITMA亞洲展覽會), visiting customers to better understand their needs for circular knitting machines and inviting customers to the Group's manufacturing facility. The sales and operating department further utilises the Alibaba.com online platform to advertise the Group's products and to reach out to its customers.

Further, the Group's sales and operating department also conducts customer satisfaction surveys with its customers from time to time in order to cater for the needs and preferences of its customers. The Directors believe that such feedback will enable the Group to better develop its products to meet the evolving needs of the market and enhance its competitiveness in the circular knitting machinery industry in the PRC.

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In order to capitalise on the opportunities afforded by textiles manufacturers shifting their production bases to Southeast Asian and other countries and the One Belt One Road policy of the PRC, the Group has spent a lot of effort to explore overseas market either by itself or indirectly through trading companies. As a result, the Group has successfully penetrated into overseas markets such as India, Bangladesh, Thailand, South Korea, Turkey, Vietnam and Egypt, achieving a significant growth in its overseas sales of circular knitting machines. For the two years ended 31 December 2015 and 2016 and six months ended 30 June 2016 and 2017, revenue from overseas sales was approximately RMB16.3 million, RMB36.5 million, RMB19.6 million (unaudited) and RMB30.2 million, respectively, representing an increase of approximately 123.2% and 54.6% in the corresponding period. The table below sets forth the breakdown of the Group's revenue by major geographical regions for the periods indicated:

Countries	For the year ended 31 December				Six months ended			
	2015		2016		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000 (unaudited)	%	RMB'000	%
PRC	56,815	77.7	57,814	61.3	37,247	65.6	32,944	52.2
India	7,642	10.4	17,328	18.4	10,610	18.7	11,678	18.5
Bangladesh	7,238	9.9	11,807	12.5	5,428	9.5	6,450	10.2
Thailand	1,083	1.5	3,309	3.5	3,085	5.4	11	0.0
South Korea	384	0.5	1,544	1.6	7	0.0	11,059	17.5
Egypt	–	–	–	–	–	–	271	0.4
Vietnam	–	–	1,260	1.4	–	–	–	–
Turkey	–	–	1,240	1.3	434	0.8	772	1.2
Total	73,162	100.0	94,302	100.0	56,811	100.0	63,185	100.0

The significant increase in the Group's sales to South Korea for the six months ended 30 June 2017 is a result of repeated orders received from an existing customer of the Group and orders received from a new customer referred to the Group by the said existing customer in the period.

During the Track Record Period and up to the Latest Practicable Date, as confirmed by the PRC Legal Adviser, the Group had in all material respects complied with all applicable PRC laws and regulations relevant to the Group's export. The Directors confirm that the Group has obtained all relevant approvals, certificates, registrations or any other legally required documentation from the relevant government authorities relevant to the Group's direct export sales and applicable to the Group in the countries to which the Group directly export its products.

CUSTOMERS

The Group's domestic sales are made by the Group directly to domestic textiles manufacturers, and overseas sales are made directly through Zhangzhou Fukai and indirectly by the Group through trading companies, which resold the Group's products to their overseas customers.

Domestic Sales

The Group sells its circular knitting machines under its own brands to domestic textiles manufacturers, which are based mainly in Shaoxing, Hangzhou, Jiujiang and Shenzhen. The Group enters into sale and purchase agreements with domestic textiles manufacturers on a case-by-case basis. Notwithstanding that there are no long-term agreements with any domestic textiles manufacturers and the Group is able to maintain a strong and stable relationship with these domestic textiles manufacturers owing to the Group's sales and marketing efforts and the quality of its products. For further details on sales and marketing, please see the paragraph headed "Sales and Marketing" in this section.

Overseas Sales

The Group believes that exploring overseas markets where the Group has minimal presence indirectly through trading companies, as compared with the direct-sales approach, is an efficient approach to enhance the Group's market penetration, and is an approach commonly adopted by the Group's competitors. Further, those trading companies are able to provide the Group with local market information, which is important for the Group's expansion and outreach in the future. Hence, the Group from time to time identifies trading companies which are beneficial to the Group's penetration of overseas markets. The Group evaluates the feasibility of collaborating with such trading companies for the Group's overseas sales by considering all relevant factors, such as their reputation, knowledge and connection in their target overseas markets, their technical competency in providing after-sales services to their customers, their proposed terms of collaboration with the Group, and their business potential in their target overseas markets. The Group indirectly sells its products overseas through sales to trading companies which resell the Group's products to their overseas customers under the Group's own brands or the brands specified by the trading companies purchasing on OEM basis.

During the two years ended 31 December 2015 and 2016, the Group sold its products overseas through trading companies under the Group's own brands mainly through Longhuai Import & Export. Longhuai Import & Export was incorporated in the PRC on 15 July 2005 and its business scope includes import and export of all kinds of commodities and technologies; wholesale and retail of fresh vegetable and fruit, clothing, daily necessities, textile products, hardware and electrical products, electronic products, machinery equipment, furniture, minerals, building materials, chemical products, sports goods and office supplies. Longhuai Import & Export exports products to different countries in the world and has over 30 employees with an annual revenue of approximately RMB370 million and RMB320 million in 2015 and 2016, respectively. The Group leveraged Longhuai Import & Export's overseas connection to promote sales and brand awareness in overseas markets with a growing circular knitting machinery industry where the Group has limited market coverage, which the Directors believe is beneficial to the Group's business development. For the years ended 31 December 2015 and 2016 and six months ended 30 June 2017, the Group recorded the sales of its products through Longhuai Import & Export to 11, 17 and one customer(s) located in India, Bangladesh, Thailand, South Korea, Turkey and Vietnam, respectively. The recorded sales to Longhuai Import & Export for the six months ended 30 June 2017 was pursuant to a sales and purchase agreement entered into between Zhangzhou Kaixing and Longhuai Import & Export in December 2016, pursuant to which delivery of the product was made in January 2017, resulting in the sales being recorded for the six months ended 30 June 2017.

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The table below sets forth the details of the 11, 17 and one customer(s) to which the Group recorded the sales of its products through Longhuai Import & Export during the two years ended 31 December 2015 and 2016 and six months ended 30 June 2017:

Identity	Background and Business Profile	For the year ended		For the six months ended
		31 December 2015	2016	30 June 2017
		<i>Approximate % of Longhuai Import & Export's sales amount</i>		
LH Customer A	Production and sales of knitted textiles, based in Bangladesh	0.3	0	–
LH Customer B	Production and sales of knitted textiles, based in Bangladesh	0.1	0.2	–
LH Customer C	Sales of knitting machinery, based in Thailand	0.2	0.1	–
LH Customer D	Engaged in the trading of raw materials and chemical products, based in South Korea	0.1	0	–
LH Customer E	Production and sales of knitted textiles, based in Bangladesh	0.2	0.3	–
LH Customer F	Engaged in the trading of various goods, including machinery and equipment, based in Vietnam	–	0.4	–
LH Customer G	Sales of knitting machinery, based in Turkey	–	0.2	–
LH Customer H	Production and sales of knitted textiles, based in Turkey	–	0.1	–
LH Customer I	Sales of knitting machinery, based in Bangladesh	–	0.1	–
LH Customer J	Production and sales of knitted textiles, based in Bangladesh	–	0.4	–
LH Customer K	Production and sales of knitted textiles, based in India	–	0.1	–
LH Customer L	Production and sales of knitted textiles, based in South Korea	–	0.2	–
LH Customer M	Production and sales of knitted textiles, based in India	–	–	1.4 ^(note)
LH Customer N	Production and sales of knitted textiles, based in India	–	0.3	–
LH Customer O	Production and sales of knitted textiles, based in Thailand	–	0.5	–
LH Customer P	Engaged in trading of various goods, technology and machinery and equipment, based in India	–	0.8	–
LH Customer Q	Production and sales of knitted textiles, based in Thailand	–	0.5	–

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Identity	Background and Business Profile	For the year ended		For the six months ended
		31 December 2015	2016	30 June 2017
		<i>Approximate % of Longhuai Import & Export's sales amount</i>		
LH Customer R	Production and sales of knitted textiles, based in India	–	0.2	–
LH Customer S	Production and sales of knitted textiles, based in Bangladesh	0.2	–	–
LH Customer T	Production and sales of knitted textiles, based in Thailand	0.1	–	–
LH Customer U	Production and sales of knitted textiles, based in Thailand	0	–	–
LH Customer V	Production and sales of knitted textiles, based in Thailand	0	–	–
LH Customer W	Production and sales of knitted textiles, based in Bangladesh	0.1	–	–
LH Customer X	Production and sales of knitted textiles, based in Bangladesh	0.1	–	–

Note: The sales contract between this customer and Longhuai Import & Export were entered into in the year ended 31 December 2016.

During the two years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, sales to Longhuai Import & Export accounted for approximately 6.5%, 13.9% and 1.6% of the Group's total sales amount, respectively. In 2015, the percentage of Longhuai Import & Export's revenue, gross profit and gross profit margin attributable to the on-selling of the Groups' products to overseas customers amounted to approximately 1.3%, 2.9% and 4.8% respectively. In 2016, the percentage of Longhuai Import & Export's revenue, gross profit and gross profit margin attributable to the on-selling of the Groups' products to overseas customers amounted to approximately 4.3%, 4.6% and 5.7% respectively. To the best knowledge of the Directors, upon reasonable enquiries and based on written confirmation by its customers who are trading companies, during the two years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, the Group's products sold to such trading companies, including Longhuai Import & Export, were subsequently sold at a profit to their overseas customers and the Group did not prescribe any pricing guidelines or requirements on the trading companies. Since January 2017, Zhangzhou Fukai, which is an indirect wholly owned subsidiary of the Group, has commenced direct sales of the Group's products under its own brands only overseas, and the Group has ceased to sell its products to Longhuai Import & Export. Longhuai Import & Export has undertaken to the Group that it will cease its business in relation to the overseas sales of circular knitting machines. Since January 2017 and up to the Latest Practicable Date, Longhuai Import & Export has ceased its business in relation to the overseas sales of circular knitting machines on own brand or OEM basis.

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The trading companies may provide the Group with specification requests and packaging requirements of the circular knitting machines (including the brand names that such circular knitting machine should bear) and the Group will commence production in accordance with those requirements as agreed by the Group. Trading companies purchasing on an OEM basis do not own any intellectual property rights relating to the Group's products, are not involved in the design and the manufacturing process of the circular knitting machines and accordingly have no access to the Group's technical knowhow. Operating manuals of the Group's products are supplied to the trading companies, which provide information on installation guidance, maintenance procedures and solutions to common issues in the operation of the Group's products. Based on that, the trading companies are capable to install the machines by themselves. In the event that trading companies require the Group's services in providing installation, warranty and other after-sales services, such services are available upon payment of the relevant fees. Such trading companies simply serves to relay its ultimate customers' specifications and requirements of the circular knitting machine to the Group prior to commencing production. The Group is not responsible for the compliance with laws and regulations applicable to the sales and trading of the Group's products in overseas countries.

All trading companies purchasing from the Group are customers of the Group and do not act as its agents. The Group is not responsible for procuring the ultimate overseas customers for such trading companies. No minimum purchase amount or sales target are set and the Group does not typically offer any discount on its products being sold to the trading companies as compared with the price charged for the Group's domestic sales. The payment terms under the sale and purchase agreements entered into with the trading companies are negotiated on a case-by-case basis and credit periods granted are generally shorter than those granted under the Group's domestic sales. For example, the trading companies were generally required to pay the whole of the purchase price within one to six months of the receipt of the finished products from the Group. Furthermore, they accepted the delivery of the Group's products at the Group's factory, and did not require any installation services and warranty for the Group's products. For further details, please refer to the paragraphs headed "Credit policy" and "Product return, warranty and after-sales services" in this section.

The Group recognises revenue when finished products are accepted by the trading companies and there are no obsolete stock or repurchase arrangements between the Group and the trading companies.

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During the Track Record Period, the Group's products were sold to a total of five trading companies, including Longhuai Import & Export. The table below sets forth the details of the trading companies with business relationship with the Group during the Track Record Period:

Customers who are trading companies	Background and Business Profile	Selling the Group's products under the Group's own brand or on an OEM basis	Export Destination	Year ended 31 December 2015 2016 <i>Approximate % of the Group's sales amount</i>		Six months ended 30 June 2017	Length of business relationship with the Group as at the Latest Practicable Date
Longhuai Import & Export	Engages in the trading and sales of various goods and technology; wholesale and retail of fresh fruits and vegetables, clothing, daily necessities, textiles, hardware, electronic products, machinery and equipment, furniture, mineral products, building materials, chemical products, sporting goods, office supplies	Group's own brand	India, Bangladesh, Thailand, South Korea, Vietnam, Turkey	6.5	13.9	1.6	Four years, ceased business relationship with the Group since January 2017
Trading Company B ^(note) , which has a registered capital of RMB5 million	Engages in the trading and sales of various goods and technology, save for those restricted by the PRC government, including furniture, shoes, bags, clothing, crafts, ceramics, parts of knitting machines and knitting machines	OEM basis, under Brand X	India, Bangladesh	4.3	9.9	10.2	Four years and eleven months

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Customers who are trading companies	Background and Business Profile	Selling the Group's products under the Group's own brand or on an OEM basis		Year ended 31 December		Length of business relationship with the Group as at the Latest Practicable Date
		Export Destination		2015	2016	
Trading Company A ^(note) , which has a registered capital of RMB50 million	Engages in the trading of various goods and technology, save for those restricted by the PRC government; wholesale of clothing, shoes, textiles, knitwear, hardware products, other mechanical equipment and electronic products, other chemical products (which are free from dangerous chemicals and surveillance chemicals) and non-metallic mineral products (which are free from dangerous chemicals and surveillance chemicals); retail of bags, textiles and knitwear, clothing, shoes, hats, ceramics, stone decoration materials and gold	OEM basis, under Brand X	India, Bangladesh	8.6	8.9	nil Five years and ten months

Approximate % of the Group's sales amount

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Customers who are trading companies	Background and Business Profile	Selling the Group's products under the Group's own brand or on an OEM basis	Export Destination	Year ended		Six months ended 30 June 2017	Length of business relationship with the Group as at the Latest Practicable Date
				31 December 2015	2016		
				<i>Approximate % of the Group's sales amount</i>			
Trading Company C, which has a registered capital of RMB1 million	Engages in the trading of various goods and technology, save for those restricted by the PRC government; retail of machinery, electronics, general merchandise, hardware and electronics, building materials, paper products, vegetables, fruits and textiles	OEM basis, under Brand Y	India, Bangladesh, Turkey	3.0	4.9	2.4	Five years
Trading Company D, which has a registered capital of RMB10 million	Engages in the trading of various goods and technology, save for those restricted by the PRC government; wholesale of fresh fruits and vegetables, furniture, hardware products, mineral products (other than those restricted by the PRC government), sporting equipment and office supplies	Group's own brand	South Korea	-	1.1	7.9	One year and five months

Note: The ultimate shareholder of Trading Company A is a high school friend of the ultimate shareholder of Trading Company B and both Trading Company A and Trading Company B had been authorised to place orders with the Group for products bearing Brand X.

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During the Track Record Period, the Group did not enter into any long-term agreements with the trading companies and conducted its operations on a case-by-case basis. To enhance the collaboration between them and the Group for the development of the overseas market, the Group has entered into framework agreements with Trading Company B and Trading Company C, which maintains an established relationship with the Group. The framework agreement entered into between the Group and Trading Company B is valid for five years from 1 January 2013 to 31 December 2017, with an option to extend by written agreement between both parties. The framework agreement entered into between the Group and Trading Company C is valid for four years from 1 January 2014 to 31 December 2017, with an option to extend for two years by written agreement between both parties. The principal terms of such framework agreements are as follows:

Principal terms	Summary
Sales	<ul style="list-style-type: none">• The trading companies shall resell the Group's circular knitting machines overseas.• Products will be provided to the trading companies with priority.• There shall not be any committed sales volume, and each sale shall be on a case-by-case basis.
Marketing and Promotion	<ul style="list-style-type: none">• Both the Group and the trading companies shall include information relating to each other in all marketing or advertising platforms, such as online platforms and industry exhibitions.• The trading companies will inform the Group as soon as practicable when it receives information from the market or its end-customers regarding the Group's products or services.
Consideration	<ul style="list-style-type: none">• The price of the products will be determined with reference to market price, and will be agreed upon between the parties on a case-by-case basis.
After-sales services	<ul style="list-style-type: none">• After-sales services will be arranged or provided by the trading companies.

Even though no framework agreements had been entered into with Longhuai Import & Export, Trading Company A and Trading Company D, sales to these trading companies were conducted on terms similar to those contained in the framework agreements entered into with Trading Company B and Trading Company C. For further details on terms of sales to trading companies, please refer to the paragraphs headed "Pricing Policy", "Credit Policy" and "Product return, warranty and after-sales services" in this section.

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To the best knowledge of the Directors and after reasonable enquiries and based on written confirmations received from each of its customers who are trading companies (the “**Trading Company Customers**”), the Trading Company Customers (i) only approach the Group for purchase orders upon identifying and receiving an order from their overseas customers (i.e. purchase orders received by the Group from the Trading Company Customers is backed up by orders received by them from their overseas customers); (ii) its customers only approaches it for purchase orders upon identifying and receiving an order from end users; and (iii) its customers are third parties independent of the Group. The Trading Company Customers generally require for their overseas customers to pay approximately 30% of the purchase price immediately upon signing of the relevant sale and purchase agreement and settle the balance of the purchase price within ten days after the estimated time of delivery of the products as stated on the relevant sale and purchase agreement.

The Group plans to further strengthen its distribution channel for overseas sales by enhancing its collaboration with the trading companies. To this end, the Group will from time to time provide training courses or seminars to trading companies on its products and discuss with the trading companies on ways to assist them to sell the Group’s products more efficiently. Furthermore, the Group will also explore opportunities with trading companies in relation to reselling the Group’s products under the Group’s own brands instead of under brands specified by them on OEM basis.

In view of the Group’s success and experience in penetrating into overseas markets, the Group has, as mentioned above, established Zhangzhou Fukai to engage in the direct sales of circular knitting machines under the Group’s own brands only to overseas countries. The Company will, in addition to its current business operations, directly export its products to overseas markets under its own brands through Zhangzhou Fukai. As Zhangzhou Fukai is currently in an early stage of development, the Company has yet to formulate any concrete plans for market delineation between Zhangzhou Fukai and the Trading Company Customers. As and when Zhangzhou Fukai’s business scale becomes larger to the extent that it may cause competition between itself and the Trading Company Customers, the Company will formulate plans to delineate overseas sales arrangement and reach a consensus with its Trading Company Customers in relation to the same. Currently, Zhangzhou Fukai mainly undertakes a sales and marketing function and will, in line with the Group’s current business model, receive purchase orders from customers, enter into a sales and purchase agreement with such customers after obtaining approval from the Group’s general office in the PRC. Upon receipt of the signed sales and purchase agreement from such customers, the Group’s manufacturing facility in the PRC will commence the manufacturing process. During the Track Record Period, sales to Longhuai Import & Export represented approximately 6.5%, 13.9% and 1.6% of the Group’s total sales, respectively. For the six months ended 30 June 2017, the Group sold products under its own brand directly to India, Bangladesh, Thailand, South Korea, Turkey and Egypt through Zhangzhou Fukai at an average selling price of approximately RMB178,366.9 (excluding parts and consumables). For the ten months ended 31 October 2017, the gross profit margin for sales made through Zhangzhou Fukai was 38.7%, exceeding the gross profit margin for sales made to Longhuai Import & Export during the Track Record Period, which was 26.7%, 38.2% and 30.4%, respectively. The increase in gross profit margin is mainly attributable to sales being made directly to overseas customers, which can be sold at a higher price as compared to sales

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made to customers who are trading companies and reselling the Group's products overseas. Going forward, even though the Group will be responsible for regulatory compliance relating to the direct export of its products overseas, the Group does not expect that there would lead to any significant increase in the cost of such direct overseas sales on the ground that based on the Group's market knowledge, circular knitting machines is not a regulated product and any delivery costs borne by the Group is expected to be passed on to its customers, minimizing any additional costs to the Group in the direct export of its products overseas.

Further, two key personnel responsible for the overseas sales of circular knitting machines have left Longhuai Import & Export and joined Zhangzhou Fukai, and will maintain the relationship with Longhuai Import & Export's customers who purchased the Group's products. There was no and will not be any transfer of assets and/or employees between Longhuai Import & Export and Zhangzhou Fukai. For the ten months ended 31 October 2017, the Group has sold its products to five of the customers of Longhuai Import & Export. The sales to Longhuai Import & Export amounted to approximately RMB13.1 million for the year ended 31 December 2016. Based on the unaudited management accounts of the Group, the sales of Zhangzhou Fukai to overseas countries amounted to approximately RMB23.9 million for the ten months ended 31 October 2017. As such, the Directors are confident that the Group will be able to maintain the business level of Longhuai Import & Export following the Track Record Period.

The Group intends to recruit five and eight staff including staff for general office matters, overseeing finance matters, sales and marketing and technicians to be based in the Group's India and Bangladesh offices, respectively, to provide local marketing and support to the Group, once such office has been established. The Group requires its technicians to be recruited to be (i) familiar with circular knitting machines with over one year of relevant experience in the maintenance or testing and commissioning of circular knitting machines; and (ii) possess skills in collecting information on local technology intelligence in relation to circular knitting machines. Given the above, the Directors expect the Group's business model, revenue structure and cost structure to remain materially unchanged subsequent to the commencement of business operation of Zhangzhou Fukai. The Group will continue its business relationship with trading companies for the indirect export of its products overseas both under the Group's own brands and under brands specified by them on an OEM basis. For further details on the Group's expansion plans, please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus.

For each of the two years ended 31 December 2015 and 2016 and six months ended 30 June 2017, the Group's revenue amounted to approximately RMB73.2 million, RMB94.3 million and RMB63.2 million, respectively. The largest market of the Group during the Track Record Period was the PRC, accounting for approximately 77.7%, 61.3% and 52.2% of the Group's revenue for each of the two years ended 31 December 2015 and 2016 and six months ended 30 June 2017, respectively.

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The table below sets forth the details of the Group's five largest customers during the Track Record Period:

Customer	Customer business nature	Background and Business Profile	Location	Year ended		Six months ended 30 June 2017	Length of business relationship with the Group as at the Latest Practicable Date
				31 December 2015	2016		
Longhuai Import & Export	Trading company	Engages in the trading and sales of various goods and technology; wholesale and retail of fresh fruits and vegetables, clothing, daily necessities, textiles, hardware, electronic products, machinery and equipment, furniture, mineral products, building materials, chemical products, sporting goods, office supplies	Xiamen	6.5	13.9	(Note)	Five years
Trading Company B	Trading company	Engages in the trading and sales of various goods and technology, save for those restricted by the PRC government, including furniture, shoes, bags, clothing, crafts, ceramics, parts of knitting machines and knitting machines	Quanzhou	(Note)	9.9	10.2	Four years and eleven months
Trading Company A	Trading company	Engages in the trading of various goods and technology, save for those restricted by the PRC government; wholesale of clothing, shoes, textiles, knitwear, hardware products, other mechanical equipment and electronic products, other chemical products (which are free from dangerous chemicals and surveillance chemicals) and non-metallic mineral products (which are free from dangerous chemicals and surveillance chemicals); retail of bags, textiles and knitwear, clothing, shoes, hats, ceramics, stone decoration materials and gold	Xiamen	8.6	8.9	(Note)	Five years and ten months

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Customer	Customer business nature	Background and Business Profile	Location	Year ended		Six months ended 30 June 2017	Length of business relationship with the Group as at the Latest Practicable Date
				31 December 2015	2016		
Trading Company C	Trading company	Engages in the trading of various goods and technology, save for those restricted by the PRC government; retail of machinery, electronics, general merchandise, hardware and electronics, building materials, paper products, vegetables, fruits and textiles	Zhangzhou	(Note)	4.9	(Note)	Five years
Trading Company D	Trading company	Engages in the trading of various goods and technology, save for those restricted by the PRC government; wholesale of fresh fruits and vegetables, furniture, hardware products, mineral products (other than those restricted by the PRC government), sporting equipment and office supplies	Fujian	(Note)	(Note)	7.9	One year and five months
Customer D	Domestic textiles manufacturer	Production and sales of knitted textiles	Shaoxing	(Note)	4.7	(Note)	Two years and eight months
Customer E	Domestic textiles manufacturer	Production and sales of knitted textiles	Hangzhou	10.7	(Note)	(Note)	Five years and five months
Customer F	Domestic textiles manufacturer	Production and sales of knitted textiles	Jiujiang	7.0	(Note)	(Note)	Four years and five months
Customer G	Domestic textiles manufacturer	Production and sales of knitted textiles	Shenzhen	6.8	(Note)	(Note)	Six years and ten months
Customer H	Domestic textiles manufacturer	Production and sales of knitted textiles	Zhejiang	(Note)	(Note)	11.7	Eleven months
Customer I	Overseas textiles manufacturer	Production and sales of knitted textiles	South Korea	(Note)	(Note)	7.3	Ten months
Customer J	Domestic textiles manufacturer	Production and sales of knitted textiles	Zhejiang	(Note)	(Note)	6.1	Ten months

Note: Only the figures and rankings of the Group's top five customers for the two years ended 31 December 2015 and 2016 and six months ended 30 June 2017 are shown in this table.

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Revenue generated from the Group's five largest customers for each of the two years ended 31 December 2015 and 2016 and six months ended 30 June 2017 amounted to approximately RMB29.0 million, RMB39.9 million and RMB27.3 million, representing approximately 39.6%, 42.3% and 43.2% of the Group's total sales amount during the Track Record Period, respectively. Revenue from the Group's largest customer for each of the two years ended 31 December 2015 and 2016 and six months ended 30 June 2017 amounted to approximately RMB7.9 million, RMB13.1 million and RMB7.4 million, representing approximately 10.7%, 13.9% and 11.7% of the Group's total sales amount during the Track Record Period, respectively. Save for Longhuai Import & Export, which, during the Track Record Period and up to 6 November 2017, was owned as to 95% by Ms. Zheng, a Controlling Shareholder, and as to 5% by Ms. Yuan, an executive Director and a Controlling Shareholder, none of the Group's Directors, their close associates or Shareholders, who own more than 5% of the issued share capital of the Company as at the Latest Practicable Date had any interest in any of the Group's five largest customers during the Track Record Period. Save for Longhuai Import & Export, the Directors have confirmed that none of the Group's five largest customers during the Track Record Period are connected persons of the Company.

Longhuai Import & Export was one of the Group's five largest customers during the two years ended 31 December 2015 and 2016, accounting for approximately 6.5% and 13.9% of the Group's total sales amount, respectively.

Pricing Policy

The Group generally adopts a cost-plus pricing policy in setting the selling price of its products. Such policy takes into account various factors including (i) production costs such as cost of raw materials, labour costs and other expenses; (ii) the Group's targeted profit margin; and (iii) the prevailing market condition. The Group's sales and operation department is responsible for ensuring that the final sale price of the Group's products conforms to the Group's pricing policy and any deviations (such as discounts offered to major customers) must be approved by the Group's sales manager.

Credit Policy

Domestic sales

Sale and purchase agreements in relation to domestic sales generally requires for customers to pay (i) 20% of the purchase price within seven business days following the date of the contract; (ii) 60 – 70% of the purchase price within five business days of receipt of the Group's products; and (iii) within a maximum of one year from the receipt of the finished products to pay the remaining outstanding amount of 10 – 20%. The length of the credit period granted is determined on a case-by-case basis after taking into account various factors such as the length of business relationship of the particular customer with the Group, the customer's financial situation and their credit history and the Group may adjust its usual credit terms taking into account these factors.

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If a customer fails to pay the purchase price within the time frame as stipulated in the contract, the Group has the right to charge a penalty of 0.04% per day on the outstanding amount until such payment is fully satisfied by the relevant customer. During the Track Record Period, no penalty was charged on overdue trade receivables.

Overseas sales

Sale and purchase agreements in relation to overseas sales made through trading companies are subjected to a more stringent credit period than those offered in relation domestic sales. Such customers are generally required to pay the whole purchase price within one to six months of receipt of the Group's products. In particular, Longhuai Import & Export was generally required to pay the whole purchase price within four months of receipt of the Group's products.

For overseas sales made through Zhangzhou Fukai, sale and purchase agreements generally requires for customers to pay the whole purchase price within seven days after receiving the bill of lading.

The Group's domestic sales and overseas sales made through trading companies are settled in Renminbi by way of bank transfer.

The Group's overseas sales made through Zhangzhou Fukai are settled in USD by way of telegraphic transfer.

Product return, warranty and after-sales services

The finished products of the Group are subject to inspection by its quality control department to ensure that the requirements and specifications of the Group's customers are met. In the event that the Group receives report of defective products from its customer, the quality control department will be responsible to launch an investigation to investigate the claim. In the event that such claim is found to be genuine, the Group will offer to conduct repair and maintenance works for the relevant customer.

For the two years ended 31 December 2015 and 2016 and six months ended 30 June 2017, the cost attributable to product return and warranty was nil, nil and nil, respectively. During the Track Record Period, none of the circular knitting machines sold to the Group's customers had been returned. Save for the arrangements as set out below, there are no product return arrangements or product warranties provided to the Group's customers.

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Domestic sales

Under standard sale and purchase agreements, the Group's customers purchasing circular knitting machines under the Group's own brands are assumed to have accepted the Group's products unless an objection is raised within the time period as stipulated in the relevant sale and purchase agreements. However, for domestic sales made to domestic textiles manufacturers, the Group does offer a free product warranty for a period of one year to such customers within which the Group provides technical assistance in relation to its products and repair and maintenance, including the replacement of any parts and components, for any issues with the circular knitting machines arising due to its quality. For such domestic textiles manufacturers, the Group also offers in-person technical guidance on the installation of its circular knitting machines and provides training and guidance on how to operate the equipment.

Overseas sales

For overseas sales made directly through Zhangzhou Fukai or indirectly through trading companies, product returns are not accepted and no product warranty period is offered. All after-sales services (such as repair and maintenance) will be provided upon payment of the relevant fees from the relevant customers. In accordance with the sale and purchase agreements, the circular knitting machines will be assumed to be accepted if the customers do not raise any objections as to the product's quality within one month of collection.

RAW MATERIALS AND SUPPLIERS

The raw materials used in the Group's production comprises the Core, metallic parts and components, and accessories. For the years ended 31 December 2015 and 2016 and six months ended 30 June 2017, the total costs of the Group's raw materials were approximately RMB45.5 million, RMB55.4 million and RMB37.0 million, respectively, accounting for approximately 90.0%, 91.0% and 91.3% of the Group's total cost of goods sold, respectively.

The raw materials required for production are generally readily available in the open market from a number of suppliers. The Group selects its suppliers based on the production requirements of the Group, previous cooperation experience, quality of raw materials and supply volume. Raw materials received from the Group's suppliers are inspected by the Group's quality control department prior to acceptance. Any raw materials not meeting the quality standard will be returned to the suppliers.

During the Track Record Period, the Group sourced all of its raw materials from suppliers based in the PRC.

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The table below sets forth the details of the Group's five largest suppliers during the Track Record Period:

Supplier	Year ended 31 December 2015	2016	Six months ended 30 June 2017	Length of business relationship with the Group as at the Latest Practicable Date	Typical credit terms and payment method
	<i>Approximate % of the Group's purchases</i>		<i>Approximate % of the Group's purchases</i>		
Supplier A	16.6	17.2	20.0	six years and six months	90 days by bank transfer
Supplier B	<i>(Note)</i>	8.4	11.3	six years and nine months	60 days by bank transfer
Supplier C	7.4	8.2	12.4	four years and five months	90 days by bank transfer
Supplier D	<i>(Note)</i>	7.5	<i>(Note)</i>	six years and seven months	60 days by bank transfer
Supplier E	10.2	6.8	<i>(Note)</i>	six years and eight months	90 days by bank transfer
Supplier F	6.9	<i>(Note)</i>	<i>(Note)</i>	six years and eight months	60 days by bank transfer
Supplier G	6.9	<i>(Note)</i>	<i>(Note)</i>	six years and nine months	90 days by bank transfer
Supplier H	<i>(Note)</i>	<i>(Note)</i>	8.1	one year and nine months	60 days by bank transfer
Supplier I	<i>(Note)</i>	<i>(Note)</i>	4.2	three years and six months	90 days by bank transfer

Note: Only the figures and rankings of the Group's top five suppliers for the two years ended 31 December 2015 and 2016 and six months ended 30 June 2017 are shown in this table.

For the years ended 31 December 2015 and 2016 and six months ended 30 June 2017, the Group's five largest suppliers of raw materials accounted for approximately RMB23.9 million, RMB29.9 million and RMB23.3 million, respectively, accounting for approximately 48.0%, 48.1% and 56.0% of the Group's total purchases, respectively and the Group's largest supplier of raw materials accounted for approximately RMB8.3 million, RMB10.7 million and RMB8.3 million, respectively, accounting for approximately 16.6%, 17.2% and 20.0% of the Group's total purchases, respectively. The Group procures the necessary raw materials from a number of suppliers and do not enter into any long-term supply agreements with any suppliers. None of the Group's Directors, their close associates or Shareholders, who owns more than 5% of the issued share capital of the Company as at the Latest Practicable Date had any interest in any of the Group's five largest suppliers during the Track Record Period. The Directors have confirmed that none of the Group's five largest suppliers during the Track Record Period are connected persons of the Company.

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The Group minimises its exposure to price fluctuations by procuring the amount necessary to meet its expected production needs. For further details, please refer to the paragraph headed “Inventory Control” in this section. The Group did not engage in any hedging transaction to protect against price fluctuations in raw materials, and there is no guarantee that the Group will be able to pass on any increased costs due to an increase in the price of raw materials to its customers in the future.


For the sensitivity analysis of the impact in relation to the cost of raw materials, please refer to the section headed “Financial Information – Key Factors Affecting the Group’s Results of Operations – Raw materials” in this prospectus.

INVENTORY CONTROL

During the Track Record Period, the Group’s inventory consists of raw materials, work in progress and finished goods. The Group has developed inventory control policies to control and monitor its inventory levels, including an inventory management system for planning and managing purchasing activities and production schedules and monthly stock-take records.

The Group procures raw materials for manufacturing its circular knitting machines mainly pursuant to the confirmed purchase orders received from its customers and strives to minimise its inventory level. The Group also maintain certain level of inventory of raw materials commonly used by its products to meet its expected production need. The Group’s inventory department works closely with the procurement and manufacturing departments to ensure that raw materials and finished goods being entered into storage are properly documented. Finished products are kept in storage and regularly inspected to avoid any damage during storage. For the two years ended 31 December 2015 and 2016 and six months ended 30 June 2017, the inventory of the Group amounted to approximately RMB10.1 million, RMB10.1 million and RMB11.5 million, respectively, and the average inventory turnover days were approximately 68.6 days, 60.6 days and 48.2 days, respectively.

INTELLECTUAL PROPERTY

The Group values its research and development efforts and protects its intellectual property through trademarks, patents, copyrights and contractual rights. The Group submits patent applications for products that it has developed from time to time. As at the Latest Practicable Date, the Group owns 15 utility model patents and one invention patent in total, of which one utility model patent and one invention patent relates to its Double Loop Transfer Rib Computerised Jacquard Knitting Machine and nine registered trademarks in the PRC, being the Group’s own brands “**FUFANG 福紡**” and “” and one registered trademark in Hong Kong. The Group has four pending trademark applications in the PRC, relating to the trademark for the Group’s “**FUTEX 福紡**” brand. The Group is also currently applying for six utility model patents.

As at the Latest Practicable Date, there were no material claims or dispute brought against the Group for infringement of any trademark, patents or other intellectual property rights. The Directors were not aware of any pending or threatened claims in relation to any such infringement nor were there any infringement of the Group’s intellectual property rights. For details of intellectual property rights, please refer to the section headed “Statutory and General Information – 8. Intellectual property rights of the Group” in Appendix V to this prospectus.

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AWARDS AND ACCREDITATIONS

The Group had received various awards and accreditations for its products. The following table sets out the key awards and accreditations received by the Group:

Year	Award/Accreditation	Awarding Authority	Expiry Date
2017	ISO 9001 (質量管理體系認證證書)	China National Accreditation Service for Conformity Assessment/International Accreditation Forum	4 January 2020
2016	CE Mark	CEPROM S.A.	13 April 2021
2015	Longhai City Credible Enterprise (龍海市守合同重信用企業)	Longhai Municipal People's Government (龍海市人民政府)	–
	High and New Technology Enterprise Certification in Fujian (福建省高新技術企業證書)	Fujian Department of Science & Technology (福建省科學技術廳) Finance Department of Fujian (福建省財政廳) State Taxation Bureau of Fujian (福建省國家稅務局) Local Taxation Bureau of Fujian (福建省地方稅務局)	31 December 2018
2014	ISO 9001 (質量管理體系認證證書)	China National Accreditation Service for Conformity Assessment/International Accreditation Forum	5 January 2017
	CE Mark	CEPROM S.A.	26 February 2019
2012	High and New Technology Enterprise Certification in Fujian (福建省高新技術企業證書)	Fujian Department of Science & Technology (福建省科學技術廳) Finance Department of Fujian (福建省財政廳) State Taxation Bureau of Fujian (福建省國家稅務局) Local Taxation Bureau of Fujian (福建省地方稅務局)	31 December 2015

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Year	Award/Accreditation	Awarding Authority	Expiry Date
2011	Longhai City Credible Enterprise (龍海市守合同重信用企業)	Longhai Municipal People's Government (龍海市人民政府)	–
2009	High and New Technology Enterprise Certification in Fujian (福建省高新技術企業證書)	Fujian Department of Science & Technology (福建省科學技術廳) Finance Department of Fujian (福建省財政廳) State Taxation Bureau of Fujian (福建省國家稅務局) Local Taxation Bureau of Fujian (福建省地方稅務局)	31 December 2012
	China's Famous Brand (Key Promotion Unit) (中國著名品牌(重點推廣單位))	China Light Industry Products Quality Guarantee Centre (中國中輕產品質量保障中心)	September 2010
	National Product Quality Top Ten Brands (全國產品品質公證十佳品牌)	China Light Industry Products Quality Guarantee Centre (中國中輕產品品質保障中心)	September 2011
2008	China's Quality Products (Key Promotion Unit) (中國優質產品(重點推廣單位))	China Light Industry Products Quality Guarantee Centre (中國中輕產品質量保障中心)	December 2009
	Longhai City Credible Enterprise (龍海市守合同重信用企業)	Longhai Municipal People's Government (龍海市人民政府)	–

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EMPLOYEES

As at 30 June 2017, the Group had a total of 91 full-time employees in the PRC (including the chairlady and general manager). The following table sets out a breakdown of the Group's employees by department:

	Number of employees
Finance	5
Audit	1
Procurement	2
Inventory	5
Administration and Human Resources	8
Quality Control	3
Manufacturing	44
Sales and Operating	11
Research and Development	8
Legal	1
General Office (including the chairlady and the general manager)	3
Total	91

The Group considers that its employees are an important aspect to its business. The Group recruits through various channels, including recruitment websites and campus recruitments. Training programmes including induction, general training (both in-house and external) and technical training are provided to employees in order to enhance their skills and knowledge.

The remuneration of the Group's employees are determined depending on a number of factors, including their qualifications, function, experience, work performance and local market conditions. The Group regularly reviews its compensation and benefit policies to ensure that the remuneration package offered remains competitive and in line with relevant labour regulations. For each of the two years ended 31 December 2015 and 2016 and six months ended 30 June 2017, the total employee benefit expenses of the Group (including salaries and retirement benefit scheme contributions) was approximately RMB4.9 million, RMB5.4 million and RMB3.1 million, respectively.

Pursuant to relevant PRC laws and regulations, the Group is required to contribute to housing provident funds and social insurance funds (including pension, medical, unemployment, maternity and workplace injury insurance) for its employees. During the Track Record Period, the Group did not fully comply with such laws and regulations. For further details of the Group's non-compliances in relation to its contribution to social insurance and housing provident funds for its employees, please refer to the paragraph headed "Legal and Compliance – Non-compliance incidents" in this section.

The Group's employees are not represented by labour unions. During the Track Record Period and up to the Latest Practicable Date, the Group had not experienced any strikes or labour dispute with its employees that had materially affected its business operations.

OCCUPATIONAL HEALTH AND SAFETY

The Group is required to comply with PRC occupational health and safety laws and regulations. For details, please refer to the section headed “Regulatory Overview” in this prospectus.

In order to ensure compliance with relevant occupational health and safety laws and regulations and prevent occupational accidents, the Group has implemented operational safety guidelines and manuals, such as production safety guidelines and fire safety manual. The Group also provides on-the-job training to new employees for manufacturing in order for them to familiarise with the Group’s operational safety guidelines. During the Track Record Period, there were no material work injury accidents causing death or serious injury and there were no material claims arising from work injury accidents.

MARKET & COMPETITION

As illustrated in the Frost & Sullivan Report, the sales value in the circular knitting machinery industry is affected mainly by the market demand for knitting garments and the popularity of different types of knitted fabrics. The domestic sales of circular knitting machines experienced an overall downward trend from 2011 to 2016 mainly due to textiles manufacturers shifting their production base from China to Southeast Asian countries and other countries such as India and Bangladesh as a result of increasing labour costs in China. It is also the major reason for the growth of export sales of circular knitting machinery. According to the Frost & Sullivan Report, textiles manufacturers in China will focus on the production of more value-added garments in the future, and as such, the circular knitting machinery are expected to become more advanced in terms of functionality.

In light of the above-mentioned market trend, the Group attempted to increase its market presence in overseas markets, by the indirect sales of its products through trading companies to overseas customers in India, Bangladesh, Thailand, South Korea, Turkey and Vietnam and, since 1 January 2017, by the direct sales of its products under its own brands through its indirect wholly-owned subsidiary, namely Zhangzhou Fukai.

The circular knitting machinery industry in China is fragmented with both domestic and foreign manufacturers. According to the Frost & Sullivan Report, in 2016, the top ten circular knitting machinery manufacturers in the PRC accounted for approximately 48.0% of the market share in terms of sales value and the Group is one of the top ten players with a market share of approximately 2.7%. The Group is ranked third among all domestic manufacturers and seventh among all domestic, foreign-owned and sino-foreign joint venture manufacturers in the PRC, in terms of sales value in 2016.

The Group competes with other manufacturers of circular knitting machines with operations in the PRC in aspects such as pricing, product quality and research and development capabilities. Barriers of entry to the circular knitting machinery industry is mainly research and development capability, brand awareness, capital investment and channel partner resources. The Directors believe that the Group’s competitive strengths enables the Group to maintain its competitiveness in the circular knitting machinery industry. For details of the Group’s competitive strengths, please refer to the paragraph headed “Competitive Strengths” in this section.

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PROPERTY INTERESTS AND PROPERTY VALUATION

Owned Properties and Land Use Rights

As at the Latest Practicable Date, the Group owned two parcels of land with a total site area of approximately 30,462.0 square metres in Longhai City, Zhangzhou City, Fujian Province, the PRC. The land use rights of the land have been granted with the expiry date on 22 February 2056 for industrial use. The Group has constructed seven buildings and various ancillary structures with an aggregate GFA of approximately 20,333.5 square metres, of which approximately 9,629.0 square metres have been utilised as the Group's manufacturing facility. As at the Latest Practicable Date, the Group had obtained all the relevant the property ownership certificates for its property. For further details, please refer to Appendix III of this prospectus.

JLL, an independent property valuer, valued the Group's property interests at approximately RMB39.2 million as at 30 September 2017. The text of the valuation report, valuation summary and valuation certificates are set out in Appendix III to this prospectus. Except for the property interests in the valuation report, no single property interest that forms part of the Group's non-property activities had a carrying amount of 15% or more of the Group's total assets as of 30 September 2017.

The table below sets forth the reconciliation of the aggregate amount of net book value of the Group's property interests from the consolidated financial information as of 30 June 2017 to the valuation of property interests as of 30 September 2017:

	<i>RMB'000</i>
Net book value of property interests of the Group as of 30 June 2017	23,204
Less: Amortisation during the period from 1 July 2017 to 30 September 2017 (unaudited)	385
Add: Additions during the period from 1 July 2017 to 30 September 2017 (unaudited)	–
Net book value of property interests of the Group as of 30 September 2017 (unaudited)	22,819
Valuation of properties as of 30 September 2017 as set out in Appendix III to this prospectus	39,150
Valuation surplus (unaudited)	16,331

Note:

(1) The net book values are extracted from the Accountants' Report set out in Appendix I to this prospectus.

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INSURANCE

The Group maintains insurance policies for its production facility in the PRC, including its plant, equipment and buildings. The Group did not maintain any production liability insurance relating to claims or liabilities that may arise from any defects of the Group's products. The PRC Legal Adviser have advised that there is no mandatory industry standard on the Group's business for insurance cover in the PRC.

The Group is also required to comply with the requirements of local authorities and applicable PRC laws and contributes towards the social insurance cover for its employees. During the Track Record Period, the Group was not subject to any material insurance claim and the Directors believe that the insurance coverage of the Group is sufficient and adequate for its operation. However, there can be no assurance that the insurance policies maintained by the Group are sufficient to cover all of its operational risks. For details, please refer to the section headed "Risk Factors – Risks Relating to the Group's Business – The Group may not have adequate insurance coverage" in this prospectus.

ENVIRONMENTAL PROTECTION

The Group is subject to national and local environmental laws and regulations in the PRC, which governs various environmental matters including noise pollution, atmospheric pollution, waste water and solid waste discharge. For further details on environmental laws and regulation in the PRC, please refer to the section headed "Regulatory Overview" in this prospectus.

During the manufacturing process, the Group's production facilities produces waste water, noise pollution, atmospheric pollution and solid waste discharges. To ensure the continuous compliance with relevant environmental laws and regulations in the PRC, the Group has established an environmental control system in order to manage and review production of wastage. The Directors are of the view that the environmental control system established is adequate to ensure compliance with the relevant environmental laws and regulations and as the Group's production facilities did not produce any significant pollution to the environment during the Track Record Period, the annual cost of compliance with the relevant environmental laws and regulations was not material during the same period. The Directors are of the view that any such costs are not expected to be material going forward.

During the Track Record Period, the Group has not been subject to any material claims, legal proceedings, penalties or disciplinary actions for the breach of any environmental laws or regulations.

RISK MANAGEMENT POLICIES AND PROCEDURES

The Group is exposed to various types of risks in its business operations such as strategic risk, operating risk, financial risk and legal risk. For details, please refer to the section headed “Risk Factors” in this prospectus. The Group has adopted risk management policies and procedures that the Directors believe are appropriate for its business operations in order to (i) identify different types of risk; (ii) assess such identified risks; (iii) formulate risk management strategies; (iv) monitor and manage such identified risks; and (v) execute response to risks.

The identification and assessment of the risks involve a five-stage procedure which includes establishing the concept of risk management in the Group and assessing the Group’s risk profile on various types of risks, determining the Group’s goals on risk management, identifying the risks, analysing such risks and designing the counter-measure on risks. In general, the Group implements a steady approach in managing risks by adopting a cautious and conservative attitude towards high-risk investment projects with a relatively low risk profile.

Risk management policies and procedures are established and executed carefully by the relevant departments and the Group’s effective internal control measures include the establishments of:

- (1) a delegation system setting out the job responsibilities, scopes, requirements and limits of delegated parties;
- (2) a reporting system setting out the reporting mechanism;
- (3) an authorisation system setting out the approval process, conditions, limits, necessary documents, and the authorised departments and personnel with their responsibilities;
- (4) an accountability system, setting out the authorities, obligations and responsibilities of each relevant departments, units and personnel with a clear reward and punishment system;
- (5) an internal audit system, integrating all internal control requirements, methods, standards and flow, setting out the audit target, content, methodology and the relevant departments responsible for the audit works;
- (6) an evaluation and appraisal system, linking the wages and performance evaluation of different subsidiaries of the Group with their risk management performance;
- (7) a warning system of material risks and contingency response mechanism, clearly setting out the responsible personnel and process to ensure all contingencies can be handled promptly;
- (8) a legal department reinforcing the Group’s control mechanism in preventing legal risks. Such mechanism is led by the management with the support from the Group’s legal counsel and involvement of all employees; and

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- (9) a control mechanism on the checks and balances of various positions, setting out that various segregation of duties and authorities, including approval authority, business development, accounting, treasury, asset management and auditing functions.

The legal department is responsible for assessing and managing risks at the operational level, implementing the risk management policies and procedures and reporting to the Board. The Directors believe that through the adoption of risk management policies and procedures, the Group will be able to more effectively identify, assess, respond to and mitigate any risks arising from the Group's business operations.

LEGAL PROCEEDINGS AND COMPLIANCE

As advised by the PRC Legal Adviser, during the Track Record Period and up to the Latest Practicable Date, save and except for the non-compliance incidents disclosed in the paragraph headed "Non-compliance incidents" below, the Group had complied with the relevant law and regulations applicable to the Group in all material respects.

The Controlling Shareholders, Azure Wealth, Ms. Zheng and Ms. Yuan, have entered into a Deed of Indemnity in favour of the Group, whereby the Controlling Shareholders undertook to indemnify the Group from and against all actions, claims, losses, damages, costs, charges, expenses, interests, penalties or other liabilities which the Group may reasonably and properly incur in relation to the non-compliance incidents as detailed in the paragraph headed "Non-compliance incidents" below. Further details of the Deed of Indemnity are set out in the section headed "Statutory and General Information – 14. Tax and other indemnities" in Appendix V to this prospectus.

As at the Latest Practicable Date, to the best knowledge of the Directors, the Group was not involved in any material litigation, arbitration or claim, nor were the Directors aware of any pending or threatened litigation, arbitration or claim against the Group which, in the opinion of the Directors, would have a material adverse effect on the Group's financial condition or operating results.

Non-compliance incidents

During the Track Record Period and up to the Latest Practicable Date, the Group did not comply with certain applicable laws and regulations in the PRC, details of such non-compliances and the Group's remedial measures are set out below:

Relevant laws and regulations, legal consequences for non-compliance, potential maximum fine/penalty that may be imposed by the relevant authorities in the PRC	Rectification measures and potential impact on the Group	Enhanced internal control measures
<p>Reason for the non-compliance</p> <p>The Group did not apply for social insurance registration within the prescribed period due to the inadvertent oversight of the deadline by the relevant staff of the Administration and Human Resources department.</p> <p>The Group contributes to the social insurance funds timely every month, however, the Group contributes the minimum amount instead of the amount calculated by the actual average monthly income of such employees in the preceding year. Such non-compliance incident was mainly caused by the designated Administration and Human Resources staff's inadvertent oversight of the relevant PRC laws and regulations. In addition, some of employees declined to contribute their portion of social insurance based on their actual income, for which the Group would be required but unable to make matching contributions.</p>	<p>Social insurance contributions</p> <p>During the Track Record Period and up to the Latest Practicable Date, Zhangzhou Kaixing, Fujian Fufang and Zhangzhou Fukai did not apply for social insurance registration within the prescribed period, and Zhangzhou Kaixing and Fujian Fufang did not make adequate social insurance contributions for its eligible employees as required by the relevant laws and regulations in the PRC until November 2016.</p>	<p>The Group has established internal control policy for social insurance fund contributions.</p> <p>The Group has circulated internal materials and policies to educate its employees to ensure their understanding of the relevant laws and regulations and have started to liaise with its employees for them to contribute their portion of social insurance in accordance with relevant PRC laws and regulations. The Group has discussed with the relevant competent authorities in relation to future compliance measures for social insurance contributions. The Directors confirm that the Group has made full contributions to social insurance since November 2016.</p> <p>Further, in order to prevent recurrence of such non-compliance, the Group has appointed an internal audit officer, who possesses more than 3 years of experience in the internal audit field, to review the compliance of implementation of the Group's internal control policies, and recommend additional internal control policies.</p>
<p>Reason for the non-compliance</p> <p>According to the Social Insurance Law of the PRC (中華人民共和國社會保險法), if an entity does not go through the formalities for social insurance registration, the relevant government authority shall order it to rectify within a prescribed time limit; if the relevant entity fails to comply with the order, the relevant government authority may impose a fine ranging from one to three times of the amount of the social insurance contribution that should be paid and impose a penalty from RMB5,000 to RMB3,000 on every responsible person of the relevant entity.</p> <p>In addition, for the outstanding social insurance contributions, the relevant governmental authorities may require the relevant entity to make the outstanding contributions within a prescribed time period. If the relevant entity fails to do so, in addition to the outstanding contributions, the relevant governmental authorities may require the relevant entities to pay a late payment fee at a daily rate of 0.05% of the outstanding contributions from the due date within a given period and, if the relevant entity fails to do so, may impose a penalty on the relevant entity ranging from one to three times of the total amount of the outstanding contributions.</p> <p>The amount of unpaid social insurance for the two years ended 31 December 2015 and 2016 was approximately RMB563,479 and RMB386,866, respectively. The maximum aggregate amount of potential penalties is approximately RMB3,044,005.</p>	<p>On 25 October 2017, the Group received a confirmation letter from the Human Resources and Social Security Bureau of Longhai (龍海市人力資源和社會保障局), the relevant competent authority for integrated management of the local social insurance in Longhai, confirming that as of the issuing date of the confirmation letter, the Group's PRC subsidiaries were not subject to any administrative penalties or investigations by that bureau in connection with violation of any relevant labour or social insurance laws, regulations and rules.</p> <p>On 24 October 2017, the Group received a confirmation letter from the Medical Care Fund Management Center of Longhai (龍海市醫療保障基金管理中心), the relevant competent authority for the local medical and maternity insurance in Longhai, confirming that as of the issuing date of the confirmation letter, the Group's PRC subsidiaries were not subject to any administrative penalties, including late payment fees by that center in connection with violation of any relevant medical and maternity insurance laws, regulations and rules.</p>	<p>The Group has established internal control policy for social insurance fund contributions.</p> <p>The Group has circulated internal materials and policies to educate its employees to ensure their understanding of the relevant laws and regulations and have started to liaise with its employees for them to contribute their portion of social insurance in accordance with relevant PRC laws and regulations. The Group has discussed with the relevant competent authorities in relation to future compliance measures for social insurance contributions. The Directors confirm that the Group has made full contributions to social insurance since November 2016.</p> <p>Further, in order to prevent recurrence of such non-compliance, the Group has appointed an internal audit officer, who possesses more than 3 years of experience in the internal audit field, to review the compliance of implementation of the Group's internal control policies, and recommend additional internal control policies.</p>

Relevant laws and regulations, legal consequences for non-compliance, potential maximum fine/penalty that may be imposed by the relevant authorities in the PRC	Rectification measures and potential impact on the Group	Enhanced internal control measures
Reason for the non-compliance	<p>On 10 February 2017, during interviews with officials from the Medical Care Fund Management Center of Longhai (龍海市醫療保障基金管理中心), the relevant competent authority for the local medical and maternity insurance in Longhai, and Local Taxation Bureau of Longhai (龍海市地方稅務局), the relevant competent authority for local pension, unemployment and workplace injury insurance in Longhai, these officials confirmed that: (i) as of the date of the interview, the social insurance contributions the Group's PRC subsidiaries have made are in compliance with relevant applicable social insurance laws, regulations and policies, and (ii) the Group's PRC subsidiaries were not subject to any relevant rectification orders on the outstanding contributions, administrative penalties, including late payment fees or investigations by such authorities.</p>	
Non-compliance incidents	<p>As advised by the PRC Legal Adviser, given the confirmation letters issued by and interviews with the competent government authorities, the risk of the Group being required to pay the shortfall of the contribution and relevant late payment fees or a fine on the shortfall or failing to complete social insurance registration on time is low. Based on the view of the PRC Legal Adviser and the indemnity given by the Group's Controlling Shareholders under the Deed of Indemnity, the Directors confirmed that such non-compliance incident would not have an adverse effect on the Group's business operations. As a result, the Group has not made any provision for the outstanding contribution, late payment fees and fines, during the relevant period. Since November 2016, the Group has been in full compliance with relevant requirements under the <i>Social Insurance Law of the PRC</i> and have made full contribution to the social insurance for all its eligible employees.</p>	

Relevant laws and regulations, legal consequences for non-compliance, potential maximum fine/penalty that may be imposed by the relevant authorities in the PRC	Rectification measures and potential impact on the Group	Enhanced internal control measures
Reason for the non-compliance	<p>As of the Latest Practicable Date, the Group has not received any notification from the relevant competent authorities alleging that the Group had not applied for social insurance registration within the prescribed period or made full contributions to the social insurance fund or demanding payment for the outstanding contributions or imposing any administrative penalties, including late payment fees. In the event that the Group receives any such payment order or administrative penalties from the relevant competent authorities, the Group intends to immediately pay the outstanding social insurance fund contributions and/or any late charges and/or penalties imposed by such authorities.</p>	
Non-compliance incidents		

Relevant laws and regulations, legal consequences for non-compliance, potential maximum fine/penalty that may be imposed by the relevant authorities in the PRC	Rectification measures and potential impact on the Group	Enhanced internal control measures
<p>Reason for the non-compliance</p> <p>The Group did not set up housing provident fund accounts within the prescribed period due to the inadvertent oversight of the deadline by relevant staff of the Administration and Human Resources department.</p> <p>Such non-compliance incident was mainly caused by the designated Administration and Human Resources staff's inadvertent oversight of the relevant PRC laws and regulations. In addition, some of employees declined to contribute their portion of housing provident funds based on their actual income, for which the Group would be required but unable to make matching contributions.</p>	<p>On 25 October 2017, the Group received a confirmation letter from the Longhai Branch of Housing Provident Fund Management Center of Zhangzhou (漳州市住房公積金管理中心龍海管理部), the relevant competent authority for the housing provident fund in Longhai, confirming that: (i) the Group's PRC subsidiaries had made full payment of housing provident funds within the prescribed period for all of their eligible employees since August 2016, and the base amount, methods and proportion of payment was in compliance with relevant laws, regulations and rules; (ii) the Group would not be subject to any administrative penalties or investigations on its failure to set up housing provident fund accounts within the prescribed period or contribute to the housing provident funds for all eligible employees before August 2016; (iii) as of the issuing date of the confirmation letter, the Group's PRC subsidiaries were not subject to any administrative penalties or investigations by that branch in connection with violation of any relevant housing provident fund laws, regulations and rules, and were not required to contribute any outstanding housing provident funds; and (iv) there are no records of complaints or disputes between the relevant government authority and the Group's PRC subsidiaries in connection with housing provident fund affairs.</p>	<p>The Group has established internal control policy for housing provident fund contributions.</p> <p>The Group has circulated internal materials and policies to educate its employees to ensure their understanding of the relevant laws and regulations and have started to liaise with its employees for them to contribute their portion of housing provident funds. The Group has discussed with the relevant competent authorities in relation to future compliance measures for housing provident funds contributions. The Directors confirm that the Group has made full contributions to housing provident funds since August 2016.</p> <p>Further, in order to prevent recurrence of such non-compliance, the Group has appointed an internal audit officer, who possesses more than 3 years of experience in the internal audit field, to review the compliance of implementation of the Group's internal control policies, and recommend additional internal control policies.</p>
<p>Reason for the non-compliance</p> <p>The amount of unpaid housing provident fund contributions for the two years ended 31 December 2015 and 2016 was approximately RMB195,700 and RMB138,868, respectively. As advised by the PRC Legal Advisers, as no late payment fees would be enforced as provided in the Housing Provident Fund Management Regulations, the maximum aggregate amount of potential penalties is nil.</p>		
<p>Non-compliance incidents</p> <p>Housing provident fund contributions</p> <p>During the Track Record Period and up to the Latest Practicable Date, Zhangzhou Kaixing, Fujian Fufang and Zhangzhou Fukai did not set up housing provident fund accounts within the prescribed period, and Zhangzhou Kaixing and Fujian Fufang did not contribute to the housing provident fund for all eligible employees as required by the relevant laws and regulations in the PRC until August 2016.</p>		

Relevant laws and regulations, legal consequences for non-compliance, potential maximum fine/penalty that may be imposed by the relevant authorities in the PRC	Rectification measures and potential impact on the Group	Enhanced internal control measures
<p>Non-compliance incidents</p> <p>Reason for the non-compliance</p>	<p>On 29 September 2016, during an interview with an official from the Longhai Branch of Housing Provident Fund Management Center of Zhangzhou (漳州住房公积金管理中心龍海管理部), the relevant competent authority for the local housing provident fund in Longhai, the official confirmed that: (i) as of the date of the interview, the housing provident fund contributions the Group's PRC subsidiaries have made are in compliance with relevant housing provident fund laws, regulations and policies; and (ii) the Group's PRC subsidiaries were not subject to any rectification order on the outstanding contribution, administrative penalties or investigations by such authority.</p>	

Relevant laws and regulations, legal consequences for non-compliance, potential maximum fine/penalty that may be imposed by the relevant authorities in the PRC	Rectification measures and potential impact on the Group	Enhanced internal control measures
Reason for the non-compliance	<p>As advised by the PRC Legal Adviser, given the confirmation letter issued by and interview with the competent government authority, the risk of the Group being required to pay the shortfall of the contribution or a fine on the shortfall or failing to set up the housing provident fund account within the prescribed time period is low. Based on the view of the PRC Legal Adviser and the indemnity given by the Group's Controlling Shareholders under the Deed of Indemnity, the Directors confirmed that such non-compliance incident would not have an adverse effect on the Group's business operations. As a result, the Group has not made any provision for fines and the outstanding contributions during the relevant period. Since August 2016, the Group has made full contribution to the housing provident fund for all its eligible employees. Since March 2017, the Group has been in full compliance with relevant requirements under the Administrative Regulations on the Housing Provident Fund.</p>	
Non-compliance incidents		
		<p>As of the Latest Practicable Date, the Group has not received any notification from the relevant competent authority of the housing provident fund alleging that the Group had not set up housing provident fund accounts within the prescribed period or made full contributions to the housing provident fund or demanding payment or imposing any administrative penalties, including fines. In the event that the Group receive any such payment order or administrative penalties from the relevant housing provident fund authority, the Group intends to immediately pay the outstanding housing provident fund contributions and/or any late charges and/or penalties imposed by such authorities.</p>

Relevant laws and regulations, legal consequences for non-compliance, potential maximum fine/penalty that may be imposed by the relevant authorities in the PRC	Rectification measures and potential impact on the Group	Enhanced internal control measures
<p>Reason for the non-compliance</p> <p>The Group failed to timely obtain the planning permit for construction land, the planning permit for construction project and the construction permit before commencement of construction due to the inadvertent oversight by the relevant staff in the Administration and Human Resources department of the relevant PRC legal requirements in connection with obtaining these construction related permits.</p>	<p>As of the Latest Practicable Date, Zhangzhou Kaixing has obtained the planning permit for construction project of Workshop No. 3, Workshop No. 4 and Workshop A, and has also obtained the permit for village construction of Fujian Province (福建省村鎮建設許可證) of Dormitory No. 1, Workshop No. 2, Workshop No. 5, Workshop and No. 6 following completion of construction.</p> <p>In addition, as of the Latest Practicable Date, Zhangzhou Kaixing has obtained the state-owned land use right certificate (國有土地使用證), the building ownership certificate (房屋所有權證) and/or the real estate ownership certificate (不動產權證書) for each of the aforementioned seven buildings as well as the relevant occupied land.</p>	<p>To prevent the recurrence of such incident, the Group will designate staff members to inspect any construction sites of the Group in the future to prevent commencement of construction works before obtaining all necessary construction related permits. Further, the Group has employed a legal officer, to oversee that all regulatory procedures, including obtaining necessary construction related permits for any future construction, are followed through by relevant staff in the future.</p>
<p>Reason for the non-compliance</p> <p>The Group failed to timely obtain the planning permit for construction land, the planning permit for construction project and the construction permit before commencement of construction due to the inadvertent oversight by the relevant staff in the Administration and Human Resources department of the relevant PRC legal requirements in connection with obtaining these construction related permits.</p>	<p>On 25 October 2017, the Group received a confirmation letter from the Urban and Rural Planning and Construction Bureau of Longhai (龍海市城鄉規劃建設局), the relevant competent authority for the planning and construction of land and buildings in Longhai, confirming that as of the issuing date of the confirmation letter, Zhangzhou Kaixing was not subject to any administrative penalties by that bureau in connection with violation of any relevant planning and construction laws, regulations and rules.</p>	
<p>Reason for the non-compliance</p> <p>The Group failed to timely obtain the planning permit for construction land, the planning permit for construction project and the construction permit before commencement of construction due to the inadvertent oversight by the relevant staff in the Administration and Human Resources department of the relevant PRC legal requirements in connection with obtaining these construction related permits.</p>	<p>In addition, according to the Construction Law of PRC (中華人民共和國建築法) and the Administrative Measures for Construction Permits of Construction Projects (建築工程施工許可管理辦法), if the project is constructed without the construction permit, the relevant government authority shall order to suspend the construction, rectify the behaviour within a prescribed period of time and impose a fine between 1% and 2% of the contract price of the project on the construction entity.</p>	
<p>Non-compliance incidents</p> <p>As of the Latest Practicable Date, Zhangzhou Kaixing has six industrial workshops and a dormitory, namely, Dormitory 1, Workshop No. 2, Workshop No. 3, Workshop No. 4, Workshop No. 5, Workshop No. 6 and Workshop A, the construction of which were completed during the period from 2007 to 2016.</p> <p>However, during the Track Record Period, Zhangzhou Kaixing did not obtain all of the construction related permits, including the planning permit for construction land (建設用地規劃許可證), the planning permit for construction project (建設工程規劃許可證) and the construction permit (施工許可證), for the constructions of the above seven buildings representing all of the Group's owned properties as of the Latest Practicable Date before commencement of construction.</p>		

Relevant laws and regulations, legal consequences for non-compliance, potential maximum fine/penalty that may be imposed by the relevant authorities in the PRC	Reason for the non-compliance	Rectification measures and potential impact on the Group	Enhanced internal control measures
Non-compliance incidents		<p>On 10 February 2017, during interviews with officials from the Urban and Rural Planning and Construction Bureau of Longhai, the relevant competent authority for the planning and construction of land and buildings in Longhai, these officials confirmed that: (i) as of the date of the interview, Zhangzhou Kaixing has obtained building ownership certificates for Dormitory No. 1, Workshop No. 2, Workshop No. 3, Workshop No. 4, Workshop No. 5, Workshop No. 6, as well as the state-owned land use right certificates for the relevant occupied land, which represents that the abovementioned six buildings have completed all the legitimate procedures for examination and are in compliance with relevant applicable planning and construction laws, regulations and policies, and was not required to obtain planning permit for construction land and the construction permit for construction land and the construction permit for the Workshop A according to relevant local implementation rules; and (iii) the Group's PRC subsidiaries were not subject to any relevant administrative penalties, including fines or investigations by such authority.</p>	
		<p>As advised by our PRC Legal Adviser, given the confirmation letter issued by and interview with the relevant competent government authority, the risk of the Group being received administration penalty or required to pay fines on failing to obtain relevant construction and planning permits before commence of construction is low. Based on the view of our PRC Legal Adviser and the indemnity given by the Group's Controlling Shareholders under the Deed of Indemnity, the Directors confirmed that such non-compliance incident would not have an adverse effect on the Group's business operations. As a result, the Group has not made any provision for fines.</p>	

Relevant laws and regulations, legal consequences for non-compliance, potential maximum fine/penalty that may be imposed by the relevant authorities in the PRC	Rectification measures and potential impact on the Group	Enhanced internal control measures
Reason for the non-compliance	As of the Latest Practicable Date, the Group has not received any notification from the relevant competent authority alleging that any administrative penalties, including fines may be imposed on the Group. In the event that the Group receives any such penalties from the relevant authority, the Group intends to immediately pay the penalties imposed by such authority.	
Non-compliance incidents		

Relevant laws and regulations, legal consequences for non-compliance, potential maximum fine/penalty that may be imposed by the relevant authorities in the PRC	Rectification measures and potential impact on the Group	Enhanced internal control measures
<p>Reason for the non-compliance</p> <p>The Group failed to complete the completion inspection procedures and certain evaluation procedures and obtain permit before commencing operations or use of its six industrial workshops and a dormitory due to the inadvertent oversight by the relevant staff of the Administration and Human Resources department of the relevant PRC legal requirements in connection with such procedures.</p>	<p>As of the Latest Practicable Date, Zhangzhou Kaixing has finished or obtained all the aforementioned evaluation procedures and completion inspection procedures or permits for its six industrial workshops and a dormitory.</p> <p>On 10 February 2017, during interviews with officials from the relevant competent authority for the planning and construction of buildings, environment facilities and pollutant discharge, safety production and occupational disease in Longhai, namely, the Urban and Rural Planning and Construction Bureau of Longhai (龍海市城鄉規劃建設局), the Environmental Protection Bureau of Longhai (龍海市環境保護局) and the Administration of Work Safety of Longhai (龍海市安全生產監督管理局), respectively, these officials confirmed that: (i) as of the date of the interview other than the non-compliance incidents as mentioned during the interviews, Zhangzhou Kaixing is in compliance with relevant applicable laws, regulations and policies in connection with the said inspection procedures, evaluation procedures and permit, and (ii) the Group's PRC subsidiaries were not subject to any relevant administrative penalties or investigations by such authority.</p>	<p>To prevent the recurrence of such incident, the Group will designate staff members to inspect any construction sites of the Group in the future to prevent commencement of construction works before obtaining all necessary construction related permits.</p> <p>Further, the Group has employed a legal officer to oversee that all regulatory procedures, including completion inspection procedures and certain evaluation procedures for any future construction, are followed through by relevant staff in the future.</p>
<p>According to the Administrative Regulations on the Environmental Protection of Construction Projects (建設項目環境保護管理條例), construction project owner shall be ordered to cease production or use, and may be imposed a fine of not more than RMB100,000 where the main body project formally goes into production or is delivered for use without going through the acceptance of environment facilities completion.</p>	<p>According to the Administrative Regulations on the Environmental Protection of Construction Projects (建設項目環境保護管理條例), construction project owner shall be ordered to cease production or use, and may be imposed a fine of not more than RMB100,000 where the main body project formally goes into production or is delivered for use without going through the acceptance of environment facilities completion.</p>	<p>Further, the Group has employed a legal officer to oversee that all regulatory procedures, including completion inspection procedures and certain evaluation procedures for any future construction, are followed through by relevant staff in the future.</p>
<p>According to the Measures for the Supervision and Administration of the "Three Simultaneousities" for the Safety Facilities of Construction Projects (建設項目安全設施"三同時"監督管理辦法), construction project owner shall be subject to a fine ranging from RMB5,000 to RMB30,000 when failing to go through acceptance checks for the safety facilities before operation or use.</p>	<p>In October 2017, the Group received confirmation letters from the abovementioned authorities, confirming that as of the issuing date of the confirmation letter, Zhangzhou Kaixing was not subject to any administrative penalties by such authorities in connection with violation of any relevant planning and construction, environmental protection, safety production and occupational disease laws, regulations and rules, respectively.</p>	<p>Further, the Group has employed a legal officer to oversee that all regulatory procedures, including completion inspection procedures and certain evaluation procedures for any future construction, are followed through by relevant staff in the future.</p>

Non-compliance incidents	Reason for the non-compliance	Relevant laws and regulations, legal consequences for non-compliance, potential maximum fine/penalty that may be imposed by the relevant authorities in the PRC	Rectification measures and potential impact on the Group	Enhanced internal control measures
		<p>According to the Law of the PRC on the Prevention and Treatment of Occupational Diseases (中華人民共和國職業病防治法), where the construction project owner fails to assess the evaluation report on control effect of occupational disease for the facilities before commencing operation or use, construction project owner may be issued a warning and ordered to rectify within a prescribed time. In case of failure to rectify within the prescribed time, the construction project owner may be imposed a fine ranging from RMB100,000 to RMB500,000. Where the circumstances are serious, construction project owner may be ordered to discontinue the operation that poses an occupational disease, to cease construction, or to shutdown the production plant.</p>	<p>As advised by our PRC Legal Adviser, given Zhangzhou Kaixing has finished or obtained all the evaluation procedures and completion inspection procedures or permits for its six industrial workshops and a dormitory, the confirmation letters issued by and interview with the relevant competent government authorities, the risk of the Group receiving administrative penalties or required to pay fines on failing to obtain all the aforementioned completion inspection procedures, evaluation procedures and permit for its six industrial workshops and a dormitory before commencing operations or use is low. Based on the view of our PRC Legal Adviser and the indemnity given by the Group's Controlling Shareholders under the Deed of Indemnity, the Directors confirmed that such non-compliance incident would not have an adverse effect on the Group's business operations. As a result, the Group has not made any provision for fines.</p>	
		<p>According to the Regulations on Environment Protection of Fujian Province (福建省環境保護條例), construction project owner shall be ordered to rectify within a prescribed period of time, and subject to a fine of not more than RMB50,000 when failing to obtain the pollutant discharge permit for the facilities before commencing operation or use.</p>	<p>As of the Latest Practicable Date, the Group has not received any notification from the relevant PRC authorities alleging that the Group may be imposed any administrative penalties, including fines. In the event that the Group receives any such penalties from the relevant competent authorities, the Group intends to immediately pay the penalties imposed by such authorities.</p>	

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Having considered (i) the nature and reasons of the historical non-compliance incidents as disclosed in this section; (ii) the confirmation letters issued by and the interviews with the relevant competent PRC government authorities; (iii) the Group's enhanced internal control measures to avoid recurrence of the non-compliance incidents; (iv) the review on the internal control system of the Group by the Internal Control Adviser; and (v) the rectification action taken by the Group as disclosed in this section, the Directors are of the view and the Sole Sponsor concurs with the views of the Directors that (a) the enhanced internal control measures adopted by the Group are adequate and effective in significantly reducing the risk of future non-compliance with the relevant legal and regulatory requirements; and (b) the historical non-compliance incidents will not impact the suitability of the Directors to act as directors of a listed issuer under Rules 5.01, 5.02 and 11.07 of the GEM Listing Rules, and the suitability for the Group's listing under Rule 11.06 of the GEM Listing Rules.

The PRC Legal Adviser has advised that, save as disclosed above, the Group has obtained and currently maintains all necessary permits and licences that are material to its business operations, and, during the Track Record Period and up to the Latest Practicable Date, the Group has been in compliance with the applicable PRC laws and regulations relating to its business operations in all material respects.

INTERNAL CONTROL AND CORPORATE GOVERNANCE MEASURES

The Group recognises the importance of good corporate governance in management and procedures and will continuously improve its corporate governance to prevent recurrence of the non-compliance incidents as detailed in the paragraph headed "Non-compliance incidents" above, the Group intends to adopt or have adopted the following measures to safeguard the interests of the shareholders:

- (i) the Directors attended training sessions on applicable laws and regulations, including the GEM Listing Rules, provided by the Group's Hong Kong legal adviser. The Group will continue to arrange for external training and updates to be provided by its legal advisers on the legal and regulatory requirements applicable to the Group's business operations to its Directors, senior management and relevant employees;
- (ii) the Group has appointed an internal audit officer, who will be responsible for internal audit functions, including reviewing the compliance of implementation of the Group's internal control policies and procedures, recommending additional internal control policies, coordinating compliance training for the Group's employees and reporting of the above to the audit committee;
- (iii) the Group has established an audit committee, which will be responsible, among other things, for providing the Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of the Group. The committee is comprised of Mr. Shum Shing Kei, Dr. Mu Zhirong and Dr. Hu Xudong; and

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- (iv) the Group has appointed Essence Corporate Finance (Hong Kong) Limited as its compliance adviser with effect from the date of Listing to advise the Group on matters relating to compliance with the GEM Listing Rules.

The Group has engaged an independent internal control adviser (the “**Internal Control Adviser**”) to review the internal control system of the Group in July 2016. The Internal Control Adviser has reviewed the internal control system of the Group according to the agreed scope which covers the documentation, testing and assessment of the effectiveness of the procedures, systems and controls established by the Group with regards to the operating cycles of the Group (including the review of the Group’s corporate governance practice and controls on regulatory compliance, revenue and receipts cycle, expenses and payments cycle, treasury management cycle, financial reporting cycle and information technology general controls) (the “**First Review**”).

The material internal control deficiencies noted include the inadequate control procedures to ensure the followings:

- timely apply for social insurance registration and make adequate social insurance contributions for its eligible employees as required by the relevant laws and regulations;
- timely set up housing provident fund accounts and contribute to the housing provident fund for all eligible employees as required by the relevant laws and regulations;
- obtain all the required construction related permits before commencement of construction; and
- finish or obtain all the required completion inspection procedures, evaluation procedures and permit before commencement of operation or use.

Other than the above, there is no material internal control deficiency noted.

As at the Latest Practicable Date, the Group had implemented enhanced internal control measures in accordance with the recommendations of the material internal control deficiencies noted from the Internal Control Adviser. The Internal Control Adviser has performed a follow-up review from August 2016 to February 2017 on the status of the Group’s enhanced internal control measures implemented and is satisfied that there is no material internal control deficiency that affect the adequacy and effectiveness of such measures.

The Directors are also of the view that the Group’s enhanced internal control measures are adequate and effective.

FUTURE PLANS AND USE OF PROCEEDS

BUSINESS OBJECTIVE

The Group's business objective is to further enhance the Group's market presence in the circular knitting machine industry within the PRC and overseas and strengthen the brand recognition of the Group by leveraging on the Group's competitive strengths.

BUSINESS STRATEGIES

Please refer to the paragraph headed "Business – Business Strategies" for details of the Group's business strategies.

IMPLEMENTATION PLANS

The Group will endeavour to achieve the milestone events set out below during the period from the Latest Practicable Date to 31 December 2019. Their respective scheduled completion times are based on certain bases and assumptions as set out in the paragraph headed "Bases and Assumptions" in this section. These bases and assumptions are inherently subject to many uncertainties and unpredictable factors, in particular the risk factors as set out in the section headed "Risk Factors" in this prospectus. There is no assurance that the Group's business plans will materialise in accordance with the expected time frame or that the Group's objectives will be accomplished at all. The Directors intend to carry out the following implementation plans:

1. For the period from the Latest Practicable Date to 31 December 2017

Business strategies	Implementation plan	Amount to be applied from the net proceeds of the Share Offer <i>HK\$' million</i>
Enhance customer loyalty and brand awareness	<i>Business development</i> – Arrange customer seminars and attend industry exhibitions to promote the Group's brand name and products	0.3
Continue to maintain and enhance the Group's research and development capabilities	<i>Enhance research and development capabilities</i> – Collaborations with higher education institutions to provide training to the Group's research and development personnel	0.1

FUTURE PLANS AND USE OF PROCEEDS

2. For the period from 1 January 2018 to 30 June 2018

Business strategies	Implementation plan	Amount to be applied from the net proceeds of the Share Offer <i>HK\$' million</i>
Expand customer base in the overseas market	<i>Setting up of overseas sales offices</i> – Setting up overseas sales offices in Mumbai of India and Dhaka of Bangladesh	0.6
Expand the Group's production capacity	<i>Purchase of machineries</i> – Payment of the purchase price in relation to one high-end CNC machinery	3.6
Enhance customer loyalty and brand awareness	<i>Construct the New Office Building</i> – An office building (the “ New Office Building ”) will be constructed on the land of the Group to be used for sales and marketing, and research and development – the appointment of architectural firm and construction firm for the construction	0.2
Continue to maintain and enhance the Group's research and development capabilities	<i>Construct the New Office Building</i> – Same as above <i>Enhance research and development capabilities</i> – Collaborations with higher education institutions to provide training to the Group's research and development personnel	0.3

FUTURE PLANS AND USE OF PROCEEDS

3. For the period from 1 July 2018 to 31 December 2018

Business strategies	Implementation plan	Amount to be applied from the net proceeds of the Share Offer <i>HK\$' million</i>
Expand customer base in the overseas market	<i>Setting up of overseas sales offices</i> – Payment of operating costs in relation to the overseas sales offices in Mumbai of India and Dhaka of Bangladesh (including rental payable under lease agreements in relation to office space and remuneration of staff to station in the said sales offices)	1.2
Expand the Group's production capacity	<i>Purchase of machineries</i> – Payment of the purchase price relating to the purchase of one lathe	0.5
Expand the Group's production capabilities upstream	<i>Purchase machineries for the manufacturing of Hearts</i> – Payment of part of the purchase price for the purchase of a machinery for the manufacturing of Hearts	8.6
Enhance customer loyalty and brand awareness	<i>Construct the New Office Building</i> – Progress payment of construction costs <i>Business development</i> – Arrange customer seminars and attend industry exhibitions to promote the Group's brand name and products	2.7
Continue to maintain and enhance the Group's research and development capabilities	<i>Construct the New Office Building</i> – Same as above <i>Enhance research and development capabilities</i> – Research and development of a new model of circular knitting machine – Collaborations with higher education institutions to provide training to the Group's research and development personnel	4.5

FUTURE PLANS AND USE OF PROCEEDS

4. For the period from 1 January 2019 to 30 June 2019

Business strategies	Implementation plan	Amount to be applied from the net proceeds of the Share Offer <i>HK\$' million</i>
Expand customer base in the overseas market	<i>Setting up of overseas sales offices</i> – Payment of operating costs in relation to the overseas sales offices in Mumbai, India and Dhaka, Bangladesh	1.2
Expand the Group's production capacity	<i>Purchase of machineries</i> – Payment of the balance of the purchase price relating to the purchase of one high-end CNC machinery	0.4
Expand the Group's production capabilities upstream	<i>Purchase a machinery for the manufacturing of Hearts</i> – Payment of part of the purchase price relating to the purchase of a machinery for the manufacturing of Hearts	3.1
Enhance customer loyalty and brand awareness	<i>Construct the New Office Building</i> – Progress payment of construction costs	1.2
Continue to maintain and enhance the Group's research and development capabilities	<i>Construct the New Office Building</i> – Same as above <i>Enhance research and development capabilities</i> – Research and development of a new model of circular knitting machine – Collaborations with higher education institutions to provide training to the Group's research and development personnel	3.3

FUTURE PLANS AND USE OF PROCEEDS

5. For the period from 1 July 2019 to 31 December 2019

Business strategies	Implementation plan	Amount to be applied from the net proceeds of the Share Offer <i>HK\$' million</i>
Enhance customer base in the overseas market	<i>Setting of overseas Sales Offices</i> – Payment of operating costs in relation to the overseas sales offices in Mumbai, India and Dhaka, Bangladesh	0.9
Expand the Group's production capabilities upstream	<i>Purchase a machinery for the manufacturing of Hearts</i> – Payment of the balance of the purchase price relating to the purchase of a machinery for the manufacturing of Hearts – Recruitment and training of staff to operate the machinery for the manufacturing of Hearts	2.5
Enhance customer loyalty and brand awareness	<i>Construct the New Office Building</i> – Payment of the balance of the construction costs <i>Business development</i> – Arrange customer seminars and attend industry exhibitions to promote the Group's brand name and products	0.5
Continue to maintain and enhance the Group's research and development capabilities	<i>Construct the New Office Building</i> – Same as above <i>Enhance research and development capabilities</i> – Collaborations with higher education institutions to provide training to the Group's research and development personnel	0.3

FUTURE PLANS AND USE OF PROCEEDS

BASES AND ASSUMPTIONS

Potential investors should note that the attainability of the Groups business objectives depend on a number of assumptions, in particular:

- there will be no material changes in the existing political, legal, fiscal, foreign trade or economic conditions in the PRC and other countries in which the Group operate or intends to operate;
- the Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the business objectives relate;
- there will be no material changes in the bases or rates of taxation applicable to the Group;
- there will be no material changes in legislation or regulations in the PRC or elsewhere which may materially affect the Group's business;
- the Share Offer will be completed in accordance with and as described in the section headed "Structure and Conditions of the Share Offer" in this prospectus;
- there will be no disasters, natural, political or otherwise, which would materially disrupt the Group's business or operations or cause substantial loss, damage or destruction or the Group's properties and facilities;
- there will be no significant changes in the Group's business relationship with its existing customers;
- the Group will be able to retain key personnel and be able to recruit additional key personnel when required;
- there will be no change in the funding requirement for each of scheduled achievements as outlined under the paragraph headed "Implementation plans" in this section; and
- the Group will not be materially affected by any risk factors as set out in the section headed "Risk Factors" of this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

REASONS OF THE SHARE OFFER AND PROPOSED USE OF PROCEEDS

The Directors believe that the Listing will enhance the Group's corporate profile and brand image and the net proceeds of the Share Offer will strengthen its financial position and will enable the Group to implement its business plans set out in the paragraph headed "Implementation plans" in this section. Furthermore, a public listing status on the Stock Exchange will offer the Group access to capital markets for corporate finance exercise to assist in future business development, enhance the Group's corporate profile and strengthen the Group's competitiveness. As at 31 October 2017, the cash and cash equivalents of the Group was approximately RMB66.0 million, whereas the trade payables and bank loans of the Group totalled approximately RMB63.0 million. Hence, the Directors consider that the Group should not use its cash on hand to finance the implementation of its future plans as mentioned in this section because the cash on hand (net of trade payables and banks loans) as at 31 October 2017 amounted to approximately RMB3.0 million only, and, instead, the Group should proceed with the Share Offer to finance the implementation of such future plans.

Assuming an Offer Price of HK\$0.23 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$0.18 and HK\$0.28 per Offer Share, the net proceeds of the Share Offer, after deducting the related expenses, are estimated to be approximately HK\$43.9 million. The Directors presently intend to apply such net proceeds as follows:

- approximately 9.1% of the net proceeds, or approximately HK\$4.0 million, for expanding the Group's customer base in the overseas market, among which approximately HK\$220,000 will be used for the initial setting up of the India office and HK\$380,000 will be used for the initial setting up of the Bangladesh office. The Group intends to appoint a professional service provider to assist it for the registration and establishment of the said offices. To the best knowledge upon reasonable enquiries of the Directors, the time required to obtain relevant regulatory approval for setting up the India and Bangladesh offices will be approximately six months and one month, respectively. Based on consultation with independent Indian and Bangladesh legal advisers, the Directors understand that the setting up of operations in India and Bangladesh to carry out the business of sales of single circular knitting machines, double circular knitting machines and parts and components of such machines on a business to business basis does not impose any significant risks or impediments under Indian and Bangladesh law. The operation of the Indian and Bangladesh companies are not subject to any legal and regulatory controls (including laws and regulations, licences, import and export, and tax) that are not applicable to other companies carrying out a business on a business to business basis in respect of the sale of equipment and machines in India and Bangladesh. Approximately HK\$3.4 million is reserved for expected future operating costs of these overseas offices per annum, including approximately HK\$144,000 for the lease in relation to the office space and approximately HK\$360,000 for the remuneration of five staff to station in the India office and approximately HK\$470,000 for the remuneration of eight staff to station in the Bangladesh office;

FUTURE PLANS AND USE OF PROCEEDS

- approximately 10.3% of the net proceeds, or approximately HK\$4.5 million, for expanding the Group's production capacity. The Group intends to purchase one high-end CNC machine and one lathe. Due to the increase in the number of production equipment, the designed production capacity of the Group's manufacturing facility is expected to increase by 203 units. As at 30 June 2017, the major production equipment used in the manufacturing process include four lathes, two grinding machines, two CNC machines and three radial drilling machines. As at the Latest Practicable Date, the average remaining useful life of the Group's production equipment is approximately four years. During the two years ended 31 December 2015 and 2016 and six months ended 30 June 2016 and 2017, the Group experienced revenue growth of approximately 28.9% and 11.2% in the corresponding period. As such, the Group intends to increase its production capacity in order to maintain its revenue growth following the Track Record Period;
- approximately 32.3% of the net proceeds, or approximately HK\$14.2 million, for expanding the Group's production capabilities upstream (i.e. to purchase machineries for the manufacturing of Hearts, a core component of circular knitting machines). The process of the manufacturing of Hearts involves (i) lathe milling and processing; (ii) drilling; (iii) grinding and (iv) assembly.

The Directors believe that the self-production of Hearts will enable the Group to better control the quality of one of the core components of circular knitting machines and better maintain and control the supply of Hearts. For each of the two years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, the Group's cost of goods sold of approximately RMB6.6 million, RMB7.2 million and RMB4.8 million, respectively arose from the Hearts. Further, the Directors expect that the self-production of Hearts will lead to a reduction in the cost of goods sold for the Group of approximately RMB3.8 million assuming a production volume of 1,000 units, which will in turn increase its profitability. Should the Group had undertaken the self-production of Hearts, the Group's cost of goods sold would have been reduced by approximately RMB2.4 million, RMB2.5 million and RMB1.7 million for the years ended 31 December 2015 and 2016, and the six months ended 30 June 2017. In addition, the Group's procurement department and quality control department had been working together in ascertaining the quality of raw materials procured by the Group. The Directors believe that together with the staff that the Group intends to recruit specifically for the manufacturing of Hearts, the Group's management and staff has sufficient experience and expertise to manage the production of Hearts;

- approximately 11.2% of the net proceeds, or approximately HK\$4.9 million, for enhancing the Group's customer loyalty and brand awareness. The Group intends to construct the New Office Building, which will be developed as the Group's office facilities, including but not limited to multi-media conference rooms to facilitate the showcase of the Group's products, client receptions and office spaces for the Company's subsidiaries. The Group intends to repossess the area of its buildings

FUTURE PLANS AND USE OF PROCEEDS

which is currently leased to an independent third party. However, the Directors consider that it is not economically feasible to redevelop the relevant area into office spaces for the Group's operations since it is currently utilised as a manufacturing workshop. Instead, as the Group intends to commence self-production of Hearts by 30 June 2019 as described in this section above, the Directors intend for the existing manufacturing workshop situated in the relevant area to be redeveloped for the manufacturing of Hearts;

- approximately 19.4% of the net proceeds, or approximately HK\$8.5 million, for continuing to maintain and enhancing the Group's research and development capabilities. The Group intends to construct the New Office Building, part of which will be utilised as the Group's office building, which will include a research and development and design room for the Group's research and development department. The Directors believe that the new research and development and design room will facilitate the research and development projects undertaken by its research and development department. For the two years ended 31 December 2015 and 2016 and six months ended 30 June 2017, the Group's research and development department comprised eight, eight and eight staff, respectively. Further, the Group are looking to collaborate with higher education institutions to provide training to its research and development staff. Pursuant to terms of collaboration between the Group and a higher education institution, in the event that technology developed as a result of the collaboration with the higher education institution becomes commercialised, all rights to application for patents and corresponding intellectual property rights shall belong to the Group. In addition, the Group's research and development department intend to use approximately HK\$4.0 million to develop a circular knitting machine which will be able to produce a single sheet of seamless knitted material forming the surface of sneakers, which can more precisely control the tightness, style, pattern and is more ergonomically fitted due to reduction in the weight and permeability of the material. As at the Latest Practicable Date, the Company had not yet devoted any resources to the research and development of such new model of circular knitting machine and where such new model of circular knitting machine is subsequently successfully developed, the Company intends to apply for a patent in relation to the abovementioned circular knitting machine;
- approximately 9.1% of the net proceeds, or approximately HK\$4.0 million, for repayment of existing debt financing in relation to the partial repayment of the outstanding balance of approximately HK\$5.6 million in relation to a short-term liquidity loan maturing on January 2018 with interest at 4.4% per annum; and
- the balance of approximately 8.7% of the net proceeds, or approximately HK\$3.8 million, for use as general working capital of the Group.

FUTURE PLANS AND USE OF PROCEEDS

In summary, the implementation of the Group's business objectives and strategies from the Latest Practicable Date up to 31 December 2019 will be funded by the net proceeds of the Share Offer as follows:

	From the Latest Practicable Date to 31 December 2017	For the six months ending 30 June 2018	For the six months ending 31 December 2018	For the six months ending 30 June 2019	For the six months ending 31 December 2019	Total	Approximate percentage of net proceeds %
	<i>approximate HK\$ (in million)</i>						
Expand customer base in the overseas market	-	0.6	1.2	1.2	0.9	4.0	9.1
Expand the Group's production capacity	-	3.6	0.5	0.4	-	4.5	10.3
Expand the Group's production capabilities upstream	-	-	8.6	3.1	2.5	14.2	32.3
Enhance customer loyalty and brand awareness	0.3	0.2	2.7	1.2	0.5	4.9	11.2
Continue to maintain and enhance the Group's research and development capabilities	0.1	0.3	4.5	3.3	0.3	8.5	19.4
Repayment of existing debt financing	-	4.0	-	-	-	4.0	9.1
Working capital and general corporate use	3.8	-	-	-	-	3.8	8.7
Total	4.2	8.7	17.5	9.2	4.2	43.9	100.0

If the final Offer Price is set at the high end or the low end point of the indicative Offer Price range, the net proceeds of the Share Offer will increase or decrease by approximately HK\$14.6 million, respectively. In such event, the net proceeds will be used in the same proportions as disclosed above irrespective of whether the Offer Price is determined at the highest or lowest point of the indicative Offer Price range. To the extent that the net proceeds from the issue of the Offer Shares are not immediately required for the purposes above, it is the present intention of the Directors that such net proceeds will be placed on short-term interest bearing deposits. In case there is any change to the intended use of proceeds as described above, the Group will (i) make disclosure of such changes in its annual report for the relevant year in accordance with the GEM Listing Rules; and (ii) issue an announcement where the changes constitute inside information in accordance with the GEM Listing Rules and other relevant laws.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

BRIEF INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

The Board consists of three executive Directors and three independent non-executive Directors. It is responsible for and has general powers for the management and conduct of the business.

The day-to-day operations of the Group are supervised and carried out by the executive Directors with the assistance of the senior management.

The following table sets out some information in respect of the Directors:

Name	Age	Position	Date of joining the Group	Date of appointment as a Director	Main roles and responsibilities	Relationship with other Directors and senior management (other than that through or relating to the Group)
<i>Executive Directors</i>						
Ms. Yuan Yuan (袁遠)	42	Chairlady, chief executive officer, executive Director and compliance officer	24 October 2013	Appointed as a Director on 28 July 2016 and redesignated as executive Director on 11 December 2017; appointed as the chairlady and chief executive officer on 11 December 2017	Responsible for the overall operation and development strategy of the Group as well as supervising internal control; chairlady of the Nomination Committee and member of the Remuneration Committee	N/A
Mr. Chen Yihui (陳毅輝)	32	Executive Director	24 October 2013	Appointed as a Director on 28 July 2016 and redesignated as executive Director on 11 December 2017	Responsible for the overall management and strategic planning of the Group	N/A
Mr. Zheng Jiafu (鄭加福)	45	Executive Director	5 January 2006	Appointed as a Director on 28 July 2016 and redesignated as executive Director on 11 December 2017	Responsible for managing the daily production and sales operations of the Group	N/A

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Age	Position	Date of joining the Group	Date of appointment as a Director	Main roles and responsibilities	Relationship with other Directors and senior management (other than that through or relating to the Group)
<i>Independent non-executive Directors</i>						
Dr. Hu Xudong (胡旭東)	57	Independent non-executive Director	11 December 2017	11 December 2017	Providing independent advice to the Group; member of the Audit Committee	N/A
Mr. Shum Shing Kei (沈成基)	46	Independent non-executive Director	11 December 2017	11 December 2017	Providing independent advice to the Group; chairman of the Audit Committee; member of the Remuneration Committee and the Nomination Committee	N/A
Dr. Mu Zhirong (木志榮)	45	Independent non-executive Director	11 December 2017	11 December 2017	Providing independent advice to the Group; chairman of the Remuneration Committee; member of the Nomination Committee and the Audit Committee	N/A

The senior management of the Company consists of the employees listed in the following table:

Name	Age	Position	Date of joining the Group	Main roles and responsibilities	Relationship with other Directors and senior management (other than that through or relating to the Group)
Wang Lina (王麗娜)	34	Chief financial officer	1 August 2012	Responsible for financial management of the Group	N/A
Zhao Jingyang (趙京陽)	37	Sales manager	4 November 2010	Responsible for sales operations of the Group	N/A

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS

Executive Directors

Ms. Yuan Yuan (袁遠) (“Ms. Yuan”), aged 42, is the Chairlady of the Board, a chief executive officer and an executive Director of the Company. Ms. Yuan was appointed as a Director in July 2016 and was redesignated as an executive Director on 11 December 2017. She is the chairlady of the Nomination Committee and a member of the Remuneration Committee of the Company. She is responsible for the overall operation and development strategy of the Group as well as supervising internal control. Ms. Yuan also serves as a chairlady of the board of directors of Zhangzhou Kaixing and the director of Ace Progress and Futex Machinery.

Ms. Yuan has over 16 years of experience in manufacturing and trading industry. Ms. Yuan has worked or assumed offices (as the case may be) in various companies or entities including the following:

Period of services	Name of entity/ group	Principal business activities	Major office and responsibilities
July 1996 to May 2000	Xiamen Fifth Plastic Factory (廈門市第五塑料廠)	Manufacturing of plastic packaging boxes and household plastic products	Accounting clerk, responsible for cost accounting
June 2000 to August 2005	Xiamen Xie Feng Tai Trading Company Limited (廈門協豐泰 貿易有限公司)	Wholesale and retail of clothes, shoes, hats, bags and textiles	Accountant, responsible for financial accounting
September 2005 to February 2007	Longhuai Import & Export	Wholesale and retail of canned food, clothes, machinery, equipment and furniture	Finance manager, responsible for financial management
March 2007 to February 2011	Longhuai Import & Export	Wholesale and retail of canned food, clothes, machinery, equipment and furniture	Deputy general manager, responsible for financial management and foreign trading operations
Since March 2011	Longhuai Import & Export	Wholesale and retail of canned food, clothes, machinery, equipment and furniture	General manager and executive director, responsible for financial management and foreign trading operations

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

In October 2013, Ms. Yuan joined the Group as deputy general manager of Zhangzhou Kaixing, responsible for the overall operation and development strategy of Zhangzhou Kaixing as well as supervising internal control. Ms. Yuan currently serves as the chairperson of Zhangzhou Kaixing. Ms. Yuan graduated from Jiangxi University of Finance and Economics in July 1996, majoring in investment and finance. Ms. Yuan obtained the Executive Master of Business Administration degree from the Shanghai University of Finance and Economics in January 2017.

Mr. Chen Yihui (陳毅輝) (“Mr. Chen”), aged 32, is an executive Director. Mr. Chen was appointed as a Director in July 2016 and was redesignated as an executive Director on 11 December 2017. Mr. Chen has over 10 years of experience in manufacturing and trading industry. From September 2006 to February 2008, Mr. Chen worked at Xiamen Tianan Import and Export Company Limited (廈門田岸進出口有限公司) (“**Xiamen Tianan**”) (which is principally engaged in wholesale and retail of canned food, clothes, shoes, hats and purchase of agricultural and sideline products) as a foreign trading officer and was responsible for foreign trading operations and sales. From March 2008 to August 2010, he was promoted to be the foreign trading supervisor of Xiamen Tianan and was responsible for managing the foreign trading department. From September 2010 to August 2013, he was appointed as deputy general manager of Xiamen Tianan and was responsible for the management of foreign trading operations. Mr. Chen joined the Group in October 2013 as the chairman and general manager of Zhangzhou Kaixing and was responsible for the overall management and strategic planning of the Group. Mr. Chen currently serves as (i) the director, legal representative and general manager of Zhangzhou Kaixing; (ii) the executive director and manager of Zhangzhou Fukai; and (iii) the director of Ace Progress and Futex Machinery. Mr. Chen completed his secondary school education at Longhai Chengxi Middle School (龍海市程溪中學) in August 2004.

Mr. Zheng Jiafu (鄭加福) (“Mr. J Zheng”), aged 45, is an executive Director. Mr. J Zheng was appointed as a Director in July 2016 and was redesignated as an executive Director on 11 December 2017. Mr. J Zheng joined the Group as a sales manager of Zhangzhou Kaixing in January 2006 and is responsible for the market research and promotion for the Group’s products and management of customer relationship. He also assists in developing the Group through active participation in its production and operation. In addition, Mr. J Zheng has actively involved in corporate research and development work of the Group and a number of patents were successfully developed with his assistance and guidance. Mr. J Zheng currently serves as (i) the director of Zhangzhou Kaxing and (ii) the executive director and manager of Fujian Fufang; and (iii) the director of Ace Progress and Futex Machinery.

After Fujian Fufang was established by the Group in November 2010, Mr. J Zheng was appointed as the executive director and manager of Fujian Fufang to oversee its daily business management. From October 2004 to October 2005, Mr. J Zheng was the sales manager of Zhangzhou Nanfang Canned Food Machinery Company Limited (漳州市南坊罐頭食品機械有限公司) (which is principally engaged in production and sale of canned food machinery, frozen food machinery and sale of parts and components for canned food machinery) and was responsible for distribution of food machinery. Mr. J Zheng has over 11 years of management experience in the machinery manufacturing industry. Mr. J Zheng completed his secondary school education from Fujian Longhai No. 2 Secondary School (福建省龍海第二中學) in July 1989.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Independent non-executive Directors

Mr. Hu Xudong (胡旭東) (“**Dr. Hu**”), aged 58, is an independent non-executive Director. Dr. Hu was appointed as an independent non-executive Director on 11 December 2017. Dr. Hu is also a member of the Audit Committee. Dr. Hu is mainly engaged in the design of textile machinery and research on theories and engineering applications of integrated control of electromechanical systems. Dr. Hu received his master’s degree from Zhejiang Institute of Silk Textiles (which was later renamed as Zhejiang Institute of Science and Technology and now the Zhejiang Sci-Tech University) in June 1989, majoring in silk engineering (絲綢工程), and received his doctorate in mechanical engineering from Zhejiang University in March 2004.

Dr. Hu has over 30 years of teaching experience in the areas of textile machinery design and integrated control of electromechanical systems, details of which are as follows:

Period of services	Name of entity/group	Principal business activities	Major office and responsibilities
From September 1983 to October 1995	Zhejiang Institute of Silk Textiles (now the Zhejiang Sci-Tech University)	Educational institution	Lecturer, responsible for teaching in the department of electrical and mechanical engineering
From November 1995 to October 2002	Zhejiang Institute of Silk Textiles (now the Zhejiang Sci-Tech University)	Educational institution	Associate Professor, responsible for teaching courses on textile machinery in the department of electrical and mechanical engineering
Since November 2002	Zhejiang Institute of Science and Technology (now the Zhejiang Sci-Tech University)	Educational institution	Professor, responsible for teaching and research in the School of Mechanical Engineering & Automation
From September 2005 to October 2016	Zhejiang Sci-Tech University	Educational institution	Department head, responsible for teaching, research, administration and management of the School of Mechanical Engineering & Automation

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Dr. Hu also holds a position in the following organisations:

Year/Term of office	Name of organisation	Position
Since July 2012	Zhejiang Textile Engineering Society	Member of the twelfth session of the administrative committee
Since November 2015	Zhejiang Textile Engineering Society	Chairman of the first session of the machinery professional committee
Since 20 December 2016	Chinese Association for Artificial Intelligence	Standing committee member of the professional committee for intelligent manufacturing

Dr. Hu was awarded the title of “Outstanding Worker in Science and Technology in Zhejiang Province” from the Organisation Department of the Zhejiang Provincial Committee of the Chinese Communist Party, the Human Resources and Social Security Department of the Zhejiang Province and Zhejiang Association for Science and Technology in December 2013. In 2012, he was the person in charge of the “Provincial Key Laboratory of Modern Textile Equipment and Technology” under Zhejiang Sci-Tech University. Dr. Hu participated in research projects of Zhejiang Sci-Tech University and received the following awards: (i) First Prize of the Zhejiang Provincial Science and Technology Awards and Second Prize of the Awards for Progress in Science and Technology of China National Textile and Apparel Council in 2012 and (ii) Second Prize of the Zhejiang Provincial Science and Technology Awards in 2007 and 2008.

Since January 2013, Dr. Hu has been an independent director of Zhejiang ZhaoFeng Mechanical and Electronics Co., Ltd (浙江兆豐機電股份有限公司), a company listed on the ChiNext market of the Shenzhen Stock Exchange (stock code: 300695) of the PRC.

Mr. Shum Shing Kei (沈成基) (“**Mr. Simon Shum**”), aged 46, is an independent non-executive Director. Mr. Simon Shum was appointed as an independent non-executive Director on 11 December 2017. Mr. Simon Shum is also the chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Simon Shum worked or assumed offices (as the case may be) in various companies or entities including the following:

Period of services	Name of entity/group	Principal business activities	Major office and responsibilities
From March 2002 to July 2005	Changhong Jiahua Holdings Limited (formerly known as China Data Broadcasting Holdings Limited), a company listed on the GEM Board of the Stock Exchange (stock code: 8016)	Providing professional integrated IT solutions and services and distribution of IT products and related parts and components	Qualified accountant and company secretary, responsible for financing reporting and discharging the functions of a company secretary as required under the relevant laws, rules and regulations
From July 2005 to December 2006	Changhong Jiahua Holdings Limited (formerly known as China Data Broadcasting Holdings Limited), a company listed on the GEM Board of the Stock Exchange (stock code: 8016)	Providing professional integrated IT solutions and services and distribution of IT products and related parts and components	Company secretary, responsible for discharging the functions of a company secretary as required under the relevant laws, rules and regulations
From September 2004 to September 2008	Great Wall Motor Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 2333)	Manufacturing of sport utility vehicles in the PRC	Qualified accountant consultant, responsible for providing assistance to the qualified accountant so as to discharge the qualified accountant's related duties under the relevant laws, rules and regulations

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Period of services	Name of entity/group	Principal business activities	Major office and responsibilities
Since April 2005	Yusei Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 96)	Moulding fabrication, manufacturing and trading of moulds and plastic components	Company secretary, responsible for discharging the functions of company secretary as required under the relevant laws, rules and regulations
From June 2008 to September 2009	Asia Cassava Resources Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 841)	Procurement and sale of dried cassava chips and hotel operations	Chief financial officer, responsible for corporate finance function and overseeing matter related to financial administration
Since September 2009	Asia Cassava Resources Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 841)	Procurement and sale of dried cassava chips and hotel operations	Chief financial officer and company secretary, responsible for corporate finance function and overseeing matter related to financial administration and discharging the functions of a company secretary as required under the relevant laws, rules and regulations
Since September 2010	CC Alliance CPA & Co, a certified public accountant firm in Hong Kong	Providing business advisory service and auditing service	Practicing partner, mainly responsible for providing auditing services to private companies

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Period of services	Name of entity/group	Principal business activities	Major office and responsibilities
Since February 2012	Anhui Tianda Oil Pipe Company Limited, a company delisted from the Main Board of the Stock Exchange in December 2016	Design, manufacture and sale of specialised seamless pipes and petrochemical pipes	Company secretary, responsible for discharging the functions of a company secretary as required under the relevant laws, rules and regulations
Since July 2016	Jiangsu Nandasoft Technology Company Limited, a company listed on the GEM Board of the Stock Exchange (stock code: 8045)	Sales of computer hardware and software products, trading of IT related products and equipment and mobile phones, and provision of IT training services; developing, manufacturing and marketing software; providing systems integration services; research and development of medicine and medical equipment, provision of services in relation to building installation and information system integration	Company secretary, responsible for discharging the functions of a company secretary as required under the relevant laws, rules and regulations
Since August 2017	Chengdu Putian Telecommunications Cable Company Limited (stock code: 1202)	Manufacture and sale of various types of telecommunications cables, optical fibres and cable joining sleeves	Company secretary, responsible for discharging the functions of a company secretary as required under the relevant laws, rules and regulations

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Although Mr. Simon Shum is currently the chief financial officer and/or company secretary of other companies as mentioned above, he is assisted by other staff of CC Alliance CPA & Co. in the performance of such tasks. In addition, being a partner of CC Alliance CPA & Co., he plays a strategic management role and is not required to work on a full time basis. Therefore, Mr. Simon Shum is able to devote sufficient time to act as an independent non-executive Director.

Mr. Simon Shum has been an independent non-executive director of (i) Nanjing Sample Technology Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1708) since May 2011, and (ii) Zhejiang Shibao Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1057) and listed on Shenzhen Stock Exchange (stock code: 002703) since June 2015.

Mr. Simon Shum was awarded a Bachelor of Arts in Accountancy by the Hong Kong Polytechnic (now the Hong Kong Polytechnic University) in November 1993. He later obtained a master degree in financial management from the University of London, the United Kingdom through long distance learning in December 1998. He was admitted as a member of the Hong Kong Society of Accountants (now the Hong Kong Institute of Certified Public Accountants) in January 1997 and has become a fellow member of the Hong Kong Institute of Certified Public Accountants in May 2010.

Mr. Mu Zhirong (木志榮) (“**Dr. Mu**”), aged 45, is an independent non-executive Director. Dr. Mu was appointed as an independent non-executive Director on 11 December 2017. Dr. Mu is also the chairman of the Remuneration Committee and a member of the Nomination Committee and the Audit Committee.

Dr. Mu obtained his doctorate degree in economics from Xiamen University in July 2003. Dr. Mu has worked or assumed offices (as the case may be) in various companies and entities including the following:

Period of services	Name of entity	Principal business activities	Major office and responsibilities
Since September 2007	Business management department of the School of Management of Xiamen University	Educational institution	Associate professor, responsible for teaching courses of management, entrepreneurship and venture capital management, and acting as a postgraduate instructor

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Period of services	Name of entity	Principal business activities	Major office and responsibilities
September 2008 to January 2013	EDP center of the School of Management of Xiamen University	Education institution	Director, responsible for non-degree advanced management teaching and training
January 2013 to May 2016	The School of Management of Xiamen University	Educational institution	Assistant to the President, assisting the President in the advanced management teaching and training of the School of Management and the student career development of the School of Management, Xiamen University
Since November 2015	ReCulture Renewable Energy Co. Ltd, a company listed on the national equities exchange and quotations (stock code: 833250) in the PRC	Provision of waste resource recycling solutions and research and development, production and sales of sets of proprietary technology equipment	Independent director, responsible for decision-making of the board
Since July 2016	Hongxin Entrepreneur Incubator Investment Group Co., Ltd (弘信創業 工場投資集團股份有 限公司)	Venture capital investment and venture capital investment consultancy	Director, responsible for decision-making of the board

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

General

Save as disclosed in this prospectus, none of the Directors:

- (i) held any other positions in the Company or other members of the Group as at the Latest Practicable Date;
- (ii) had any other relationship with any Directors, senior management or Substantial Shareholders or Controlling Shareholders of the Company as at the Latest Practicable Date; and
- (iii) held any other directorships in listed public companies in the three years prior to the Latest Practicable Date.

Save as disclosed above, to the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, there was no other matter with respect to the appointment of the Directors that needs to be brought to the attention of the Shareholders and there was no information relating to the Directors that is required to be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules as at the Latest Practicable Date.

SENIOR MANAGEMENT

Ms. Wang Lina (王麗娜) (“Ms. Wang”), aged 34, is the financial controller of the Group. Ms. Wang joined the Group in August 2012 as the financial controller of Zhangzhou Kaixing and is responsible for the assessment, management and control of corporate risks as well as the management of investments, financing and assets, in addition to improving the internal control of the Group. Ms. Wang has over ten years of experience in accounting and financial management. Ms. Wang served as an assistant accountant at Zhangzhou Longhai Minhui Industry and Trade Company Limited (漳州市龍海閩輝工貿有限公司) (“**Longhai Minhui**”) (which is principally engaged in wholesale and retail of fresh vegetable, fruits and furniture) from April 2006 to April 2007 where she was primarily responsible for accounting, bookkeeping and finance. From May 2007 to February 2010, she was appointed as an accountant of Longhai Minhui being responsible for financial accounting. From March 2010 to June 2012, she was promoted to be the finance manager of Longhai Minhui, where she was primarily responsible for financial and accounting management. Ms. Wang graduated from Hainan Vocational and Technical College (海南職業技術學院) in June 2006 majoring in accounting and received a bachelor’s degree in accounting from Zhangzhou Normal University in January 2013.

Mr. Zhao Jingyang (趙京陽) (“Mr. Zhao”), aged 37, is the sales manager of the Group. Mr. Zhao joined the Group in November 2010 as a sales manager of Fujian Fufang and is primarily responsible for the Group’s sales operations. Mr. Zhao currently serves as a supervisor of Zhangzhou Kaxing, Fujian Fufang and Zhangzhou Fukai.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

From March 2001 to August 2004, Mr. Zhao served respectively as an assembling technician and a lathe technician at Zhangzhou Weiliang Machinery Company Limited (漳州 煒曉機械有限公司) (“**Weiliang Machinery**”) (which is principally engaged in production of circular knitting machines and related parts and components) where he was responsible for assembling the machinery and related parts of circular knitting machines and processing cast products. He was later promoted and worked as the lathe team leader from September 2004 to February 2007, focusing on daily production of the lathe team. From March 2007 to September 2010, he was promoted to be the production supervisor of Weiliang Machinery and was responsible for daily production operations of Weiliang Machinery. Mr. Zhao graduated from the School of Continuing Education (成人教育學院) of Zhangzhou Institute of Technology in April 2011, majoring in mechanical design and manufacturing.

Each of the members of the senior management confirms that he/she has not held any directorship in any other companies the securities of which are listed on any securities markets in Hong Kong or overseas during the three years preceding the date of this prospectus.

COMPANY SECRETARY

Ms. Chan So Fong (陳素芳) (“Ms. Chan”), aged 44, was appointed as the company secretary of the Company on 29 September 2017. She is responsible for the corporate secretarial functions of the Group. Ms. Chan has been a consultant of Gladson Secretaries Limited since September 2017 and an independent non-executive director of Hao Bai International (Cayman) Limited, a company listed on the Stock Exchange (stock code: 8431) since January 2017.

Ms. Chan is and has been an associate of Hong Kong Institute of Certified Public Accountants since July 2001 and a fellow of The Association of Chartered Certified Accountants of the United Kingdom since November 2005. She was admitted to the degree of a Bachelor of Business Administration from The Chinese University of Hong Kong in December 1996.

After her graduation, Ms. Chan worked in various companies from October 1996 to August 2004, including Ernst & Young, in which she was mainly responsible for auditing and accounting. Ms. Chan then worked as an assistant financial controller and qualified accountant of Dawnrays Pharmaceutical (Holdings) Limited, a company listed on the Stock Exchange (stock code: 2348) from September 2004 to July 2005. She served as a company secretary and chief financial officer of Wealthmark International (Holdings) Limited (subsequently known as Bio-Dynamic Group Limited and Sino Distillery Group Limited and currently known as China Beidahuang Industry Group Holdings Limited), a company listed on the Stock Exchange (stock code: 39) from September 2005 to December 2009 and August 2005 to May 2013, respectively.

Ms. Chan does not act as an individual employee of the Company, but as an external service provider in respect of the appointment of Ms. Chan as the company secretary of the Company. Pursuant to paragraph F.1.1. of the Corporate Governance Code (“**CG Code**”), an issuer can engage an external service provider as its company secretary, provided that the

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

issuer should disclose the identity of a person with sufficient seniority at the issuer whom the external provider can contact. The Company has assigned Ms. Yuan, the executive Director, as the contact person with Ms. Chan. Information in relation to the performance, financial position and other major developments and affairs of the Group are speedily delivered to Ms. Chan through the contact person assigned. While the Company is well aware of the importance of the company secretary in supporting the Board on governance matters, the Company, after having considered Ms. Chan's experience, both the Company and Ms. Chan are of the view that there will be sufficient time, resources and supporting for fulfilment of the company secretary requirements of the Company.

In view of Ms. Chan's experience in company secretarial practice, accounting and financial management in listed companies, the Directors believe that Ms. Chan has the appropriate expertise for the purposes of Rule 5.14 of the GEM Listing Rules.

COMPLIANCE OFFICER

Ms. Yuan serves as the compliance officer of the Company for the purpose of the GEM Listing Rules.

REMUNERATION POLICY

The aggregate amounts of remuneration of the Directors for the financial years ended 31 December 2015 and 31 December 2016 and six months ended 30 June 2017 were approximately RMB519,000, RMB602,000 and RMB362,000 respectively. Details of the arrangement for remuneration are set out in note 13 to the Accountants' Report in Appendix I to this prospectus.

Under such arrangement and pursuant to the Directors' service contracts and letters of appointment referred to in the paragraph headed "Further Information about Directors, Management and Staff – 9. Directors – (a) Particulars of service contracts and letters of appointment" in Appendix V to this prospectus, the aggregate amount of Directors' fee and other emoluments payable to the Directors (excluding any discretionary bonuses) for the financial year ending 31 December 2017 is estimated to be approximately HK\$834,044.

The Group's principal policies concerning remuneration of Directors or staff of high calibre are determined based on the relevant Director's or staff's duties, responsibilities, experience and skills. The Directors and senior management receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses relating to the performance of the Group. The Company also reimburses them for expenses which are necessarily and reasonably incurred for providing services to the Company or executing their functions in relation to the operations. The Company regularly reviews and determines the remuneration and compensation packages of the Directors and senior management. The Company regularly provides discretionary bonuses to the senior management and key employees as incentive.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

The Company has conditionally adopted the Share Option Scheme on 11 December 2017 to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. Please see the paragraph headed “13. Share Option Scheme” in Appendix V to this prospectus for further details of the Share Option Scheme.

After Listing, the Remuneration Committee will review and determine the remuneration and compensation packages of the Directors and senior management with reference to salaries paid by comparable companies, time commitment and responsibilities of the Directors and senior management and performance of the Group.

During the Track Record Period, no remuneration was paid by the Company to, or received by, the Directors as an inducement to join or upon joining the Company.

EMPLOYEES

The Group recognises the importance of having a good relationship with the employees. The remuneration payable to the employees include salaries and allowances.

The Group has not experienced any significant problems with the recruitment and retention of experienced employees. In addition, the Group has not suffered from any material disruption of the normal business operations as a result of labour disputes or strikes.

BOARD COMMITTEES

The Audit Committee, Remuneration Committee and Nomination Committee of the Company were approved to be established by resolutions passed by the Board on 11 December 2017.

Each of the three committees has written terms of reference. The functions of the three committees are summarised as follows:

Audit Committee

The Company established an audit committee (“**Audit Committee**”) on 11 December 2017 by a resolution of the Board passed on 11 December 2017 with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules and the CG Code as set out in Appendix 15 to the GEM Listing Rules. The Audit Committee comprises three independent non-executive Directors: Dr. Mu, Mr. Simon Shum and Dr. Hu. Mr. Simon Shum was appointed to serve as the chairman of the Audit Committee. The primary duties of the Audit Committee are mainly to make recommendations to the Board on the appointment, reappointment and removal of the external auditor, review the financial reporting process and the financial controls, internal control and risk management systems of the Company.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Remuneration Committee

The Company established a remuneration committee (“**Remuneration Committee**”) on 11 December 2017 by a resolution of the Board passed on 11 December 2017 with written terms of reference in compliance with Rule 5.34 of the GEM Listing Rules and the CG Code. The Remuneration Committee comprises an executive Director: Ms. Yuan and two independent non-executive Directors: Dr. Mu and Mr. Simon Shum. Dr. Mu was appointed as the chairman of the Remuneration Committee. The primary functions of the Remuneration Committee are to make recommendations to the Board on the remuneration policy and the structure relating to all Directors and senior management of the Group, review the remuneration packages of the Directors and senior management of the Group and ensure none of the Directors determine their own remuneration.

Nomination Committee

The Company established a nomination committee (“**Nomination Committee**”) on 11 December 2017 by a resolution of the Board passed on 11 December 2017. The Nomination Committee comprises an executive Director: Ms. Yuan and two independent non-executive Directors: Mr. Simon Shum and Dr. Mu. Ms. Yuan was appointed as the chairlady of the Nomination Committee. The Nomination Committee has written terms of reference in compliance with the CG Code. The primary functions of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge, length of service and the breadth of expertise) of the Board and make recommendations to the Board on any proposed changes to the Board to complement the Company’s corporate strategy; identify individuals suitably qualified as potential Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; to assess the independence of the independent non-executive Directors; and make recommendations to the Board on the appointment or reappointment of Directors and succession planning of Directors, in particular that of the chairman and the chief executive.

COMPLIANCE WITH THE CG CODE

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability.

Pursuant to code provision A.2.1 of the CG Code set out in Appendix 15 of the GEM Listing Rules, the responsibilities between the chairman and the chief executive should be segregated and should not be performed by the same individual. Ms. Yuan currently holds both positions. The Board believes that vesting the roles of both chairman and chief executive in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairman of the Board and chief executive of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Save as disclosed above, the Company expects to comply with the CC Code as set out in Appendix 15 to the GEM Listing Rules. The Directors will review the corporate governance policies and compliance with the CG Code each financial year and comply with the “comply or explain” principle in the corporate governance report which will be included in the annual reports of the Company upon the Listing.

COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed the Sole Sponsor as the compliance adviser (the “**Compliance Adviser**”). The Compliance Adviser will provide the Company with guidance and advice as to compliance with the requirements under the GEM Listing Rules. Pursuant to Rule 6A.23 of the GEM Listing Rules, the Company must consult with and, if necessary, seek advice from the Compliance Adviser on a timely basis in the following circumstances:

- (i) before the publication of any regulatory announcement, circular, or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (iii) where the Company proposes to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where the business activities, development or results of the Group deviate from any forecast, estimate or other information in this prospectus; and
- (iv) where the Stock Exchange makes an inquiry of the Company under Rule 17.11 of the GEM Listing Rules.

The term of appointment of the Compliance Adviser shall commence on the Listing Date and ending on the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year commencing after the Listing Date, subject to early termination provided for under Rules 6A.26 and 6A.27 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of options that may be granted under the Share Option Scheme), based on the information available on the Latest Practicable Date, the following persons/entities will have an interest or a short position in the Shares or underlying Shares which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Capacity/Nature of interest	Number of Shares and % of interest in the Company as at the Latest Practicable Date	Immediately following the completion of the Share Offer and the Capitalisation Issue	
			Number of Shares held (Note 1)	% of interest
Azure Wealth	Beneficial owner (Note 2)	21,937,500 (52.746%)	369,219,084 (L)	36.922%
Ms. Zheng	Interest in controlled corporation (Note 2)	21,937,500 (52.746%)	369,219,084 (L)	36.922%
Mr. Ke Weibin (柯葳彬)	Interest of spouse (Note 3)	21,937,500 (52.746%)	369,219,084 (L)	36.922%
Sheen Vision	Beneficial owner (Note 4)	4,824,300 (11.599%)	81,195,379 (L)	8.119%
Mr. Chen	Interest in controlled corporation (Note 4)	4,824,300 (11.599%)	81,195,379 (L)	8.119%
Ms. Chen Qing (陳晴)	Interest of spouse (Note 5)	4,824,300 (11.599%)	81,195,379 (L)	8.119%

Notes:

- (1) The Letter “L” denotes the person’s long position (as defined under Part XV of the SFO) in the Shares.
- (2) Azure Wealth is owned as to 95% by Ms. Zheng and 5% by Ms. Yuan. Accordingly, Ms. Zheng is deemed to be interested in 369,219,084 Shares held by Azure Wealth by virtue of the SFO.
- (3) Mr. Ke Weibin (柯葳彬) is the spouse of Ms. Zheng and is therefore deemed to be interested in all the Shares held/owned by Ms. Zheng through Azure Wealth by virtue of the SFO.

SUBSTANTIAL SHAREHOLDERS

- (4) Sheen Vision is owned as to 100% by Mr. Chen. Accordingly, Mr. Chen is deemed to be interested in 81,195,379 Shares held by Sheen Vision by virtue of the SFO.

- (5) Ms. Chen Qing (陳晴) is the spouse of Mr. Chen and is therefore deemed to be interested in all the Shares held/owned by Mr. Chen through Sheen Vision by virtue of the SFO.

Save as disclosed above, the Directors are not aware of any person who will, immediately following the Share Offer and the Capitalisation Issue (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of options that may be granted under the Share Option Scheme), have an interest or short position in the Shares or underlying Shares which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OVERVIEW

Immediately after completion of the Share Offer and the Capitalisation Issue (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), Azure Wealth will hold/be interested in 369,219,084 Shares, representing approximately 36.922% of the total issued share capital of the Company. Azure Wealth is an investment holding company and is owned as to 95% by Ms. Zheng who is a businesswoman and 5% by Ms. Yuan. Both Ms. Zheng and Ms. Yuan are directors of Azure Wealth. As such, Azure Wealth, Ms. Zheng and Ms. Yuan will be the Controlling Shareholders. For more details of the biographical information and experience of Ms. Yuan, please see the section headed “Directors, Senior Management and Employees — Executive Directors” in this prospectus.

Ms. Zheng invested in the Group as a passive investor and due to her personal and family commitments, she is unable to devote sufficient time in the management and operation of the Group. Ms. Zheng and Ms. Yuan have been business partners since 2011 and Ms. Yuan acts as the representative of the Controlling Shareholders to participate in the management and daily operations of the Group. Since Ms. Zheng has not been involved in the Group’s management and operation, she has decided not to become a Director, chairlady or senior management of the Company after the Listing.

INTEREST OF CONTROLLING SHAREHOLDERS IN OTHER BUSINESS

Other Business of the Controlling Shareholders

As at the Latest Practicable Date, apart from her interest in the Group held through Azure Wealth, Ms. Zheng is also interested in the following entities (the “**Excluded Entities**”):

- (i) 上海菌緯網絡科技有限公司 (Shanghai Junwei Network Technology Co., Ltd.*) which is involved in technology development in network technology and information technology, technology consultancy, technology services and technology transfer business and of which Ms. Zheng is a shareholder holding 20% equity interest and the supervisor; 上海菌緯網絡科技有限公司 currently does not have any business operation; and
- (ii) 漳州市百佳園林綠化有限公司 (Zhangzhou Baijia Landscaping and Horticulture Co., Ltd.*) which is involved in landscape projects and consultancy, sale of trees, flowers and plants and of which Ms. Zheng is a shareholder holding 10% equity interest and the supervisor; 漳州市百佳園林綠化有限公司 currently does not have any business operation.

None of the Excluded Entities has any historical transactions with the Group during the Track Record Period. None of the Excluded Entities has shared any resources with the Group during the Track Record Period.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Considering that the business of the Group is distinctly different from the businesses carried out by the Excluded Entities, the Directors are of the view that the Excluded Entities do not compete, and are unlikely to compete, either directly or indirectly, with the business of the Group. Each of the Controlling Shareholders and the Directors has confirmed that he/she/it does not have and none of his/her/its respective close associates has interest in any business other than the business of the Group which is, whether directly or indirectly, in competition with the business of the Group.

To safeguard the Group from any potential competition, each of the Controlling Shareholders has jointly and severally and irrevocably entered into the Deed of Non-competition in favour of the Group, pursuant to which the Controlling Shareholders have undertaken to the Group that they would not, and would procure their respective close associates (except for any members of the Group) would not, directly or indirectly carry on, participate or be interested or engaged in or acquire or hold any business which is or may be in competition with the Group's business. For details, please refer to the paragraph headed "Non-competition Undertaking" of this section below.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Management independence

Although the Controlling Shareholders will maintain controlling interests in the Company upon completion of the Share Offer, the day-to-day management and operations of the Group will be the responsibility of all the executive Directors and senior management of the Company. The Board has six Directors comprising three executive Directors and three independent non-executive Directors. Although one of the executive Directors is one of the Controlling Shareholders (i.e. Ms. Yuan), none of the other Directors, who form the majority of the Board, is a Controlling Shareholder and they will be in a position to fully discharge their duties to the Shareholders as a whole after the Listing without reference to the Controlling Shareholders. Further, the independent non-executive Directors can bring independent judgment to the decision-making process of the Board.

Each of the Directors is aware of his or her fiduciary duties as a Director which require, among other things, that he/she acts for the benefit of and in the best interests of the Company and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between the Group and the Directors or their respective close associates, the interested Director(s) will abstain from voting at the relevant board meetings of the Company in respect of such transactions and will not be counted in the quorum. In addition, the Company has an independent senior management team to carry out the business decisions of the Group independently.

Having considered the above factors, the Directors are satisfied that they are able to perform their roles in the Company independently, and the Directors are of the view that the Company is capable of managing the Group's business independently from the Controlling Shareholders and their respective close associates following the Listing.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Operational independence

The Company (through the subsidiaries) holds or enjoys the benefit of all relevant licences necessary to carry out the businesses, and has sufficient capital, equipment and employees to operate the business independently from the Controlling Shareholders and their respective close associates. The Company's organisational structure is made up of individual departments, each with specific areas of responsibilities. The Company has also established a set of internal controls to facilitate the effective operation of the business.

Based on the above, the Directors are satisfied that the Group will continue to operate independently.

Financial independence

The Group has an independent internal control, accounting and financial management system and makes financial decisions according to its own business needs and neither the Controlling Shareholders nor their close associates may intervene with its use of funds. The Group has established an independent finance department responsible for discharging the treasure function. The Directors confirm that all financial assistance, including amounts due to, loans or guarantee to loans provided by the Controlling Shareholders and their close associates to the Group were or will be settled in full or released before Listing. The Directors believe that the Group is capable of obtaining financing from independent third parties, if necessary, without reliance on the Controlling Shareholders. The Group has adequate internal resources and credit profile to support its daily operations.

Based on the above, the Company considers there is no financial dependence on the Controlling Shareholders and their close associates.

NON-COMPETITION UNDERTAKING

To better safeguard the Group from any potential competition, each of the Controlling Shareholders (each a "**Covenantor**" and collectively, the "**Covenantors**") has entered into the Deed of Non-Competition in favour of the Company, under which each of the Covenantors have, among other things, irrevocably and unconditionally, jointly and severally, warrants and undertakes to the Company (for itself and as trustee for each of its subsidiaries) that at any time during the Restricted Period (as defined below):

- (a) she/it will not, and will procure that her/its close associates (which for the purpose of the Deed of Non-Competition, shall not include any member of the Group) not to, except through any member of the Group, directly or indirectly (whether, on her/its own account or with each other or in conjunction with or on behalf of any person or company, or as principal or agent, through any body corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise), carry on, engage in, invest or be interested or otherwise involved in any business that is similar to or in competition with or is likely to be in competition with any business and carried out by the Group or any member of the Group from time to time ("**Restricted Business**");

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (b) when any Covenantor and/or any of her/its close associates is offered or become aware of any new project or business investment or commercial opportunity (“**New Business Opportunity**”) that directly or indirectly competes, or may lead to competition with the Restricted Business, she/it (i) shall as soon as practicable notify the Company of such New Business Opportunity in writing, refer the same to the Company for consideration and provide such information as may be reasonably required by the Company to make an informed assessment of such New Business Opportunity; and (ii) shall not, and shall procure that her/its close associates shall not, invest or participate in any such New Business Opportunity unless the Company declines to accept or fails to proceed with the New Business Opportunity and the principal terms of which she/it and/or her/its close associates invest or participate in are no more favourable than those made available to the Company;
- (c) she/it will not, and will procure that her/its close associates shall not either on her/its own account or for any person, solicit business from any person who at any time during the Restricted Period has dealt with the Company or any other company in the Group or who immediately prior to the expiry of the Restricted Period is in the process of negotiating with the Company or any other company in the Group in relation to the Restricted Business; and
- (d) she/it will not, and will procure that her/its close associates shall not directly or indirectly, employ or solicit for employment any person who has during the Restricted Period been a director, officer, manager, agent or servant of or consultant to any company in the Group and who by reason of such employment is or may be likely to be in possession of any confidential information in relation to the Group.

The independent non-executive Directors will review the New Business Opportunity and decide whether to invest in the New Business Opportunity. If the Group has not given written notice of its desire to invest in such New Business Opportunity or has given written notice denying the New Business Opportunity within thirty (30) business days (“**30-day Offering Period**”) from the Company’s of receipt of notice, the Controlling Shareholders and/or her/its close associates shall be permitted to invest in or participate in the New Business Opportunity on her/its own accord. With respect to the 30-day Offering Period, the Directors consider that such period is adequate for the Company to assess any New Business Opportunity. In the event that the Company requires additional time to assess the New Business Opportunity, the Company may give a written notice to the Controlling Shareholders during the 30-day Offering Period and the Controlling Shareholders agree to extend the period to a maximum of 60 business days.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

The restrictions which each of the Covenantors has agreed to undertake pursuant to the non-competition undertaking will not apply to such Covenantors in the circumstances where she/it and/or her/its close associates has the holding of or interests in shares or other securities in any company which conducts or is engaged in any Restricted Business, provided that, in the case of such shares or securities, they are listed on a recognised stock exchange as specified under the SFO and either:

- (a) the relevant Restricted Business (and assets relating thereto) accounts for less than 10% of the relevant consolidated turnover or consolidated assets of the company in question, as shown in the latest audited accounts of the company in question; or
- (b) the total number of the shares held by any of the Convenantors and her/its close associates or in which they are together interested does not amount to more than 5% of the issued shares of that class of the company in question, provided that any of the Convenantors and her/its close associates, whether acting singly or jointly, are not entitled to appoint a majority of the directors of that company and that at all times there is a holder of such shares holding (together, where appropriate, with its close associates) a larger percentage of the shares in question than the Convenantors and her/its close associates together hold.

The non-competition undertaking will take effect (“**Restricted Period**”) from the date on which dealings in the Shares first commence on GEM and will cease to have any effect upon the earliest of the date on which (i) such Covenantor and her/its close associates (whether individually or taken as a whole), being a Controlling Shareholder, individually or collectively with any other Covenantor(s) ceases to be interested, directly or indirectly, in 30% or more of the issued Shares, or otherwise ceased to be regarded as controlling shareholder (as defined under the GEM Listing Rules from time to time) of the Company; or (ii) the Shares cease to be listed and traded on GEM or other recognised stock exchange.

CORPORATE GOVERNANCE MEASURES

The Company will adopt the following measures to strengthen its corporate governance practice and to safeguard the interests of the Shareholders:

- (a) the Board operates in accordance with the Articles which require the interested Director not to vote (or be counted in the quorum,) on any resolution of the Board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested;
- (b) the Controlling Shareholders undertake to provide all information requested by the Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the Deed of Non-Competition;
- (c) the independent non-executive Directors will review and will disclose decisions with basis, on an annual basis, the compliance with the non-competition undertaking by the Controlling Shareholders;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (d) the Company will disclose decisions with basis on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the non-competition undertaking of the Controlling Shareholders in the annual reports of the Company;
- (e) the Controlling Shareholders will make an annual declaration on compliance with the Deed of Non-Competition in the annual report of the Company;
- (f) the Company has appointed the Sole Sponsor as its compliance adviser to advise on compliance matters in accordance with the GEM Listing Rules;
- (g) the independent non-executive Directors will be responsible for deciding whether or not to allow the Controlling Shareholders and/or her/its close associates to involve or participate in a Restricted Business and if so, any condition to be imposed;
- (h) pursuant to the CG Code set out in Appendix 15 of the GEM Listing Rules, the Directors, including the independent non-executive Directors, will be able to seek independent professional advice from external parties in appropriate circumstances at the cost of the Company; and
- (i) in the event of potential conflict of interest at the Shareholders' level, and subject to compliance with all applicable rules and regulations and the constitutional documents of the Company, the relevant Shareholder will abstain from voting on such matters.

The Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Controlling Shareholders and the Group and to protect the interests of the Shareholders, in particular, the minority Shareholders.

SHARE CAPITAL

The authorised and issued share capital of the Company before and following the completion of the Capitalisation Issue and Share Offer is as follows:

HK\$

Authorised share capital:

20,000,000,000	Shares	200,000,000
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Shares in issue or to be issued, fully paid or credited as fully paid:

41,591,160	Shares in issue	415,911.60
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658,408,840	Shares to be issued pursuant to Capitalisation Issue	6,584,088.40
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300,000,000	new Shares to be issued pursuant to the Share Offer	3,000,000
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<u>1,000,000,000</u>	<u>Total</u>	<u>10,000,000</u>
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ASSUMPTIONS

The above table assumes that the Share Offer becomes unconditional and the issue of Shares pursuant to the Share Offer and the Capitalisation Issue are made. It takes no account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by the Company pursuant to the general mandates granted to the Directors to issue or repurchase Shares as described below.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of the Listing and at all times thereafter, the Company must maintain the “minimum prescribed percentage” of 25% of the issued share capital of the Company in the hands of the public (as defined in the GEM Listing Rules).

RANKING

The Offer Shares will be ordinary shares in the share capital of the Company and will rank *pari passu* in all respects with all Shares in issue or to be issued as mentioned in this prospectus and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus save for the entitlement under the Capitalisation Issue.

SHARE CAPITAL

The circumstances under which general meeting and class meeting are required are provided in the Articles, details of which are set out in paragraph headed “2. Articles of Association – (d) Meetings of Member” in Appendix IV to this prospectus.

SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in the paragraph headed “13. Share Option Scheme” in Appendix V to this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Conditional on the conditions as stated in the section headed “Structure and Conditions of the Share Offer” being fulfilled, the Directors have been granted a general unconditional mandate to allot, issue and deal with Shares and to make or grant offers, agreements or options which might require such Shares to be allotted and issued or dealt with subject to the requirement that the aggregate number of issued Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued (otherwise than pursuant to a rights issue, or scrip dividend scheme or similar arrangements, or a specific authority granted by the Shareholders) shall not exceed:

- (a) 20% of the aggregate number of issued Shares immediately following the completion of the Share Offer and the Capitalisation Issue; and
- (b) the aggregate number of issued Shares repurchased pursuant to the authority granted to the Directors as referred to in the paragraph headed “General Mandate to Repurchase Shares” below.

The general mandate to issue Shares will remain in effect until:

- (a) the conclusion of the Company’s next annual general meeting;
- (b) the expiration of the period within which the Company’s next annual general meeting is required to be held by any applicable laws of the Cayman Islands or the Articles; or
- (c) it is varied or revoked by an ordinary resolution of the Shareholders in general meeting, whichever is the earliest.

For further details of this general mandate, please refer to the paragraph headed “Statutory and General Information – Further Information about the Company and its Subsidiaries – 3. Resolutions in writing of the Shareholders passed on 11 December 2017” in Appendix V to this prospectus.

SHARE CAPITAL

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the conditions set forth in the section headed “Structure and Conditions of the Share Offer” in this prospectus being fulfilled, the Directors have been granted a general mandate to exercise all the powers of the Company to purchase on the Stock Exchange or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the aggregate number of issued Shares immediately following completion of the Share Offer and the Capitalisation Issue.

The above repurchase mandate only relates to repurchases made on GEM, or on any other stock exchange on which the Shares are listed and which is recognised by the SFC and the Stock Exchange for this purpose, and such repurchases are made in accordance with all applicable laws and the requirements of the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the paragraph headed “Statutory and General Information – Further Information about the Company and its Subsidiaries – 6. Repurchase by the Company of its own securities” in Appendix V to this prospectus.

The general mandate to repurchase Shares will remain in effect until the earliest of:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required the Articles or any other applicable laws of the Cayman Islands to be held; or
- (c) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting.

For further details of this general mandate, please refer to the paragraph headed “Statutory and General Information – Further Information about the Company and its Subsidiaries – 6. Repurchase by the Company of its own securities” in Appendix V to this prospectus.


FINANCIAL INFORMATION

The following discussion and analysis should be read in conjunction with the Group's consolidated financial statements included in "Appendix I – Accountants' Report of the Group" together with the accompanying notes and selected historical financial information and operating data included elsewhere in this prospectus. The Accountants' Report has been prepared in accordance with IFRSs.

The Group's historical results do not necessarily indicate results expected for any future periods. The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by the Group in light of the Group's experience and perception of historical trends, current conditions and expected future developments, as well as other factors that the Company believes are appropriate under the circumstances. However, whether the actual outcome and developments will meet the Group's expectations and predictions depends on a number of risks and uncertainties over which the Group does not have control. See sections headed "Risk Factors" and "Forward-looking Statements" of this prospectus.

OVERVIEW

The Group is one of the top ten manufacturers of circular knitting machines in the PRC engaging in the research and development, manufacturing and sale of circular knitting machines. According to the Frost & Sullivan Report, the circular knitting machinery market in China is fragmented and the Group ranked third amongst all domestic circular knitting machinery manufacturers and seventh amongst all domestic, foreign owned and sino-foreign joint venture manufacturers in the PRC, based on the sales value of circular knitting machines in 2016. In terms of domestic and export sales value of circular knitting machinery manufactured in China in 2016, the Group contributed a market share of 2.7% in the PRC. Further, the Group continually invests much effort into technological innovation through its own research and development department and currently owns one invention patent and various utility model patents in relation to its circular knitting machines.

The Group's products are sold either directly by the Group to textiles manufacturers in both the domestic market and the overseas market under one of the Group's own brands, namely “”, “**FUTEX 福紡**” and “**FUFANG 福紡**” or indirectly through trading companies to overseas markets. During the Track Record Period, the Group's revenue under the Group's own brands amounted to approximately RMB61.1 million, RMB65.7 million, RMB40.1 million (unaudited) and RMB52.4 million for the two years ended 31 December 2015 and 2016 and the six months ended 30 June 2016 and 2017, representing an increase of approximately 7.6% and 30.8% in the corresponding year/period and a satisfactory growth in the recognition of the Group's own brands.

FINANCIAL INFORMATION

As mentioned in the section headed “Industry Overview” of this prospectus, the overseas circular knitting machinery market has a better business prospect than the domestic market. To capitalise the business opportunity afforded by such industry trend, during the Track Record Period, the Group sold its products indirectly through trading companies to overseas markets such as India, Bangladesh, Thailand, South Korea, Turkey and Vietnam and directly to India, Bangladesh, Thailand, South Korea, Turkey and Egypt. The Group’s revenue derived from overseas sales increased from approximately RMB19.6 million (unaudited) for the six months ended 30 June 2016 to approximately RMB30.2 million for the six months ended 30 June 2017 and from RMB16.3 million for the year ended 31 December 2015 to approximately RMB36.5 million for the year ended 31 December 2016, representing an increase of approximately 54.6% and 123.2% respectively. Based on the unaudited management accounts for the ten months ended 31 October 2016 and 2017, the Group’s revenue contribution from overseas sales was approximately RMB28.9 million and RMB55.4 million, respectively, which represents an increase of approximately 92.0%. As such, the Directors expects the revenue contribution from overseas sales will continue to increase going forward.

In order to further develop the Group’s overseas business and enhance the Group’s brand recognition in overseas countries, the Group established an indirect wholly-owned subsidiary in the PRC, namely Zhangzhou Fukai, to engage in the direct sales of its products to overseas markets under its own brands. The Group plans to further develop the Group’s brand recognition and expand its customer base by setting up local sales offices in overseas countries with a fast-growing circular knitting machinery market such as India and Bangladesh, maintaining and establishing long-term strategic business relationships with trading companies, exploring new sales platforms and approaching new customers.

The Group is dedicated to developing quality and innovative products to meet evolving market demand. In order to maintain its competitiveness within the circular knitting machinery industry, the Group aims to steadily increase its investment in and further strengthens its research and development efforts. According to the Frost & Sullivan Report, in 2016, the investment spent on research and development by the Chinese circular knitting machinery industry was around 3.1% of sales value. For the year ended 31 December 2016, the Group’s expenditure on research and development was 5.3% of its total revenue, which was above the average domestic circular knitting machinery manufacturer, and the Group has since then been strengthening its research and development capabilities. With the Group’s research and development and product design capabilities, the Group currently owns 15 utility model patents and one invention patent in total, of which one utility model patent and one invention patent relates to its Double Loop Transfer Rib Computerised Jacquard Knitting Machine, which is one of the Group’s most technologically advanced products, and has a significant sales growth in 2016. The Group is also currently apply for six utility model patents. For further details of the Group’s registered patents, please refer to the section headed “Statutory and General Information” in Appendix V to this prospectus.

FINANCIAL INFORMATION

BASIS OF PRESENTATION

Pursuant to the Group Reorganisation as more fully explained in the section headed “History, Reorganisation and Group Structure – The Reorganisation” of this prospectus, the Company became the holding company of the companies now comprising the Group on 9 November 2016. As the Group Reorganisation involved only the insertion of new holding companies at the top of the existing Group and did not result in any change in economic substance, the financial information of the Group for the Track Record Period has been prepared as a continuation of the existing Group using the principles of merger accounting.

The consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows are prepared as if the current group structure of the Group had been in existence throughout the Track Record Period. The consolidated statements of financial position as at 31 December 2015 and 2016 and 30 June 2017 present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates.

MAJOR FACTORS AFFECTING THE GROUP’S RESULTS OF OPERATIONS

The Group’s results of operations and financial conditions have been and will continue to be affected by a number of external factors, including the following:

Market Competition

According to the Frost & Sullivan Report, in 2016, the top ten circular knitting machinery manufacturers in the PRC accounted for approximately 48.0% in aggregate of the market share in terms of sales value and the Group is one of the top ten players with a market share of approximately 2.7%. The Group is ranked third among all domestic manufacturers and seventh among all domestic, foreign and sino-foreign joint venture manufacturers in the PRC in terms of sales value in 2016. In order to maintain its competitiveness within the circular knitting machinery industry, the Group aims to steadily increase its investment in and further strengthens its research and development efforts. The gross profit margin of the Group were approximately 30.9%, 35.4% and 35.9% for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively. The net profit margin of the Group were approximately 15.5%, 11.4% and 15.6% for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively.

The circular knitting machinery market in the PRC is fragmented with both domestic and foreign manufacturers. The Group competes with other manufacturers of circular knitting machines with operations in the PRC in aspects such as pricing, product quality and research and development capabilities. One of the barriers of entry to the circular knitting machinery industry is research and development capabilities. The Directors believe that the Group’s competitive strengths in research and development enables the Group to maintain its competitiveness in the circular knitting machine industry.

FINANCIAL INFORMATION

Composition of the Group's Sales

The Group's circular knitting machines can be classified into (i) single circular knitting machines; and (ii) double circular knitting machines. Depending on the design, size, capability, functionality and application of the Group's products, their cost bases, selling prices and gross profit margins vary. During the Track Record Period, the gross profit margin of the Group ranged from approximately 30.9% to 35.9%. For the year ended 31 December 2015, the gross profit margin of single circular knitting machines and double circular knitting machines were approximately 28.5% and 32.7% respectively. For the year ended 31 December 2016, the gross profit margin of single circular knitting machines and double circular knitting machines were approximately 36.3% and 36.8% respectively. For the six months ended 30 June 2017 the gross profit margin of single circular knitting machines and double circular knitting machines were approximately 34.0% and 36.9%, respectively. The fluctuation in the Group's overall gross profit margin was principally attributable to the change in gross profit margin of its product segment as well as the change in demand for products under each of its product segments, and hence the revenue derived from each product segment. Such a change in demand may be driven by a number of factors, including but not limited to customers' preferences, customer base, market conditions and industry environment. The Group's results of operations may vary significantly from time to time as a result of changes in the composition of its sales in the future as and when the gross profit margins of the Group's product segments are different.

For further details regarding the composition of the Group's product portfolio, please refer to the section "Business – Products".

Raw Materials

The Group's financial condition and results of operations are affected by the cost of raw materials for the production of its products. During the Track Record Period, the total cost of raw materials accounted for 90.0%, 91.0% and 91.3% of the Group's total cost of goods sold for the years ended 31 December 2015 and 2016, and the six months ended 30 June 2017, respectively. The main raw materials of the Group comprises the Core, and metallic parts and components, which are primarily made of steel. The cost of the raw materials of the Group's products is affected by the fluctuations in the price of steel. During the Track Record Period, the increase of the Group's cost of goods sold was generally in line with the increase in the Group's revenue.

The Group has not entered into any long-term agreements with any of its raw materials suppliers, nor has the Group entered into any hedging arrangements or transactions to reduce its exposure to fluctuations in their costs. If the Group experiences an interruption, reduction or termination in the supply of raw materials from its suppliers, it may not be able to obtain the supply of raw materials needed for the production of its products. Any increase in the prices of the Group's major raw materials could result in additional costs which may lead to reduction of the Group's gross profit margin to the extent that the Group is unable to pass these increased costs to its customers. As a result, the Group's results of operations may vary from time to time and may fluctuate significantly in the future.

FINANCIAL INFORMATION

Research and Development

The Group strives to raise its research and development capabilities in order to respond to and anticipate changes in the market, which will enhance the Group's competitiveness. The Group's research and development department is responsible for the development of new products and technology and the improvement of existing production technologies. While the Group strives to focus its research and development efforts on outcomes that will have a direct positive impact on its business, there is no assurance that the Group's research and development efforts will be successful or directly applicable to improve its products, or that its new technology and products will be accepted in the market. Additionally, the Group's ability to introduce newly developed products to the market depends on factors beyond its control, including prevailing economic conditions, the changing appetites of its customers, ability of its customers to obtain financing for new and potentially more costly products, and changes in industry standards for circular knitting machines.

Tax

Zhangzhou Kaixing, the Group's major operating subsidiary, is recognised as a High and New Technology Enterprise under the Law of PRC on Enterprise Income Tax and is entitled to the preferential EIT rate of 15% for three years commencing from the year ended 31 December 2012 and further extended for three more years commencing from the year ended 31 December 2015. The Group cannot assure that Zhangzhou Kaixing will continue to qualify as a high-technology enterprise or that it will always enjoy preferential tax treatment as a high-technology enterprise or that the laws and regulations regarding the preferential tax treatment of high-technology enterprise will not change. Any change in the preferential tax treatment that the Group currently enjoys will have a negative impact on its financial condition, business and results of operations.

Sales Volume and Selling Price of the Group's Products

The Group's revenue is primarily affected by the sales volume and selling price of the products sold. The sales volume of the Group's products during the Track Record Period was 539 units, 593 units and 390 units for the years ended 31 December 2015 and 2016, and the six months ended 30 June 2017 respectively. The sales volume of the Group's products has increased during the year ended 31 December 2015 and 2016 mainly because of the increased demand for its products.

During the Track Record Period, the selling price range of single circular knitting machines was approximately RMB68,376.1 to RMB213,675.2, whereas the selling price range of double circular knitting machines was approximately RMB36,752.1 to RMB480,341.9. During the years ended 31 December 2015 and 2016, and the six months ended 30 June 2017, the average selling price of single circular knitting machine was approximately RMB132,599.3, RMB126,305.7 and RMB138,642.6 respectively, whereas the average selling price of double circular knitting machine was approximately RMB135,725.5, RMB165,020.0 and RMB170,207.1 respectively. For the sales volume and the average selling price of the

FINANCIAL INFORMATION

Group's circular knitting machines per unit sold during the Track Record Period, please refer to the paragraph headed "Principal Components of Consolidated Statements of Profit or Loss – Revenue – Average Selling Price and Sales Volume" of this section for more details. Any change in sales volume and selling price of the products sold will affect the revenue and the financial results of the Group.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

The Group has identified certain accounting policies that are significant to the preparation of its consolidated financial statements. The Group has also made certain accounting judgements and assumptions in the process of applying its accounting policies. When reviewing the Group's consolidated financial statements, you should consider (i) the Group's selection of critical accounting policies; (ii) the judgement and assumptions affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. The Group sets forth below those accounting policies which it believes are of significant importance to it or involve the most critical accounting judgement and estimates used in the preparation of its financial statements. The Group's significant accounting policies, judgement and estimates, which are important for an understanding of its financial condition and results of operations, are set forth in Note 3 and Note 4 of the Accountants' Report in Appendix I to this prospectus.

Consolidation

The Group's financial information include the financial statements of the Company and its subsidiaries made up to 31 December/30 June. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

FINANCIAL INFORMATION

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Group's financial information is presented in RMB, which is the Company's functional and presentation currency.

Leases

Operating leases – as lessor

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Revenue recognition

The Group's revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue from the sales of goods is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

The Group's interest income is recognised on a time-proportion basis using the effective interest method and its rental income is recognised on a straight-line basis over the lease term.

Inventories

The Group's inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Trade and other receivables

The Group's trade receivables are amounts due from its customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

Property, plant and equipment

The Group's property, plant and equipment including buildings, held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Research and development expenditure

The Group's expenditure on research activities is recognised as an expense in the period in which it is incurred.

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

FINANCIAL INFORMATION

Recognition and derecognition of financial instruments

The Group's financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Group's financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Financial assets

The Group's financial assets are recognised and derecognised on a trade date basis where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial assets within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Impairment of non-financial assets

The carrying amounts of non-financial assets of the Group are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

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Financial liabilities and equity instruments

The Group's financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Borrowings

The Group's borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

The Group's borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Trade and other payables

The Group's trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Impairment of financial assets

At the end of each reporting period, the Group assesses whether its financial assets are impaired, based on objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the group of financial assets have been affected.

Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

FINANCIAL INFORMATION

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

Borrowing costs

The Group's borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial information. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial information when material.

FINANCIAL INFORMATION

SUMMARY OF RESULTS OF OPERATIONS

The following table sets forth certain income and expense items from the Group's consolidated statements of profit or loss and such items as a percentage of the Group's revenue for the years/periods indicated:

	Year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)							
Revenue	73,162	100.0	94,302	100.0	56,811	100.0	63,185	100
Cost of goods sold	(50,576)	69.1	(60,882)	64.6	(36,286)	63.9	(40,511)	64.1
Gross profit	22,586	30.9	33,420	35.4	20,525	36.1	22,674	35.9
Other income	806	1.1	813	0.9	303	0.5	417	0.7
Selling expenses	(1,711)	2.3	(2,111)	2.2	(1,115)	2.0	(1,038)	1.6
Administrative expenses	(5,386)	7.4	(8,972)	9.5	(4,238)	7.5	(5,231)	8.3
Listing expenses	(150)	0.2	(6,205)	6.6	(1,372)	2.4	(2,870)	4.5
Profit from operations	16,145	22.1	16,945	18.0	14,103	24.8	13,952	22.1
Finance costs	(1,788)	2.4	(2,287)	2.4	(984)	1.7	(1,211)	1.9
Profit before tax	14,357	19.6	14,658	15.5	13,119	23.1	12,741	20.2
Income tax expense	(3,020)	4.1	(3,861)	4.1	(2,754)	4.8	(2,875)	4.6
Profit for the year/period attributed to owners of the Company	11,337	15.5	10,797	11.4	10,365	18.2	9,866	15.6

RECENT DEVELOPMENTS

In view of the shifting of the production base of textiles manufacturer from the PRC to Southeast Asian countries and other Asian countries as a result of the increasing labour costs in the PRC, the Group plans to expand the geographical coverage of its products and adopt a more proactive approach in the expansion of its overseas business. Instead of promoting its products under its own brands overseas indirectly solely through trading companies, the Group established an indirect wholly-owned subsidiary, namely Zhangzhou Fukai, in October 2016 to directly engage in sales to overseas customers. Since the commencement of its business operations, Zhangzhou Fukai has successfully exported the Group's products to India, Bangladesh, Thailand, South Korea, Turkey and Egypt. Save for promoting the Group's products under its own brands directly instead of solely through trading companies, the Group's business model, revenue structure and cost structure basically remain unchanged subsequent to the commencement of business of Zhangzhou Fukai which took place in January 2017 and two key personnel responsible for overseas sales of circular knitting machines have left Longhuai Import & Export and joined Zhangzhou Fukai.

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Based on the unaudited financial information of the Group, which were reviewed by the Reporting Accountant under Hong Kong Standards on Review Engagements 2410, the Group's revenue and gross profit margin for the ten months ended 31 October 2017 were approximately RMB106.6 million and 36.2% and the Group's revenue and gross profit margin for the ten months ended 31 October 2016 were approximately RMB82.4 million and 35.7%, respectively, representing a substantial growth in revenue and a relatively stable gross profit margin for the period.

PRINCIPAL COMPONENTS OF CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Revenue

During the Track Record Period, the Group derived its revenue primarily from the manufacturing and sale of circular knitting machines. The Group's revenue for the years ended 31 December 2015 and 2016, and the six months ended 30 June 2016 and 2017 was RMB73.2 million, RMB94.3 million, RMB56.8 million (unaudited) and RMB63.2 million, respectively.

By product

The following table sets forth the breakdown of the Group's revenue by product segment for the years/periods indicated:

	Year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Single circular								
knitting machine	28,509	39.0	32,208	34.2	16,578	29.2	16,498	26.1
Double circular								
knitting machine	43,975	60.1	55,777	59.1	34,663	61.0	46,126	73.0
Others	678	0.9	6,317	6.7	5,570	9.8	561	0.9
Total revenue	<u>73,162</u>	<u>100.0</u>	<u>94,302</u>	<u>100.0</u>	<u>56,811</u>	<u>100.0</u>	<u>63,185</u>	<u>100.0</u>

The revenue contributed by the sales of double circular knitting machines amounted to 60.1%, 59.1%, 61.0% and 73.0% for the two years ended 31 December 2015 and 2016 and the six months ended 30 June 2016 and 2017, respectively. The revenue contributed by the sales of single circular knitting machines amounted to 39.0%, 34.2%, 29.2% and 26.1% for the two years ended 31 December 2015 and 2016 and the six months ended 30 June 2016 and 2017, respectively.

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The sale of single circular knitting machines for the six months ended 30 June 2016 and 2017 was relatively stable, and was approximately RMB16.6 million (unaudited) and approximately RMB16.5 million respectively. The sale of single circular knitting machines increased by approximately 13.0% from approximately RMB28.5 million for the year ended 31 December 2015 to approximately RMB32.2 million for the year ended 31 December 2016 primarily due to sales increase in both the domestic and overseas markets as a result of the increase in marketing effort by spending more effort on local and international industry exhibitions and reaching out to customers and the increase in demand from textile manufacturers in Southeast Asian countries and other Asian countries.

The sale of double circular knitting machines increased approximately 33.1% from approximately RMB34.7 million (unaudited) for the six months ended 30 June 2016 to approximately RMB46.1 million for the six months ended 30 June 2017. The sales of double circular knitting machine increased by approximately 26.8% from approximately RMB44.0 million for the year ended 31 December 2015 to approximately RMB55.8 million for the year ended 31 December 2016 primarily due to (i) the significant increase in overseas sales; and (ii) the significant increase in the sales in one of the most advanced double circular knitting machines of the Group (i.e. Double Loop Transfer Rib Computerised Jacquard Knitting Machines), which has a higher average selling price, in the year ended 31 December 2016.

The revenue segment “Others” includes parts and consumables which are used for the manufacture and maintenance of circular knitting machines. The revenue of “Others” decreased from approximately RMB5.6 million (unaudited) for the six months ended 30 June 2016 to approximately RMB561,000 for the six months ended 30 June 2017. The revenue contributed by the sales of “Others” amounted to approximately 0.9% and 6.7% for the two years ended 31 December 2015 and 2016 respectively. The revenue of “Others” increased by approximately 831.7% from approximately RMB0.7 million for the year ended 31 December 2015 to approximately RMB6.3 million for the year ended 31 December 2016 primarily due to the sale of parts of approximately RMB4.0 million to other circular knitting machine manufacturers, which, the Directors expect, is non-recurring.

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Average selling price and sales volume

The Group generally adopts a cost-plus pricing policy in setting the selling price of its products. Such policy takes into account various factors including (i) production costs such as cost of raw materials, labour costs and other expenses; (ii) the Group's targeted profit margin; and (iii) the prevailing market condition. The Group's sales department is responsible for ensuring that the final sale price of the Group's products conforms to the Group's pricing policy and any deviations (such as discounts offered to major customers) must be approved by the Group's sales manager. The table below sets out the average selling prices and sales volume for single circular knitting machine and double circular knitting machine for the years/periods indicated:

	Year ended 31 December		Six months ended					
	2015		2016		2016		2017	
	Average selling price	Sales volume	Average selling price	Sales volume	Average selling price	Sales volume	Average selling price	Sales volume
	<i>Per unit</i> RMB		<i>Per unit</i> RMB		<i>Per unit</i> RMB		<i>Per unit</i> RMB	
Single circular knitting machine	132,599.3	215	126,305.7	255	124,646.7	133	138,642.6	119
Double circular knitting machine	135,725.5	324	165,020.0	338	159,004.6	218	170,207.1	271
Circular knitting machine (i.e. all single and double circular knitting machines average)	134,478.5	539	148,372.2	593	145,985.8	351	160,575.9	390

The average selling price of circular knitting machines (i.e. all single and double circular knitting machines average) increased by approximately 10.3% during the two years ended 31 December 2015 and 2016, which is higher than that of the average selling price of circular knitting machines in the industry from 2011 to 2016, according to the Frost & Sullivan Report. According to the Frost & Sullivan Report, circular knitting machines made by large foreign or sino-foreign joint venture manufacturers, such as the top three market players in China, are sold at higher prices than machines made by domestic manufacturers, which raises the industry average selling price of circular knitting machines in general. As a result, the average selling price of the Group's circular knitting machines (i.e. all single and double circular knitting machines average) is lower than the industry average during the Track Record Period.

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The average selling price of single circular knitting machines for the six months ended 30 June 2017 increased by approximately 11.2% compared to that for the six months ended 30 June 2016. The average selling price of single circular knitting machines decreased by approximately 4.7% during the two years ended 31 December 2015 and 2016, primarily due to the difference in the product mix sold during the years. Single circular knitting machines are a series of circular knitting machines containing various models characterised by different specifications. The Group's sales of a particular model of single circular knitting machine (which was priced at approximately RMB117,000 and was below the average selling price of single circular knitting machines) was in a larger proportion in 2016 than 2015, representing a proportion of approximately 33.2% and 63.0% of the Group's total sales of single circular knitting machines for the years ended 31 December 2015 and 2016 respectively, which contributed to the decrease in the average selling price of single circular knitting machines in 2016. According to the Frost & Sullivan Report, the average selling price of single circular knitting machines during the two years ended 31 December 2015 and 2016 is in line with the price range of circular knitting machines made by domestic manufacturers in 2015 and 2016. The sales volume of the single circular knitting machines for the six months ended 30 June 2016 and 2017 were 133 and 119 respectively. The sales volume of single circular knitting machines increased by approximately 18.6% during the two years ended 31 December 2015 and 2016 due to stable sales growth in the PRC and overseas markets.

The average selling price of double circular knitting machines for the six months ended 30 June 2017 increased by approximately 7.0% compared to that for the six months ended 30 June 2016. The average selling price of double circular knitting machines increased by approximately 21.6% during the two years ended 31 December 2015 and 2016, primarily because of the significant increase in the sales of one of the most advanced double circular knitting machines of the Group (i.e. Double Loop Transfer Rib Computerised Jacquard Knitting Machine, which has a high average selling price). The sales volume of the double circular knitting machines for the six months ended 30 June 2016 and 2017 were 218 and 271 respectively. The sales volume of double circular knitting machines increased by approximately 4.3% during the two years ended 31 December 2015 and 2016 due to growth from overseas markets.

For an analysis of the gross profit and gross profit margin of the circular knitting machines, please refer to section headed "Financial Information – Principal Components of Consolidated Statements of Profit or Loss – Gross profit and gross profit margin".

FINANCIAL INFORMATION

By geographic location

During the Track Record Period, the Group sold its products in the domestic market by direct sale, and in the overseas market by indirect sale through trading companies, which were based in PRC and resold the Group's products to their overseas customers. As mentioned in the section headed "Business – Customers – Overseas Sales" of this prospectus, since January 2017, the Group has engaged in the direct sales of its products under its own brands to overseas customers through its indirect wholly-owned subsidiary, namely, Zhangzhou Fukai. The following table sets forth the Group's revenue by geographic location for the years/periods indicated:

	Year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
PRC	56,815	77.7	57,814	61.3	37,247	65.6	32,944	52.2
India	7,642	10.4	17,328	18.4	10,610	18.7	11,678	18.5
Bangladesh	7,238	9.9	11,807	12.5	5,428	9.5	6,450	10.2
Thailand	1,083	1.5	3,309	3.5	3,085	5.4	11	0.0
South Korea	384	0.5	1,544	1.6	7	0.0	11,059	17.5
Egypt	–	–	–	–	–	–	271	0.4
Vietnam	–	–	1,260	1.4	–	–	–	–
Turkey	–	–	1,240	1.3	434	0.8	772	1.2
	<u>73,162</u>	<u>100.0</u>	<u>94,302</u>	<u>100.0</u>	<u>56,811</u>	<u>100.0</u>	<u>63,185</u>	<u>100.0</u>

Sales in the domestic market represented approximately 77.7%, 61.3%, 65.6% and 52.2% of the total sales of the Group for the year ended 31 December 2015 and 2016, and the six months ended 30 June 2016 and 2017 respectively. The sales from the domestic market decreased by approximately RMB4.3 million or 11.6% during the six months ended 30 June 2016 and 2017. The sales from the domestic market increased by approximately RMB1.0 million or 1.8% during the years ended 31 December 2015 and 2016.

Sales in the overseas market represented approximately 22.3%, 38.7%, 34.4% and 47.8% of the total sales of the Group for the year ended 31 December 2015 and 2016, and the six months ended 30 June 2016 and 2017 respectively. The sales from the overseas market significantly increased by approximately RMB20.1 million or 123.2% during the years ended 31 December 2015 and 2016. The increase was mainly contributed by the sales growth of approximately RMB9.7 million or 126.7% and RMB4.6 million or 63.1% from India and Bangladesh respectively during the years ended 31 December 2015 and 2016. Apart from the sales growth from the existing overseas market, the Group developed two new overseas markets (namely Vietnam and Turkey) in which the Group recorded new sales of approximately RMB1.3 million and approximately RMB1.2 million for the year ended 31 December 2016. The significant increase in the Group's sales to South Korea for the six months ended 30 June

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2017 is a result of repeated orders received from an existing customer of the Group and orders received from a new customer referred to the Group by the said existing customer in the period. In view of the shifting of the production base of textiles manufacturers from the PRC to Southeast Asian countries and other Asian countries as a result of the increasing labour costs in the PRC, the Group has adopted the business strategy of expanding its market to capture the business potential of the overseas markets. As a result, there was a significant increase in the proportion of overseas sales.

By brand

During the Track Record Period, apart from selling its products under its own brands, the Group also sold its products under the brands specified by some of the trading companies on OEM basis. The following table sets forth the Group's revenue by brands for the years/periods indicated:

	Year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
					(unaudited)			
Own Brands	61,072	84.3	65,719	74.7	40,077	78.2	52,411	83.7
OEM	11,412	15.7	22,266	25.3	11,164	21.8	10,213	16.3
Total	<u>72,484</u>	<u>100.0</u>	<u>87,985</u>	<u>100.0</u>	<u>51,241</u>	<u>100.0</u>	<u>62,624</u>	<u>100.0</u>

Sales under own brands increased by approximately 7.6% in 2016 primarily due to the increase in brand awareness and confidence in the products of the Group. Sales under own brands for the six months ended 30 June 2016 and 2017 were approximately RMB40.1 million (unaudited) and RMB52.4 million respectively, representing an increase of approximately 30.8%.

Sales on OEM basis increased by approximately 95.1% in 2016 primarily due to the increase in the Group's sales and marketing effort to develop overseas sales through trading companies, some of which resold the Group's products under the brands specified by them on OEM basis. Sales on OEM basis for the six months ended 30 June 2016 and 2017 were approximately RMB11.2 million (unaudited) and RMB10.2 million respectively, representing a decrease of 8.5%.

Sales of parts and consumables were neither made under the Group's own brands nor on OEM basis, which caused the total sales made under the Group's own brands and on OEM basis to be different from the total revenue of the Group.

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Cost of goods sold

The Group's cost of goods sold consists of the cost of raw materials, direct labour cost and manufacturing overheads. The largest component of the Group's cost of goods sold was raw materials, representing 90.0%, 91.0%, 91.9% and 91.3% of the Group's total cost of goods sold for the years ended 31 December 2015 and 2016, and the six months ended 30 June 2016 and 2017, respectively. The following table sets forth the components of the Group's cost of goods sold by nature for the years/periods indicated:

	Year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)							
Raw materials:								
Core	21,055	41.6	23,169	38.1	13,736	37.9	18,507	45.7
Metallic parts and components	23,807	47.1	31,320	51.4	19,068	52.5	17,966	44.4
Accessories	651	1.3	917	1.5	551	1.5	493	1.2
Direct labour cost	1,624	3.2	1,378	2.3	763	2.1	1,030	2.5
Manufacturing overheads	3,439	6.8	4,098	6.7	2,168	6.0	2,515	6.2
Total	50,576	100.0	60,882	100.0	36,286	100.0	40,511	100.0

The Group's cost of goods sold for the years ended 31 December 2015 and 2016 were approximately RMB50.6 million, RMB60.9 million, respectively, representing an increase of approximately 20.4%. The Group's cost of goods sold for the six months ended 30 June 2016 and 2017 were RMB36.3 million (unaudited) and RMB40.5 million respectively, representing an increase of approximately 11.6%.

During 2015 and 2016, the Group's raw materials cost collectively increased by approximately RMB9.9 million or 21.7%, in which the Core, metallic parts and components, and accessories increased by approximately RMB2.1 million, approximately RMB7.5 million, and approximately RMB0.3 million, or 10.0%, 31.6%, and 40.9% respectively. The increase in raw material cost was mainly due to the increase in the revenue in 2016.

The Group's direct labour costs mainly comprises salary cost of the Group's employees in its manufacturing department (the "Factory Worker Salary Cost"), which is a part of the Group's cost of goods sold that is recognised upon sales. For the Group's work in progress and yet-to-be delivered finished goods, the components of cost of goods sold (namely the raw materials, the Factory Worker Salary Cost and the manufacturing overheads) will be included as part of the inventory of the Group. The Group's direct labour cost of cost of goods sold decreased by approximately RMB246,000 or 15.1% in 2016. Notwithstanding the decrease in average inventory turnover days of from 68.6 days for the year ended 31 December 2015 to 60.6 days for the year ended 31 December 2016, as mentioned above, a significant amount of

FINANCIAL INFORMATION

the finished goods was not delivered by 31 December 2016 and the Factory Worker Salary Cost of such finished goods was then included in the Group's inventories rather than as the direct labour cost included in cost of goods sold. As at 31 December 2015 and 2016, the Group's work in progress and finished goods amounted in aggregate to approximately RMB3.1 million and RMB6.7 million respectively, representing approximately 30.5% and 66.5% of its then total inventories, respectively. The Group's Factory Worker Salary Cost included as part of the inventory attributable to finished goods as at 31 December 2015 and 2016 amounted to approximately RMB64,000 and RMB234,000, respectively, representing an increase of approximately RMB170,000. Hence such decrease in direct labour cost included in the cost of goods sold in 2016 was in line with the increase in work in progress and finished goods between 31 December 2015 and 2016. Furthermore, the increase in production efficiency and the benefit of economics of scale arising from the increase in revenue in 2016 also reduced the direct labour costs of cost of goods sold. As a result, the Group's direct labour costs in 2015 and 2016 did not increase in line with the increase in the overall employee benefit expenses. For further details on the Group's employee benefit expenses, please refer to the paragraph headed "Administrative expense" in this section. The Group's finished goods as at 31 December 2016 were subsequently delivered in 2017, which is reflected in the subsequent sales and utilisation of the Group's inventories as at 31 January 2017, which amounted to approximately RMB6.1 million, in line with the Group's work in progress and finished goods as at 31 December 2016.

The manufacturing model of the Group and its cost structure remain unchanged during the Track Record Period. The direct labour cost included in the cost of goods sold is the Factory Worker Salary Cost attributable to each finished goods which have been sold. For the two financial years ended 2015 and 2016, the Group's average number of manufacturing workers were 36 and 36.25, respectively, and the total Factory Worker Salary Cost were RMB1.6 million and RMB1.6 million, respectively. Given that the Factory Worker Salary Cost was relatively stable during 2015 and 2016 and the actual production volume increased from 538 units for 2015 to 611 units for 2016, the Factory Worker Salary Cost attributable to each finished goods reduced in 2016 and the direct labour cost as a percentage of cost of goods sold also decreased from 3.2% in 2015 to 2.3% in 2016. The Group increased its average number of manufacturing workers from 35.3 for 2016 to 42 for the six months ended 30 June 2017. As a result, the Factory Worker Salary Cost attributable to each finished goods increased for the six months ended 30 June 2017, and the direct labour cost as a percentage of cost of goods sold increased to 2.5% for the six months ended 30 June 2017.

The Group's manufacturing overheads increased by approximately RMB0.7 million or 19.2% during 2015 and 2016, which was primarily due to the increase in revenue in 2016.

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Raw materials historically represented a significant majority of the Group's costs of goods sold. During the Track Record Period, the increase of the Group's cost of goods sold was generally in line with the increase in the Group's revenue. The following table sets forth a breakdown of the Group's cost of goods sold by product for the years/periods indicated:

	Year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Single circular knitting machine	20,383	40.3	20,516	33.7	10,363	28.6	10,892	26.9
Double circular knitting machine	29,612	58.5	35,229	57.9	21,451	59.1	29,126	71.9
Others	581	1.2	5,137	8.4	4,472	12.3	493	1.2
Total	50,576	100.0	60,882	100.0	36,286	100.0	40,511	100.0

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the cost of raw materials on the Group's profit for the year during the Track Record Period. Fluctuations are assumed to be 1%, 5% and 10% for the years/periods indicated, which correspond to the range of historical fluctuations of the Group's raw materials used during the Track Record Period.

	Percentage change in the cost of raw materials					
	-10%	-5%	-1%	+1%	+5%	+10%
	<i>(RMB'000, except percentages)</i>					
Year ended 31 December 2015						
Change in cost of goods sold	(4,551)	(2,276)	(455)	455	2,276	4,551
Change in profit for the year	3,596	1,798	360	(360)	(1,798)	(3,596)
Percentage change in profit for the year (%)	32	16	3	(3)	(16)	(32)
Year ended 31 December 2016						
Change in cost of goods sold	(5,541)	(2,770)	(554)	554	2,770	5,541
Change in profit for the year	4,477	2,238	448	(448)	(2,238)	(4,477)
Percentage change in profit for the year (%)	41	21	4	(4)	(21)	(41)

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Percentage change in the cost of raw materials
-10% -5% -1% +1% +5% +10%
(RMB'000, except percentages)

Six months ended 30 June 2016

Change in cost of goods sold	(3,336)	(1,668)	(334)	334	1,668	3,336
Change in profit for the period	2,635	1,318	264	(264)	(1,318)	(2,635)
Percentage change in profit for the period (%)	25	13	3	(3)	(13)	(25)

Six months ended 30 June 2017

Change in cost of goods sold	(3,697)	(1,848)	(370)	370	1,848	3,697
Change in profit for the period	2,862	1,431	286	(286)	(1,431)	(2,862)
Percentage change in profit for the period (%)	29	15	3	(3)	(15)	(29)

Gross profit and gross profit margin

The Group's gross profit for the years ended 31 December 2015 and 2016 were approximately RMB22.6 million and RMB33.4 million, respectively, and the Group's gross profit margin were 30.9% for the year ended 31 December 2015 and 35.4% for the year ended 31 December 2016, respectively. The following table sets forth a breakdown of the Group's gross profit and gross profit margin by segment for the years/periods indicated:

	Year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	(unaudited)							
Single circular knitting machine	8,126	28.5	11,692	36.3	6,215	37.5	5,606	34.0
Double circular knitting machine	14,363	32.7	20,548	36.8	13,212	38.1	17,000	36.9
Others	97	14.4	1,180	18.7	1,098	19.7	68	12.1
Total	22,586	30.9	33,420	35.4	20,525	36.1	22,674	35.9

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The overall gross profit margin for the six months ended 30 June 2016 and 2017 were approximately 36.1% and 35.9%, respectively. The overall gross profit margin increased from 30.9% for the year ended 31 December 2015 to 35.4% for the year ended 31 December 2016, primarily due to the magnitude of the increase in the cost of goods sold was smaller than the increase in the revenue in 2016.

The gross profit margin for single circular knitting machine decreased from 37.5% for the six months ended 30 June 2016 to 34.0% for the six months ended 30 June 2017. The gross profit margin for single circular knitting machine increased from 28.5% for the year ended 31 December 2015 to 36.3% for the year ended 31 December 2016 despite the average selling price of single circular knitting machine decreased from RMB132,599.3 for the year ended 31 December 2015 to RMB126,305.7 for the year ended 31 December 2016 mainly due to the fact that there was an increase in gross profit margin of all the Group's circular knitting machines from 31.0% for the year ended 31 December 2015 to 36.6% for the year ended 31 December 2016. Single circular knitting machines are a series of circular knitting machines containing various models characterised by different specifications. The Group's sales of a particular model of single circular knitting machine (which was priced at approximately RMB117,000 and was below the average selling price of single circular knitting machines) was in a larger proportion in 2016 than 2015, representing a proportion of approximately 33.2% and 63.0% of the Group's total sales of single circular knitting machines for the years ended 31 December 2015 and 2016 respectively, which contributed to the decrease in the average selling price of single circular knitting machines in 2016. Further, the cost of goods sold for the same models of single circular knitting machines had decreased from the year ended 31 December 2015 to the year ended 31 December 2016 due to the economics of scale gained from the increase in the utilisation rate of the Group's manufacturing facility, which contributed to the increase in gross profit margin for single circular knitting machines.

The following table sets forth the Group's gross profit and gross profit margin by regions:

	Year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin	Gross profit margin	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
PRC	17,964	31.6	20,407	35.3	13,592	36.5	11,839	35.9
Overseas	4,623	28.3	13,013	35.7	6,933	35.4	10,835	35.8
	<u>22,586</u>	<u>30.9</u>	<u>33,420</u>	<u>35.4</u>	<u>20,525</u>	<u>36.1</u>	<u>22,674</u>	<u>35.9</u>

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The following table sets forth the Group's gross profit and gross profit margin by brands:

	Year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	Gross profit margin RMB'000	Gross profit margin %	Gross profit margin RMB'000	Gross profit margin %	Gross profit margin RMB'000	Gross profit margin %	Gross profit margin RMB'000	Gross profit margin %
				(unaudited)				
Own Brand	19,156	31.4	24,711	37.6	15,875	39.6	18,859	36.0
OEM	<u>3,333</u>	29.2	<u>7,529</u>	33.8	<u>3,552</u>	31.8	<u>3,747</u>	36.7
	<u>22,489^(note)</u>	<u>31.0</u>	<u>32,240^(note)</u>	<u>36.6</u>	<u>19,427^(note)</u>	<u>37.9</u>	<u>22,606^(note)</u>	<u>36.1</u>

Note: Sales of parts and consumables were neither made under the Group's own brands nor on an OEM basis, which caused the difference in total gross profit by regions and total gross profit by brands.

During 2015 and 2016, each of the components of the gross profit margins of the Group's products by regions (i.e. PRC and overseas) and brands (i.e. Own Brand and OEM) increased in line with the increase in the overall gross profit margin of the Group's products. The difference between the gross profit margins of the Group's products under its own brands and on an OEM basis for the year ended 31 December 2015 and 2016 is mainly due to the different product mix sold by the Group under its own brands and on an OEM basis, respectively, during the Track Record Period. For example, for the year ended 31 December 2015, the gross profit margin of single circular knitting machines was 28.5% and the gross profit margin of double circular knitting machines was 32.7%. For the year ended 31 December 2015, more single circular knitting machines than double circular knitting machines were sold on an OEM basis and more double circular knitting machines than single circular knitting machines were sold under the Group's own brands. As a result, the gross profit margin of circular knitting machines sold on an OEM basis was lower than the gross profit margin of circular knitting machines sold under the Group's own brands. Similarly, for the year ended 31 December 2016, the gross profit margin of circular knitting machines sold on an OEM basis was lower than the gross profit margin of circular knitting machines sold under the Group's own brand as a comparatively higher volume of certain models of circular knitting machines with a higher gross profit margin was sold under the Group's own brands than on an OEM basis. For the six months ended 30 June 2017, the gross profit margin of circular knitting machines sold on an OEM basis was higher than that of circular knitting machines sold under the Group's own brand as a comparatively higher portion of certain models of circular knitting machines with a higher gross profit margin was sold on OEM basis than under the Group's own brands.

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Other income

The Group's other income consists of rental income, scrap sales and interest income on bank deposits. The Group's other income for the years ended 31 December 2015 and 2016 and six months ended 30 June 2016 and 2017 were approximately RMB806,000, RMB813,000, RMB303,000 (unaudited) and RMB417,000, representing approximately 1.1%, 0.9%, 0.5% and 0.7% of the Group's total revenue for the same years/periods, respectively. The following table sets forth the components of the Group's other income for the years/periods indicated:

	Year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Rental income	540	67.0	521	64.1	225	74.3	257	61.6
Scrap sales	177	22.0	191	23.5	39	12.9	79	18.9
Interest income on bank deposits	89	11.0	101	12.4	39	12.9	81	19.4
Total	806	100.0	813	100.0	303	100.0	417	100.0

The Group's other income during the Track Record Period was stable.

Selling expenses

The Group's selling expenses primarily consists of travelling, entertainment and transportation expenses, and sales staff salary and staff benefits expenses. The Group's selling expenses for the years ended 31 December 2015 and 2016 and six months ended 30 June 2016 and 2017 were approximately RMB1.7 million, RMB2.1 million, RMB1.1 million (unaudited) and RMB1.0 million, representing approximately 2.3%, 2.2%, 2.0% and 1.6% of the Group's total revenue for the same years/periods, respectively. The table below sets forth the components of the Group's selling expenses for the years/periods indicated:

	Year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Travelling, entertainment and transportation expenses	935	54.7	1,143	54.2	629	56.4	651	62.7
Sales staff salary and staff benefits expenses	627	36.6	636	30.1	285	25.6	358	34.5
Other expenses	149	8.7	332	15.7	201	18.0	29	2.8
Total	1,711	100.0	2,111	100.0	1,115	100.0	1,038	100.0

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Selling expenses increased by approximately 23.4% from approximately RMB1.7 million for the year ended 31 December 2015 to approximately RMB2.1 million for the year ended 31 December 2016 primarily due to the increase in sales and marketing effort in 2016, which successfully led to a revenue growth of approximately 28.9%.

Administrative expenses

The Group's administrative expenses mainly include: (i) research and development expenses; and (ii) employee salary and benefits expenses. The Group's administrative expenses for the years ended 31 December 2015 and 2016 and six months ended 30 June 2016 and 2017 were approximately RMB5.4 million, RMB9.0 million, RMB4.2 million (unaudited) and RMB5.2 million, representing approximately 7.4%, 9.5%, 7.5% and 8.3% of the Group's total revenue for the corresponding years/periods, respectively. The Group's research and development expenses mainly consists of cost of materials used for research and development projects and consultancy fee. The table below sets forth the components of the Group's administrative expenses for the years/periods indicated:

	Year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
					(unaudited)			
Research and development expenses	2,657	49.3	4,999	55.7	2,538	59.9	2,773	53.0
Employee salary and benefits expenses	1,704	31.7	2,201	24.5	968	22.8	1,424	27.2
Depreciation	430	8.0	455	5.1	233	5.5	223	4.3
Training expenses	–	–	253	2.8	–	–	6	0.1
Other expenses ⁽¹⁾	595	11.0	1,064	11.9	499	11.8	805	15.4
Total	5,386	100.0	8,972	100.0	4,238	100.0	5,231	100.0

Note:

- (1) Other expenses mainly include water and electricity expenditures, corporate entertainment expenses, other taxes and levies, telecommunication expenses and others.

Administrative expenses increased by approximately 66.6% from approximately RMB5.4 million for the year ended 31 December 2015 to approximately RMB9.0 million for the year ended 31 December 2016 primarily due to the increase in research and development effort and training activities, and the increase in corporate entertainment expenses for the year ended 31 December 2016. The significant increase in research and development expenses was mainly

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attributable to an increase in the spending on research and development consumables of approximately RMB2.3 million in 2016. Such research and development consumables were used in the Group's research and development activities. The increase in employee salary and benefits expenses is mainly due to (i) an increase in the number of employees of the Group from 81 to 89 between the year ended 31 December 2015 and 2016; and (ii) the Group made full contributions to the social insurance and housing provident fund for all its eligible employees (including the Group's employees in its manufacturing department) since November 2016 and August 2016, respectively. For further details relating to the Group's non-compliance incidents, please refer to the section headed "Business" in this prospectus.

Administrative expenses increased by approximately 23.4% from approximately RMB4.2 million (unaudited) for the six months ended 30 June 2016 to approximately RMB5.2 million for the six months ended 30 June 2017 primarily due to (i) the full contributions to the social insurance and housing provident fund for employees as mentioned above; and (ii) the increase in research and development expenses.

Listing expenses

Listing expenses consist of the expenses incurred in relation to the Share Offer. The Group incurred Listing expenses of approximately RMB150,000, RMB6.2 million, RMB1.4 million (unaudited) and RMB2.9 million for the years ended 31 December 2015 and 2016, and the six months ended 30 June 2016 and 2017 respectively.

Finance costs

The Group's finance costs consist of interest on bank borrowings. The Group had finance costs of approximately RMB1.8 million, RMB2.3 million, RMB984,000 (unaudited) and RMB1.2 million for the years ended 31 December 2015 and 2016 and six months ended 30 June 2016 and 2017, respectively. The increase in finance costs in 2016 was primarily due to the increase in bank loans during 2016. As at 31 December 2015 and 2016, the bank loans amounted to approximately RMB35.0 million and RMB44.9 million respectively, representing an increase of approximately RMB9.9 million.

Income tax expense

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and Ace Progress was incorporated in the BVI as an exempted company with limited liability. Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

Under the EIT Law and the EIT Regulation, the tax rate of the Group's PRC subsidiaries is 25%. However, one of the Group's PRC subsidiary, namely Zhangzhou Kaixing, has been granted the status of a "High and New Technology Enterprise" that entitled to a preferential EIT rate of 15% for three years commencing from the year ended 31 December 2012 and further extended for three more years commencing from the year ended 31 December 2015.

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Pursuant to the EIT Law, the Group's subsidiaries incorporated in the PRC is required to withhold 10% PRC enterprise income tax when it distributes dividends to its non-PRC resident enterprise shareholders.

The Group's income tax expense for the years ended 31 December 2015 and 2016, and the six months ended 30 June 2016 and 2017 were approximately RMB3.0 million, RMB3.9 million, RMB2.8 million (unaudited) and RMB2.9 million, respectively.

The following table sets forth a breakdown of income tax expense for the period indicated:

	Year ended 31 December				Six months ended			
	2015		2016		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Current tax – PRC								
Provision for the year/period	3,005	99.5	3,958	102.5	2,754	100.0	2,875	100.0
Under/(over) provision in prior year	15	0.5	(97)	(2.5)	–	0	–	0
Total	<u>3,020</u>	<u>100.0</u>	<u>3,861</u>	<u>100.0</u>	<u>2,754</u>	<u>100.0</u>	<u>2,875</u>	<u>100.0</u>

The effective income tax rates of the Group, which equal to the income tax expense divided by profit before tax, were approximately 21.0% and 26.3% for the year ended 31 December 2015 and 2016, respectively. The increase in the effective income tax rate for the year ended 31 December 2016 was primarily attributable to the increase in the tax effect of expenses that are not deductible of approximately RMB1.4 million. Such tax non-deductible expenses were the Listing expenses paid in Hong Kong, which were not deductible for Hong Kong profits tax purposes.

The Directors confirm that the Group had paid all relevant taxes and are not subject to any dispute or unsolved tax issues with the relevant tax authorities in the PRC.

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PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six months ended 30 June 2017 compared to six months ended 30 June 2016

Revenue

The Group's revenue increased by approximately 11.2% from approximately RMB56.8 million (unaudited) for the six months ended 30 June 2016 to approximately RMB63.2 million for the six months ended 30 June 2017. This increase was mainly attributable to the increase in the sales volume and the average selling price of the products sold during the period.

Cost of goods sold

The Group's cost of goods sold increased by approximately 11.6% from approximately RMB36.3 million (unaudited) for the six months ended 30 June 2016 to approximately RMB40.5 million for the six months ended 30 June 2017, which was generally in line with the Group's revenue growth during the period.

Gross profit and gross profit margin

The Group's gross profit increased by approximately 10.5% from approximately RMB20.5 million (unaudited) for the six months ended 30 June 2016 to approximately RMB22.7 million for the six months ended 30 June 2017, which was generally in line with the Group's revenue growth during the period. The Group's gross profit margin were approximately 36.1% and 35.9% for the six months ended 30 June 2016 and 2017 respectively. The gross profit margin was stable during the period.

Other income

The Group's other income increased by approximately RMB114,000 from approximately RMB303,000 (unaudited) for the six months ended 30 June 2016 to approximately RMB417,000 for the six months ended 30 June 2017, representing an approximately 37.6% increase. Such increase was mainly attributable to the increase in scrap sales and interest income on bank deposit.

Selling expenses

The Group's selling expenses slightly decreased by approximately RMB77,000 from approximately RMB1.1 million (unaudited) for the six months ended 30 June 2016 to approximately RMB1.0 million for the six months ended 30 June 2017. The Group's selling expenses was stable during the period.

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Administrative expenses

The Group's administrative expenses increased by approximately 23.4% from approximately RMB4.2 million (unaudited) for the six months ended 30 June 2016 to approximately RMB5.2 million for the six months ended 30 June 2017. Such increase was primarily due to (i) the full contributions to the social insurance and housing provident fund for employees; and (ii) the increase in research and development expenses.

Listing expenses

Listing expenses consist of expenses incurred in relation to the Share Offer. The Group incurred Listing expenses of approximately RMB1.4 million for the six months ended 30 June 2016 and approximately RMB2.9 million for the six months ended 30 June 2017.

Finance costs

The Group's finance costs slightly increased by approximately RMB227,000 from approximately RMB984,000 (unaudited) for the six months ended 30 June 2016 to approximately RMB1.2 million for the six months ended 30 June 2017, representing an approximately 23.1% increase. Such increase was mainly attributable to an increase in bank borrowing.

Income tax expense

The Group's income tax expense increased by approximately 4.4% from approximately RMB2.8 million (unaudited) for the six months ended 30 June 2016 to approximately RMB2.9 million for the six months ended 30 June 2017. The effective income tax rates of the Group, which was equalled to the income tax expense divided by profit before tax, were approximately 21.0% and approximately 22.6% for the six months ended 30 June 2016 and 2017, respectively. The increase in the effective income tax rate for the six months ended 30 June 2017 was primarily attributable to the increase in the tax effect of expenses that are not deductible from approximately RMB13,000 for the six months ended 2016 to approximately RMB794,000 for the six months ended 30 June 2017. Such tax non-deductible expenses were primarily the Listing expenses, which were not deductible for Hong Kong profits tax purposes.

Profit for the period

Notwithstanding that the Group's gross profit increased from approximately RMB20.5 million (unaudited) to approximately RMB22.7 million, the Group's profit for the period decreased by approximately 4.8% from approximately RMB10.4 million (unaudited) for the six months ended 30 June 2016 to approximately RMB9.9 million for the six months ended 30 June 2017. Such decrease was mainly attributable to the increase in the Listing expenses from approximately RMB1.4 million for the six months ended 30 June 2016 to approximately RMB2.9 million for the six months ended 30 June 2017.

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Year ended 31 December 2016 compared to year ended 31 December 2015

Revenue

The Group's revenue increased by approximately 28.9% from approximately RMB73.2 million for the year ended 31 December 2015 to approximately RMB94.3 million for the year ended 31 December 2016. This increase was mainly attributable to (i) the increase in overseas sales of the Group's products due to the Group's adoption of a business strategy of expanding its penetration into the overseas market, which has better business prospect than the domestic market as mentioned in the section headed "Industry Overview" of this prospectus; and (ii) the significant increase in the sales of one of the most advanced double circular knitting machines of the Group (i.e. Double Loop Transfer Rib Computerised Jacquard Knitting Machine, which has a higher average selling price).

Cost of goods sold

The Group's cost of goods sold increased by approximately 20.4% from approximately RMB50.6 million for the year ended 31 December 2015 to approximately RMB60.9 million for the year ended 31 December 2016, which was generally in line with the Group's revenue growth during 2016. The increase of the cost of goods sold was mainly due to the increase of the total cost of raw materials as a result of the increase in the revenue in 2016.

Gross profit and gross profit margin

The Group's gross profit increased by approximately 48.0% from approximately RMB22.6 million for the year ended 31 December 2015 to approximately RMB33.4 million for the year ended 31 December 2016, and the Group's gross profit margin increased from approximately 30.9% for the year ended 31 December 2015 to approximately 35.4% for the year ended 31 December 2016 primarily due to the magnitude of the increase in the cost of goods sold was smaller than the increase in the revenue in 2016.

Other income

The Group's other income increased by approximately 0.9% from approximately RMB806,000 for the year ended 31 December 2015 to approximately RMB813,000 for the year ended 31 December 2016. The Group's other income was stable during the period.

Selling expenses

The Group's selling expenses increased by approximately 23.4% from approximately RMB1.7 million for the year ended 31 December 2015 to approximately RMB2.1 million for the year ended 31 December 2016 primarily due to an increase in the sales and marketing efforts in 2016, which successfully led to a revenue growth of approximately 28.9%.

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Administrative expenses

The Group's administrative expenses increased by approximately 66.6% from approximately RMB5.4 million for the year ended 31 December 2015 to approximately RMB9.0 million for the year ended 31 December 2016 primarily due to the increase in research and development effort and training activities, and the increase in corporate entertainment expenses for the year ended 31 December 2016.

Listing expenses

Listing expenses consist of expenses incurred in relation to the Share Offer. The Group incurred Listing expenses of approximately RMB150,000 for the year ended 31 December 2015 and approximately RMB6.2 million for the year ended 31 December 2016.

Finance costs

The Group's finance costs increased by approximately 27.9% from approximately RMB1.8 million for the year ended 31 December 2015 to approximately RMB2.3 million for the year ended 31 December 2016 primarily due to the increase in bank loans during 2016. As at 31 December 2015 and 2016, the bank loans amounted to approximately RMB35.0 million and RMB44.9 million respectively, representing an increase of approximately RMB9.9 million.

Income tax expense

The Group's income tax expense increased by approximately 27.8% from approximately RMB3.0 million for the year ended 31 December 2015 to approximately RMB3.9 million for the year ended 31 December 2016, which was generally in line with the Group's increase in revenue during the same year. The effective income tax rates of the Group, which equal to the income tax expense divided by profit before tax, were approximately 21.0% and 26.3% for the year ended 31 December 2015 and 2016, respectively. The increase in the effective income tax rate for the year ended 31 December 2016 was primarily attributable to the increase in the tax effect of expenses that are not deductible of approximately RMB1.4 million. Such tax non-deductible expenses were the Listing expenses paid in Hong Kong, which were not deductible for Hong Kong profits tax purposes.

Profit for the year

Notwithstanding that the Group's gross profit increased from approximately RMB22.6 million to approximately RMB33.4 million, the Group's profit for the year decreased by approximately 4.8% from approximately RMB11.3 million for the year ended 31 December 2015 to approximately RMB10.8 million for the year ended 31 December 2016. Such decrease was mainly attributable to the Listing expenses of approximately RMB6.2 million incurred in the year ended 31 December 2016, whereas the Listing expenses only amounted to RMB150,000 in 2015.

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LISTING EXPENSES

All incremental costs that are directly attributable to the issue of new Shares are recognised and deducted from equity while any expenses attributable to listing of existing Shares are charged to the consolidated statements of profit or loss in the period in which the expenses are incurred. The total estimated expenses in relation to the Listing (including underwriting commission) are estimated to be approximately HK\$25.2 million (assuming an Offer Price of HK\$0.23 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$0.18 to HK\$0.28), of which approximately HK\$9.0 million is directly attributable to the issue of new Shares in the Share Offer and to be accounted for as a deduction from equity and approximately HK\$16.2 million are expected to be charged to the consolidated statements of profit or loss in the period in which the expenses are incurred. Listing expenses of approximately HK\$7.0 million were incurred in 2016 and approximately HK\$9.0 million are expected to be charged to the Group's consolidated statements of profit or loss after 31 December 2016, which will be reflected in the Group's consolidated statement of profit or loss for the year ending 31 December 2017.

Total Listing expenses set out above are latest practicable estimates for reference only, and the final amount to be recognised may differ from these estimates.

LIQUIDITY AND CAPITAL RESOURCES

The Group's principal cash requirements are to pay for purchase of raw materials for production and to fund the Group's working capital and other operating expenses. During the Track Record Period, the Group financed its operations primarily through a combination of cash flows generated from the Group's operating activities, bank borrowings, and amounts due to a related company, owners and an owner of ultimate parent (which will be fully repaid at or before Listing). Following the Share Offer, save for the addition of net proceeds from the Share Offer and save that there will not be any amounts due to a related company, owners and an owner of ultimate parent, the Group does not expect that there will be any material change in the sources and use of cash.

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Cash flows

The following table sets forth a selected summary of the Group's consolidated statements of cash flows for the years/periods indicated:

	Year ended		Six months ended	
	31 December		30 June	
	2015	2016	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(unaudited)	
Net cash generated from operating activities	18,521	3,972	5,364	12,378
Net cash used in investing activities	(683)	(1,994)	(48)	(131)
Net cash generated from financing activities	<u>1,370</u>	<u>11,165</u>	<u>5,343</u>	<u>4,519</u>
Net increase in cash and cash equivalents	19,208	13,143	10,659	16,766
Cash and cash equivalents at beginning of the year/period	<u>11,129</u>	<u>30,337</u>	<u>30,337</u>	<u>43,480</u>
Cash and cash equivalents at end of the year/period	<u><u>30,337</u></u>	<u><u>43,480</u></u>	<u><u>40,966</u></u>	<u><u>60,246</u></u>

Net cash generated from operating activities

The Group's cash flows generated from operating activities mainly consist of the Group's profit before tax adjusted for non-cash items such as depreciation, amortisation of prepaid land lease payments and the effects of changes in certain items in the consolidated statements of financial position, such as inventories, trade receivables and trade payables.

For the six months ended 30 June 2017, the Group had net cash generated from operating activities of approximately RMB12.4 million. The net cash generated from operating activities was primarily attributable to profit before tax of approximately RMB12.7 million and positive non-cash item adjustment for depreciation of approximately RMB1.1 million and increased by changes in working capital of approximately RMB608,000, and further reduced by income tax paid of approximately RMB2.0 million. Changes in working capital primarily comprised an increase in trade payables of approximately RMB8.3 million, an increase in inventories of approximately RMB1.4 million, an increase in trade receivables of approximately RMB3.7 million and an increase in deposits, prepayments and other receivables of approximately RMB2.5 million.

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For the six months ended 30 June 2016, the Group had net cash generated from operating activities of approximately RMB5.4 million (unaudited). The net cash used in operating activities was primarily attributable to profit before tax of approximately RMB13.1 million (unaudited) and positive non-cash item adjustment for depreciation of approximately RMB1.0 million (unaudited), and further reduced by changes in working capital of approximately RMB6.8 million (unaudited) and income tax paid of approximately RMB2.0 million (unaudited). Changes in working capital primarily comprised a decrease in trade receivables of approximately RMB3.8 million (unaudited), and a decrease in trade payables of approximately RMB11.5 million (unaudited).

For the year ended 31 December 2016, the Group had net cash generated from operating activities of approximately RMB4.0 million. The Group's net cash generated from operating activities was primarily attributable to profit before tax of approximately RMB14.7 million (which had already deducted the Listing expenses of approximately RMB6.2 million incurred in 2016) and positive non-cash item adjustment for depreciation of approximately RMB2.1 million, amortisation of prepaid land lease payments of approximately RMB71,000 and further reduced by changes in working capital of approximately RMB8.7 million, income tax paid of approximately RMB4.0 million and interest paid of approximately RMB2.3 million. Changes in working capital primarily comprised a decrease in trade receivables of approximately RMB5.5 million and a decrease in trade payables of approximately RMB14.1 million.

For the year ended 31 December 2015, the Group had net cash generated from operating activities of approximately RMB18.5 million. The Group's net cash generated from operation activities was primarily attributable to profit before tax of approximately RMB14.4 million and positive non-cash item adjustment for depreciation of approximately RMB2.0 million and amortisation of prepaid land lease payments of approximately RMB72,000 and increased by changes in working capital of approximately RMB5.1 million, partially offset by income tax paid of approximately RMB2.9 million and interest paid of approximately RMB1.8 million. Changes in working capital primarily comprised an increase in trade payables of approximately RMB8.1 million and an increase in trade receivables of approximately RMB1.2 million.

Net cash used in investing activities

The Group's cash used in investing activities is mainly for payment for purchases of property, plant and equipment. The Group's cash generated from investing activities mainly include interest received.

For the six months ended 30 June 2017, the Group's net cash used in investing activities was approximately RMB131,000, which was mainly used for the construction works. The cash flows were partially offset by interest received from bank deposit during the period. For the six months ended 30 June 2016, the Group's net cash used in investing activities was approximately RMB48,000 (unaudited). This was mainly for purchase of equipment.

For the year ended 31 December 2016, the Group's net cash used in investing activities was approximately RMB2.0 million. This was mainly for the construction of a warehouse. The cash outflows were partially offset by interest received from bank deposit during the year.

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For the year ended 31 December 2015, the Group's net cash used in investing activities was approximately RMB683,000. This was mainly for the improvement works for existing properties. The cash outflows were partially offset by interest received from bank deposit during the year.

Net cash generated from financing activities

The Group's cash generated from financing activities mainly represents advancement from or repayment to a related company, owners of the Company or an owner of ultimate parent, bank loans raised and repayment of bank loans, dividend payment and purchase of equity capital of Zhangzhou Kaixing for the purposes of Reorganisation.

For the six months ended 30 June 2017, the Group's net cash generated from financing activities was approximately RMB4.5 million, which consisted of issue of shares of approximately RMB10.9 million and advancements from an owner of ultimate parent of approximately RMB6.7 million, offset by (i) repayment of approximately RMB6.7 million to owners; and (ii) purchase of equity capital of Zhangzhou Kaixing for the purposes of Reorganisation of approximately RMB6.4 million.

For the six months ended 30 June 2016, the Group's net cash generated from financing activities was approximately RMB5.3 million (unaudited), which consisted of a net increase of bank loans of approximately RMB9.9 million, offset by (i) payment of dividends to the then owners of Zhangzhou Kaixing of approximately RMB3.2 million; and (ii) repayment to a related company of approximately RMB1.4 million (unaudited).

For the year ended 31 December 2016, the Group's net cash generated from financing activities was approximately RMB11.2 million, which consisted of an advancement of approximately RMB6.7 million from the owners of the Company and bank loans raised of approximately RMB44.9 million, partially offset by (i) repayment of bank loans of approximately RMB35.0 million; (ii) repayment of approximately RMB1.4 million to a related company; (iii) dividend payments of approximately RMB3.2 million to the then owners of Zhangzhou Kaixing; and (iv) purchase of equity capital of Zhangzhou Kaixing for the purposes of Reorganisation of approximately RMB0.9 million.

For the year ended 31 December 2015, the Group's net cash generated from financing activities was approximately RMB1.4 million, which consisted of bank loans raised of approximately RMB35.0 million, partially offset by (i) repayment of bank loans of approximately RMB25.0 million; and (ii) repayment of approximately RMB8.6 million to a related company.

Working capital

The Directors confirm that, taking into consideration the financial resources presently available to the Group, including the Group's cash flows from operating activities, the Group's existing cash and cash equivalents and net proceeds from the Share Offer, the Directors are of the view that the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this prospectus.

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DESCRIPTION OF SELECTED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION ITEMS

Current Assets and Liabilities

The following table sets forth details of the Group's current assets and liabilities as at the dates indicated:

	As at 31 December		As at 30 June	As at 31 October
	2015	2016	2017	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)
Current assets				
Inventories	10,094	10,079	11,491	11,094
Trade receivables	18,681	13,176	16,878	23,154
Deposits, prepayments and other receivables	549	2,718	5,189	5,539
Due from owners	–	338	–	–
Bank and cash balances	<u>30,337</u>	<u>43,480</u>	<u>60,246</u>	<u>65,989</u>
 Total current assets	 <u>59,661</u>	 <u>69,791</u>	 <u>93,804</u>	 <u>105,776</u>
Current liabilities				
Trade payables	21,628	7,529	15,782	18,089
Deposits received, accruals and other payables	2,041	4,086	4,026	7,219
Bank loans	35,000	44,900	44,900	44,900
Due to a related company	1,389	4,130	–	–
Due to owners	–	8,572	–	–
Due to an owner of ultimate parent	–	–	6,733	7,682
Due to a director	–	460	–	–
Current tax liabilities	<u>648</u>	<u>490</u>	<u>1,361</u>	<u>510</u>
 Total current liabilities	 <u>60,706</u>	 <u>70,167</u>	 <u>72,802</u>	 <u>78,400</u>
 Net current (liabilities)/assets	 <u><u>(1,045)</u></u>	 <u><u>(376)</u></u>	 <u><u>21,002</u></u>	 <u><u>27,376</u></u>

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The Group's financial position has turned around to net current assets amounted to approximately RMB27.4 million (unaudited) as at 31 October 2017 compared to net current liabilities amounted to approximately RMB376,000 as at 31 December 2016. The turnaround to net current assets position was mainly attributable to the net profits generated from the operating activities in the ten months ended 31 October 2017 and the completion of the Offshore Pre-IPO Investment (as defined in the section headed "History, Reorganisation and Group Structure – Offshore Pre-IPO Investment" in this prospectus) in February 2017.

The substantial improvement in the gross profit of the Group during the year ended 31 December 2016 had lead to a significant increase in the current assets of approximately RMB10.1 million as at 31 December 2016. However, as a result of an increase in current liabilities of approximately RMB9.5 million, the Group recorded a net current liabilities of approximately RMB376,000. The increase in net current liabilities was mainly attributable to the increase in bank loans of approximately RMB9.9 million to primarily finance the increase in the Group's sales and an increase in the amounts due to owners of the Company of approximately RMB8.6 million to finance the payment of the Listing expenses and the partial settlement of the consideration for purchase of equity capital of Zhangzhou Kaixing for the purposes of Reorganisation in 2016.

The Group's net current liabilities amounted to approximately RMB1.0 million as at 31 December 2015, which was mainly attributable to the fact that the Group had relied on bank loans and amounts due to a related company to finance its operation for that year. The said bank loans were repayable on demand or within one year. The said amounts due to a related company had no fixed repayment terms. Hence the said bank loans and amounts due to a related company were classified as the Group's current liabilities, which amounted to approximately RMB36.4 million in aggregate as at 31 December 2015.

Inventories

The Group's inventories consist of raw materials, work in progress and finished goods. The following table sets forth the breakdown of the Group's inventories as at the dates indicated:

	As at 31 December		As at
	2015	2016	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	7,012	3,374	6,570
Work in progress	1,648	2,314	1,644
Finished goods	1,434	4,391	3,277
	<u>10,094</u>	<u>10,079</u>	<u>11,491</u>
Total	<u>10,094</u>	<u>10,079</u>	<u>11,491</u>

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The inventories of the Group was approximately RMB10.1 million, RMB10.1 million and RMB11.5 million as at 31 December 2015 and 2016, and 30 June 2017 respectively. The stable inventories balance was mainly attributable to the efficient inventory control policy of the Group to control and monitor its inventory level.

As at 31 October 2017, the subsequent sales and utilisation of the Group's inventories as at 30 June 2017 was approximately RMB9.5 million, or 82.9%.

Average inventory turnover days indicates the average time required for the Group to sell its inventories, the following table sets out the Group's average turnover days for the years indicated.

	Six months ended		
	Year ended 31 December		30 June
	2015	2016	2017
Average inventory turnover days ⁽¹⁾	68.6	60.6	48.2

Note:

- (1) Average inventory turnover days for the two years ended 31 December 2015 and 2016 and six months ended 30 June 2017 is derived by dividing the average of the opening and closing balances of inventories by cost of goods sold for the relevant year/period and then multiplied by 365 or 366 days for the relevant year or 181 days for the six months ended 30 June 2017.

The average inventory turnover days are from 68.6 days, 60.6 days and 48.2 days for the years ended 31 December 2015 and 2016, and the six months ended 30 June 2017, primarily due to the improvement in inventory control during the Track Record Period.

Trade Receivables

Trade receivables represent the amounts due from customers for goods sold in the ordinary course of business. The Group grants customers credit terms generally ranging from 30 to 365 days. Generally, the sales to overseas market requires a credit period shorter than that of domestic market. Please see section headed "Business – Customers – Credit Policy" of this prospectus. The following table sets out the Group's trade receivables as at the dates indicated:

	As at 31 December		As at
	2015	2016	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	<u>18,681</u>	<u>13,176</u>	<u>16,878</u>

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The decrease in trade receivables from approximately RMB18.7 million as at 31 December 2015 to RMB13.2 million as at 31 December 2016 was primarily due to the increased effort in collecting trade receivables in 2016. The trade receivables balance included trade receivable from Longhuai Import & Export amounted to RMB3,350,000 as at 31 December 2016 which has been fully settled as at 30 June 2017. The trade receivables slightly increased to approximately RMB16.9 million as at 30 June 2017.

As at 30 November 2017, the subsequent collection of the Group's net trade receivables as at 30 June 2017 was approximately RMB9.2 million, or 54.8%.

The Group seeks to maintain control over its outstanding trade receivables. Overdue balances are reviewed regularly by senior management. The following table sets out an ageing analysis of the Group's gross trade receivables, based on the invoice date, and net of allowance, as at the dates indicated:

	As at 31 December		As at
	2015	2016	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0 to 90 days	6,809	4,854	9,795
91 to 180 days	2,756	2,477	4,214
181 to 365 days	8,369	5,845	2,869
Over 365 days	747	–	–
	<u>18,681</u>	<u>13,176</u>	<u>16,878</u>

As at 31 December 2015 and 2016 and 30 June 2017, trade receivables of approximately RMB1.3 million, nil and nil, respectively, were past due but not impaired. No impairment provisions were made because these trade receivables relate to a number of independent customers for whom there is no recent history of default with the Group.

The following sets out the Group's average trade receivables turnover days for the years/periods indicated:

	Year ended 31 December		Six months
	2015	2016	ended
			30 June
			2017
Average trade receivables turnover days ⁽¹⁾	90.2	61.8	43.0

Note:

- (1) Average trade receivables turnover days for the two years ended 31 December 2015 and 2016 and the six months ended 30 June 2017 is derived by dividing the average of the opening and closing balances of trade receivables (net) by revenue for the relevant year/period and then multiplied by 365 or 366 days for the relevant year or 181 days for the six months ended 30 June 2017.

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Average trade receivables turnover days indicates the average time required for the Group to collect cash payments from sales. The decrease in average trade receivables turnover days from approximately 90.2 days as at 31 December 2015 to approximately 61.8 days as at 31 December 2016 and further decreased to 43.0 days for the six months ended 30 June 2017 was primarily due to the increased effort in collecting of trade receivables in 2016 and 2017. In respect of payment/credit terms relating to domestic sales, the Group's customers are generally required to pay (i) 20% of the purchase price within seven business days following the date of the contract; (ii) 60 – 70% of the purchase price within five business days of the receipt of the Group's products; and (iii) within a maximum of one year from the receipt of the finished products to pay the remaining outstanding amount of 10 – 20%. In respect of payment/credit terms relating to trading companies, the Group's customers are generally required to pay the whole purchase price within one to six months of receipt of the Group's products. The maximum credit term of one year from the receipt of the Group's finished products is only available for the outstanding amount of 10 – 20% in relation to domestic sales, which represents a small portion of the total sales of the group. Hence, during the Track Record Period, the average trade receivables turnover days of the Group ranged from around 40 to 90 days notwithstanding the provision of the said one year credit term. As advised by Frost & Sullivan, the payment/credit terms offered by the Group are in line with industry norm.

Deposits, prepayments and other receivables

The following table sets forth a breakdown of the Group's deposits, prepayments and other receivables as at the dates indicated:

	As at 31 December		As at
	2015	2016	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Sundry deposits	3	3	3
Prepayments	–	2,660	3,890
Other receivables	546	55	1,296
	<u>549</u>	<u>2,718</u>	<u>5,189</u>
Total	<u>549</u>	<u>2,718</u>	<u>5,189</u>

Prepayments of approximately RMB2.7 million and approximately RMB3.9 million were made in year 2016 and in the six months ended 30 June 2017 respectively for a portion of the Listing expenses. Other receivables as at 31 December 2015 and 2016 primarily consisted of receivables to a tenant which was fully settled in 2016. Other receivables as at 30 June 2017 primarily consisted of export tax refund.

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Trade Payables

The following table sets out the Group's trade payables as at the dates indicated:

	As at 31 December		As at
	2015	2016	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	2017
			<i>RMB'000</i>
Trade payables	<u>21,628</u>	<u>7,529</u>	<u>15,782</u>

The decrease in trade payables from approximately RMB21.6 million as at 31 December 2015 to approximately RMB7.5 million as at 31 December 2016 was primarily due to prompt settlement of trade payables to enhance business relationship with suppliers.

As at 31 October 2017, the subsequent settlement of the Group's trade payable as at 30 June 2017 was approximately RMB15.8 million, or 100%.

The following table sets out an ageing analysis of the Group's trade payables, based on the date of receipt of goods, as at the dates indicated:

	As at 31 December		As at
	2015	2016	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	2017
			<i>RMB'000</i>
0 to 90 days	9,187	7,529	15,782
91 to 180 days	6,635	–	–
181 to 365 days	3,145	–	–
Over 365 days	2,661	–	–
	<u>21,628</u>	<u>7,529</u>	<u>15,782</u>

The following sets out the Group's average trade payable turnover days for the years indicated:

	Year ended 31 December		Six months
	2015	2016	ended
			30 June
			2017
Average trade payables turnover days ⁽¹⁾	127.0	87.6	52.1

Note:

- (1) Average trade payables turnover days for the two years ended 31 December 2015 and 2016 and the six months ended 30 June 2017 is derived by dividing the average of the opening and closing balances of trade payables by cost of goods sold for the relevant year/period and then multiplied by 365 or 366 days for the relevant year or 181 days for the six months ended 30 June 2017.

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Average trade payables turnover days indicates the average time the Group takes to make cash payments to suppliers. The average trade payables turnover days decreased from 127.0 days for the year ended 31 December 2015 to 87.6 days for the year ended 31 December 2016 due to prompt settlement of trade payables to enhance business relationship with suppliers. The average trade turnover days further decreased to 52.1 days for the six months ended 30 June 2017.

Deposit received, accruals and other payables

The following table sets out the Group's deposit received, accruals and other payables, as at dates indicated:

	As at 31 December		As at
	2015	2016	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deposits received in advance	219	894	962
Accruals	616	2,711	1,368
Other payables	1,206	481	1,696
Total	2,041	4,086	4,026

Deposits received in advance comprises of deposits received from sales of the Group's products. Accruals comprised the accrual of the Listing expenses. Other payables consisted of outstanding payment of value-added tax, and payables to others. The increase in the deposits received, accruals and other payables from approximately RMB2.0 million as at 31 December 2015 to approximately RMB4.1 million as at 31 December 2016 was primarily due to the accrual of the Listing expenses of approximately RMB2.0 million for the year ended 31 December 2016 and partly offset by reduction in other payables due to the payment of value-added tax. The deposits received, accruals and other payables as at 30 June 2017 was approximately RMB4.0 million, which was relatively stable.

Due to a related a company/director/owners/an owner of ultimate parent

The amounts of due to a related company were approximately RMB1.4 million, RMB4.1 million and nil as at 31 December 2015 and 2016 and 30 June 2017 respectively, which were unsecured, interest free and had no fixed repayment terms. The increase during the years ended 31 December 2015 and 2016 was primarily due to the purchase of equity capital of Zhangzhou Kaixing for the purposes of Reorganisation. The balance was fully settled in the six months ended 30 June 2017.

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The amounts of due to owners of the Company were nil, approximately RMB8.6 million and nil as at 31 December 2015 and 2016 and 30 June 2017, respectively, which were unsecured, interest-free and had no fixed repayment terms. The increase during the years ended 31 December 2015 and 2016 was primarily due to the financing of the payment of the Listing expenses and partial settlement of the consideration for purchase of equity capital of Zhangzhou Kaixing for the purposes of Reorganisation in 2016. The balance was fully settled in the six months ended 30 June 2017.

The amounts due to a director were nil, approximately RMB460,000 and nil as at 31 December 2015 and 2016 and 30 June 2017 respectively, which were unsecured, interest-free and had no fixed repayment terms. The increase during the years ended 31 December 2015 and 2016 was primarily due to the partial settlement of the consideration for purchase of equity capital of Zhangzhou Kaixing for the purposes of Reorganisation. The balance was fully settled in the six months ended 30 June 2017.

The amounts due to an owner of ultimate parent were nil, nil and approximately RMB6.7 million as at 31 December 2015 and 2016, and 30 June 2017, respectively, which were unsecured, interest-free and had no fixed repayment terms. The amounts due to an owner of ultimate parent as at 30 June 2017 was primarily due to the financing of the payment of the Listing expenses, which will be fully settled before Listing.

CAPITAL EXPENDITURES

During the Track Record Period, the Group incurred capital expenditures mainly for the construction of a warehouse and the improvement works for existing properties. As at 31 December 2015 and 2016 and 30 June 2017, the net book value of the Group's property, plant and equipment was approximately RMB24.7 million, RMB24.8 million and RMB23.9 million, respectively, which consisted mainly of buildings with net carrying value of approximately RMB20.4 million, RMB21.0 million, and RMB20.4 million respectively. The following table sets out the Group's capital expenditures during the Track Record Period indicated:

	Year ended 31 December		Six months ended 30 June
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Additions of property, plant and equipment	136	180	4
Additions of construction in progress	636	1,915	208

Save for the planned usage of the net proceeds of the Share Offer as disclosed in the section headed "Future Plans and Use of Proceeds" of this prospectus, the Group had no material planned capital expenditures as at the Latest Practicable Date.

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COMMITMENTS

Capital Commitments

The Group did not have any capital commitments relating to the acquisition of property, plant and equipment contracted but not provided for. The Group's capital commitments as at the dates indicated are as follows:

	As at 31 December		As at
	2015	2016	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	2017
			<i>RMB'000</i>
In respect of acquisitions of property, plant and equipment contracted but not provided for	<u>–</u>	<u>–</u>	<u>–</u>

Operating Lease Commitments

The Group's future minimum lease receivables under the non-cancellable operating leases contracted for as at the dates indicated are as follows:

	As at 31 December		As at
	2015	2016	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	2017
			<i>RMB'000</i>
Within one year	<u>540</u>	<u>515</u>	<u>496</u>

INDEBTEDNESS

During the Track Record Period, the Group obtained short-term bank loans denominated in RMB provided by certain commercial banks in the PRC. The Group's borrowings as at the dates indicated are as follows:

	As at 31 December		As at	As at
	2015	2016	30 June	31 October
	<i>RMB'000</i>	<i>RMB'000</i>	2017	2017
			<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)
Bank loans repayable on demand or within one year	<u>35,000</u>	<u>44,900</u>	<u>44,900</u>	<u>44,900</u>

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These bank loans were all secured by the Group's property, plant and equipment, and prepaid land lease payments, repayable within one year and had an average interest rate of 6.6%, 5.7% and 4.9% per annum as at 31 December 2015, 2016 and 30 June 2017 respectively.

As at 31 December 2015 and 2016 and 30 June 2017, the carrying amount of property, plant and equipment pledged as security for the Group's bank loans amounted to RMB23,645,000, RMB19,043,000 and RMB20,015,000, respectively.

As at 31 December 2015 and 2016 and 30 June 2017, the carrying amount of prepaid land lease payment pledged as security for the Group's bank loans amounted to RMB2,880,000, RMB2,809,000, RMB2,773,000, respectively.

As mentioned in the section headed "Future Plans and Use of Proceeds", the Group intends to partially repay HK\$4.0 million of the outstanding amount of RMB5.0 million (approximately HK\$5.6 million) in relation to a short-term liquidity loan maturing on January 2018 with interest at 4.4% per annum.

The short-term bank loans as at 31 December 2015 and 2016 and 30 June 2017 respectively were also secured by personal guarantees provided by the directors, a shareholder of the ultimate parent and corporate guarantee provided by Longhuai Import & Export. All such guarantees will be released upon Listing.

The Group's short-term bank loans may contain covenants, such as: dissolution of the short-term bank loans contracts due to any material adverse change to the Group's ability to repay the short-term borrowings, and not to create any kind of encumbrance or security interest over the Group's assets without the lender's prior written consent. The Directors do not expect such covenants will materially restrict the Group's overall ability to undertake additional debt or equity financing necessary to carry out its business plans. The Directors confirm that, to the best of their knowledge, they are not aware of any material defaults in the payment of trade and non-trade payables or bank loans or any defaults in the covenants contained in the Group's borrowing agreements that affect the renewal of such borrowings.

As at 31 October 2017, being the latest practicable date for the purposes of indebtedness disclosure in this prospectus, the Group had outstanding indebtedness of RMB44.9 million, comprising short-term bank borrowing of RMB44.9 million. The said short term bank loan as at 31 October 2017 was also secured by personal guarantees provided by two directors and a controlling shareholder and corporate guarantee provided by Longhuai Import & Export. All such guarantees will be released upon Listing. As at 31 October 2017, the Group had fully utilised its banking facilities.

Statement of Indebtedness

Save as disclosed herein, the Group did not have any outstanding or authorised or otherwise created but unissued term loans, other borrowings or indebtedness in the nature of borrowing including bank overdrafts, liabilities under acceptances (other than normal trade

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bills), acceptance credits, debentures, hire purchase commitments, mortgage and charges, material contingent liabilities or guarantees outstanding as at 31 October 2017. The Group intends to continue to finance part of its operations and expansion with bank loans as it deems appropriate. Except for such bank loans, the Group currently does not have any plans for other material external debt financing.

Directors' Confirmation

The Directors confirm that the Group had no material defaults in payment of trade and non-trade payables and bank borrowings, nor any breaches of finance covenants during the Track Record Period and up to the date of this prospectus.

The Directors confirm that there is no material adverse change in the Group's indebtedness position since 31 October 2017 and up to the date of this prospectus.

CONTINGENT LIABILITIES

As at the Latest Practicable Date, the Group did not have any significant contingent liabilities or outstanding guarantees in respect of payment obligations of any third parties.

KEY FINANCIAL RATIOS

	For the year ended/As at		For the six
	31 December		months ended/
	2015	2016	as at 30 June
			2017
Gross profit margin (%) ⁽¹⁾	30.9	35.4	35.9
Net profit margin (%) ⁽²⁾	15.5	11.4	15.6
Return on assets (%) ⁽³⁾	13.0	11.1	16.4
Return on equity (%) ⁽⁴⁾	42.7	39.7	41.4
Current ratio ⁽⁵⁾	1.0	1.0	1.3
Quick ratio ⁽⁶⁾	0.8	0.9	1.1
Interest coverage ratio ⁽⁷⁾	9.0	7.4	11.5
Debt to equity ratio (%) ⁽⁸⁾	22.8	53.6	Net cash
Gearing ratio (%) ⁽⁹⁾	137.0	213.5	108.3

Notes:

- (1) Gross profit margin is calculated based on gross profit divided by revenue for the respective years/period.
- (2) Net profit margin is calculated based on profit for the year/period attributable to the owners of the Company divided by revenue for the respective years/period.
- (3) Return on assets is calculated by profit for the year/period attributable to the owners of the Company divided by the total assets as of the relevant year/period, provided that annualised profit is used for that calculation for the six months ended 30 June 2017.
- (4) Return on equity is calculated by profit for the year/period attributable to the owners of the Company divided by the total equity as of the relevant year end/period end provided that annualised profit is used for that calculation for the six months ended 30 June 2017.

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- (5) Current ratio is calculated based on total current assets divided by total current liabilities as at the relevant year end/period end.
- (6) Quick ratio is calculated based on total current assets less inventories divided by total current liabilities as at the relevant year end/period end.
- (7) Interest coverage ratio is calculated based on profit before interest and tax of the year/period divided by interest expenses of the same year/period.
- (8) Debt to equity ratio is calculated by net debt (being all loans and borrowings, amounts due to a related company, a director, owners of the Company and an owner of ultimate parent net of cash and cash equivalents) divided by total equity as of the relevant year end/period end and multiplied by 100%.
- (9) Gearing ratio is calculated based on total debt divided by total equity as at the relevant year end/period end. Total debt includes all loans and borrowings, amounts due to a related company, a director, owners of the Company and an owner of ultimate parent .

Analysis of Key Financial Ratios

Gross profit margin

The Group's gross profit margin increased from approximately 30.9% for the year ended 31 December 2015 to approximately 35.4% for the year ended 31 December 2016 primarily due to the magnitude of the increase in cost of goods sold was smaller than the increase in the revenue. The Group's gross profit margin for the six months ended 30 June 2017 was approximately 35.9%, which was similar to that for the year ended 31 December 2016.

Net profit margin

The net profit margin of the Group decreased from approximately 15.5% for the year ended 31 December 2015 to approximately 11.4% for the year ended 31 December 2016. The decrease in the Group's net profit margin was primarily attributable to the Listing expense of approximately RMB6.2 million incurred in the year ended 31 December 2016. The Group's net profit margin for the six months ended 30 June 2017 was approximately 15.6%.

Return on Assets

The Group's return on assets decreased from approximately 13.0% for the year ended 31 December 2015 to approximately 11.1% for the year ended 31 December 2016. The decrease was primarily attributable to (i) the decrease in net profit; and (ii) the increase of total assets, which was mainly due to the increase in bank and cash balance of approximately RMB13.1 million as a result of the increase in sales in 2016. The Group's return on assets for the six months ended 30 June 2017 was approximately 16.4%.

Return on Equity

The Group's return on equity decreased from approximately 42.7% for the year ended 31 December 2015 to approximately 39.7% for the year ended 31 December 2016 mainly due to the Group's decrease in the profit for the year from approximately RMB11.3 million for the

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year ended 31 December 2015 to approximately RMB10.8 million for the year ended 31 December 2016. Such decrease in the profit for the year was primarily due to the Listing expenses of approximately RMB6.2 million incurred in 2016 whereas the Listing expenses was RMB150,000 for the year ended 31 December 2015. The Group's return on equity increased from approximately 39.7% for the year ended 31 December 2016 to approximately 41.4% for the six months ended 30 June 2017.

Current Ratio

The current ratio of the Group remained stable at approximately 1.0 and 1.0 as at 31 December 2015 and 2016, respectively, and increased to 1.3 as at 30 June 2017.

Quick Ratio

The quick ratio of the Group remained stable at approximately 0.8 and 0.9 as at 31 December 2015 and 2016, respectively, and increased to 1.1 as at 30 June 2017.

Interest Coverage Ratio

The interest coverage ratio of the Group decreased from approximately 9.0 as at 31 December 2015 to approximately 7.4 as at 31 December 2016, mainly due to the increase in finance costs from approximately RMB1.8 million for the year ended 31 December 2015 to approximately RMB2.3 million for the year ended 31 December 2016 mainly as a result of increase in bank loans for the year ended 31 December 2016 to finance the increase in sales. The increase in sales led to a substantial increase in gross profit from approximately RMB22.6 million for the year ended 31 December 2015 to approximately RMB33.4 million for the year ended 31 December 2016, representing an increase of approximately RMB10.8 million. However, the increase in gross profit was partially offset by the Listing expenses of approximately RMB6.2 million incurred in 2016. As a result, the profit before interest and tax for the year ended 31 December 2015 and 2016 had no significant change. The interest coverage ratio of the Group increased from approximately 7.4 as at 31 December 2016 to approximately 11.5 as at 30 June 2017, mainly due to the fact that the rate of increase in profit before interest and tax was higher than that of the finance cost during the period. The banks loans as at 31 December 2016 was same as that as at 30 June 2017.

Debt to Equity Ratio

The Group's debt to equity ratio increased from approximately 22.8% as at 31 December 2015 to approximately 53.6% as at 31 December 2016 mainly attributable to the increase of bank loans to finance its sales growth and increase of amounts due to a related company, a Director and owners of the Company for the year ended 31 December 2016 to finance the Listing expenses of approximately RMB6.2 million incurred in 2016 and the partial settlement of the consideration for the purchase of equity capital of Zhangzhou Kaxing for the purposes of Reorganisation in 2016.

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Gearing Ratio

The Group's gearing ratio increased from approximately 137.0% as at 31 December 2015 to approximately 213.5% as at 31 December 2016 mainly due to the increase of bank loans and the increase of amounts due to a related company, a director and owners for the year ended 31 December 2016 to finance the Listing expenses of approximately RMB6.2 million incurred in 2016 and the partial settlement of the consideration for the purchase of equity capital of Zhangzhou Kaxing for the purposes of Reorganisation in 2016. The Group's gearing ratio decreased from approximately 213.5% as at 31 December 2016 to approximately 108.3% as at 30 June 2017 mainly due to (i) the reduction of loans and borrowing as a result of the repayments during the period of all the amounts due to a related company, a director and owners of the Company, which totalled approximately RMB13.2 million as at 31 December 2016; and (ii) the increase in total equity of approximately RMB20.5 million primarily due to the issue of Shares and the net profit during the period.

QUANTITATIVE AND QUALITATIVE ANALYSIS OF FINANCIAL RISKS

The Group is exposed to various types of financial risks in its ordinary course of business: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Foreign Currency Risk

During the Track Record Period, the Group's sales and purchases were denominated in RMB. Since January 2017, the Group has commenced its direct sales to overseas market, which are denominated in US\$. The Group will have foreign currency exposure in respect of such direct overseas sales. At present, the Group's exposure to foreign currency risk is not significant as most of its business transactions, assets and liabilities are principally denominated in Renminbi. The Group will consider hedging significant foreign currency exposure should such need arise.

Credit Risk

As the majority of the cash and bank balances are placed with banks with high credit ratings, the Group's credit risk is primarily attributable to trade receivables. The Group has implemented policies to ensure that credit is granted to customers with appropriate credit history. The Group's finance department is responsible for the determination of credit limit, credit approval and other monitoring procedures in order to minimise the Group's exposure to credit risk. In addition, the Group's finance department from time to time reviews the recoverable amount of each individual trade debt to ensure that adequate impairment losses are recognised for irrecoverable debts. Accordingly, the Directors are of the view that the Group's credit risk is significantly reduced.

The Group has no significant concentrations of credit risk. For an ageing analysis of the Group's trade receivables, please refer to Note 20 of the Accountants' Report included as "Appendix I – Accountants' Report" in this prospectus.

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Liquidity Risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis based on contractual undiscounted cash flows of the Group's non-derivative financial liabilities is as follows:

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2015					
Trade payables	21,628	–	–	–	21,628
Accruals and other payables	1,822	–	–	–	1,822
Bank loans	35,564	–	–	–	35,564
Due to related party	1,389	–	–	–	1,389
	<u>21,628</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>21,628</u>
At 31 December 2016					
Trade payables	7,529	–	–	–	7,529
Accruals and other payables	3,192	–	–	–	3,192
Bank loans	45,605	–	–	–	45,605
Due to owners	8,572	–	–	–	8,572
Due to a director	460	–	–	–	460
Due to a related party	4,130	–	–	–	4,130
	<u>7,529</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>7,529</u>
At 30 June 2017					
Trade payables	15,782	–	–	–	15,782
Accruals and other payables	3,064	–	–	–	3,064
Bank loans	46,534	–	–	–	46,534
Due to an owner of ultimate parent	6,733	–	–	–	6,733
	<u>15,782</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>15,782</u>

FINANCIAL INFORMATION

Interest Rate Risk

The Group's exposure to interest rate risk arises from its bank deposits and bank borrowings, which bear interests at variable rates varied with the then prevailing market condition.

It is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have increased/(decreased) the Group's profit after tax for the years/period as follows:

	Year ended		Six months
	31 December		ended
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Increase/(decrease) in interest rates			
50 basis points	115	163	226
(50) basis points	(115)	(163)	(226)

The sensitivity analysis above indicates the impact on the Group's profit for the years that would have arisen assuming that there is an annualised impact on interest income and expense by a change in interest rates. The analysis has been performed on the same basis for each of the two years ended 31 December 2015 and 2016 and the six months ended 30 June 2017.

RELATED PARTY TRANSACTIONS

For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, the Group had recorded sales of approximately RMB4.7 million, RMB13.1 million and RMB1.0 million respectively to Longhuai Import & Export, which is the Group's related party. For further details of other related party transactions, please refer to Note 31 to the Accountants' Report in Appendix I to this prospectus. The Directors confirm that these transactions were conducted in the ordinary and usual course of business of the Group, and on an arm's length basis or terms no less favourable to the Group than terms available to or from Independent Third Parties and are fair and reasonable, and that these transactions are in the interest of the Shareholders as a whole. The Directors are of the view that these related party transactions did not distort the Group's results of operations during the Track Record Period or make the Group's historical results of operations not reflective of the Group's future performance.

OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, the Group had not entered into any off-balance sheet arrangements.

FINANCIAL INFORMATION

DIVIDEND

Save for the declaration of dividends amounted to approximately RMB3.2 million for the year ended 31 December 2016, the Group had not declared or paid any dividends during the Track Record Period.

Declaration of dividends is dependant on the Group's results of operations, working capital, financial position, future prospects, and capital requirements, as well as any other factors which the Directors may consider relevant. Holders of the Shares will be entitled to receive such dividends on a pro rata basis according to the amounts paid up or credited as paid up on the Shares. The declaration, payment and amount of dividends will be subject to the Group's discretion.

Any future declarations and payments of dividends will depend upon the availability of dividends received from the Group's PRC operating subsidiaries and may or may not reflect any historical declarations. Under applicable PRC laws, dividends can only be paid out of the net profit calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including IFRSs. PRC laws also require foreign-invested enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from the Group's PRC operating subsidiaries may also be subject to any restrictive covenant in bank credit facilities or loan agreements, convertible bond instruments or other agreements that the Group may enter into in the future.

The Group does not currently have any dividend policy or intention to declare or pay any dividends in the near future, nor does the Group have any predetermined dividend payout ratio.

Declaration of dividends is subject to the discretion of the Directors and after Listing, any declaration of final dividend for the year will be subject to the approval of the Shareholders. In addition, any declaration and payment as well as the amount of dividend will be subject to the constitutional documents of the Company and the Companies Law.

DISTRIBUTABLE RESERVES

As the Company was incorporated on 28 July 2016, as at 31 December 2016, the Company did not have any distributable reserves available for distribution to its Shareholders.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative unaudited pro forma statement of adjusted consolidated net tangible assets of the Group, prepared in accordance with paragraph 31 of Chapter 7 of the GEM Listing Rules and on the basis of the notes set forth below for the purpose of illustrating the effect of the Share Offer on the consolidated net tangible assets attributable to the Group's equity Shareholders as if the Share Offer had taken place on 30 June 2017.

FINANCIAL INFORMATION

This unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purposes only, and because of this hypothetical nature, it may not give a true picture of the consolidated net tangible assets attributable to the Group's equity Shareholders had the Share Offer and Capitalisation Issue been completed on 30 June 2017 or at any future dates.

	Audited consolidated net tangible assets attributable to owners of the Company as at 30 June 2017 RMB'000	Estimated net proceeds from the Share Offer ⁽¹⁾ RMB'000	Unaudited pro forma adjusted net tangible assets RMB'000	Unaudited pro forma adjusted net tangible assets per Offer Share ⁽²⁾ RMB HK\$ ⁽³⁾	
Based on the Offer price of HK\$0.18 per Offer Share	47,670	26,080	73,750	0.074	0.083
Based on the Offer price of HK\$0.28 per Offer Share	47,670	51,979	99,649	0.100	0.112

Notes:

- (1) The adjustment to the pro forma statement of net tangible assets reflects the estimated proceeds from the Share Offer to be received by the Company. The estimated proceeds from the Share Offer is based on the Offer Price of HK\$0.18 and HK\$0.28 per Offer Share, respectively, being the lower and higher end price of the stated Offer Price range, and 300,000,000 Shares, net of underwriting fee and other estimated listed-related expenses of approximately RMB21.98 million and RMB22.78 million, respectively.
- (2) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company and the amounts per Share are arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,000,000,000 Shares are expected to be in issue following the Share Offer (including 300,000,000 Shares newly issued upon the Share Offer) and the respective Offer Price of HK\$0.18 and HK\$0.28 per Share.
- (3) The estimated net proceeds from the Share Offer and the unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share are converted from or into Hong Kong dollars at an exchange rate of RMB0.89 to HK\$1.00. No representation is made that the HK\$ amounts have been, could have been or may be converted into RMB, or vice versa, at that rate.
- (4) The number of Shares is based on a total of 1,000,000,000 Shares issued, adjusted as if the Share Offer had occurred at 30 June 2017. The Group's property interests as of 30 September 2017 have been valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix III "Valuation Report" to this prospectus. The above adjustment does not take into account the surplus arising from the revaluation of the Group's property interests amounting to RMB16.33 million. The revaluation surplus was not incorporated in our financial statements for property, plant and equipment and prepaid land lease payment. If the valuation surplus was recorded in the financial statements, the depreciation expense for the year would be increased by approximately RMB1,178,000.
- (5) No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2017.

DISCLOSURE REQUIRED UNDER RULE 17.15 TO RULE 17.21 OF THE GEM LISTING RULES

The Directors have confirmed that as of the Latest Practicable Date, there were no circumstances which would have given rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

FINANCIAL INFORMATION

NO MATERIAL ADVERSE CHANGE

The Directors confirm that since 30 June 2017 and up to the date of this prospectus, there had been no material adverse change in the financial or trading position or prospects of the Group and no event had occurred that would materially and adversely affect the information shown in the Group's consolidated financial statements as set out in the Accountants' Report included in the Accountants' Report in Appendix I to this prospectus.

UNDERWRITING

PUBLIC OFFER UNDERWRITERS

Essence International Securities (Hong Kong) Limited

SBI China Capital Financial Services Limited

UNDERWRITING

This prospectus is published solely in connection with the Share Offer. The Share Offer is fully underwritten by the Underwriters on a conditional basis.

PUBLIC OFFER UNDERWRITING ARRANGEMENTS

Public Offer Underwriting Agreement

The Public Offer Underwriting Agreement was entered into on 19 December 2017. Pursuant to the Public Offer Underwriting Agreement, the Company has agreed to offer the Public Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to, among other conditions, the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus by the Listing Committee and to certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriters have severally agreed to subscribe or procure subscribers for their respective applicable proportions of the Public Offer Shares now being offered which are not taken up under the Public Offer on the terms and conditions of this prospectus, the Application Forms and the Public Offer Underwriting Agreement.

UNDERWRITING

Grounds for termination

The obligations of the Public Offer Underwriters to subscribe or procure subscribers for the Public Offer Shares are subject to termination if certain events, including force majeure, shall occur at any time at or before 8:00 a.m. (Hong Kong time) on the Listing Date. The Sole Bookrunner (for itself and on behalf of the other Public Offer Underwriters) shall be entitled by notice to the Company to terminate the Public Offer Underwriting Agreement with immediate effect if prior to 8:00 a.m. on the Listing Date if:

- (a) there shall develop, occur, exist or come into effect:
 - (i) any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change, in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, but without limitation to, conditions affecting stock and bond markets, money and foreign exchange markets, interbank markets and credit markets or a change in the system under which the value of Hong Kong currency is linked to that of the currency of the United States of America or the Renminbi is linked to any foreign currency(ies) in or affecting any of the Relevant Jurisdictions (as defined in sub-paragraph (ii) below));
 - (ii) any change or development involving a prospective change in taxation or exchange control, currency exchange rates or foreign investment regulations (including, but without limitation to, a devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies (including, but without limitation to, United States dollars)), or the implementation of any exchange control in Hong Kong, the PRC, the United States, the United Kingdom, the European Union (taking as a whole or any member thereof), Ireland, the British Virgin Islands, the Cayman Islands, the Republic of Seychelles or any other jurisdiction relevant to any member of the Group (the “**Relevant Jurisdictions**”);
 - (iii) any event, or series of events, in the nature of force majeure (including, but without limitation to, acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemics, pandemics, outbreaks of diseases, economic sanction, strikes, lock-outs, fire, explosion, flooding, earthquake, civil commotion, riot, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting any of the Relevant Jurisdictions;
 - (iv) any new law or regulation or any change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any of the Relevant Jurisdictions;

UNDERWRITING

- (v) any moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent authority), New York (imposed at the federal or New York state level or other competent authority), London, the European Union (taking as a whole or any member thereof), Japan, the PRC or in any of the Relevant Jurisdictions;
- (vi) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the NASDAQ National Markets, the American Stock Exchange, the Tokyo Stock Exchange, the Singapore Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange or any disruption in monetary or trading or securities settlement or clearance services, procedures or matters;
- (vii) the imposition of economic sanctions, in whatever form, directly or indirectly, on any of the Relevant Jurisdictions;
- (viii) the commencement by any governmental, law enforcement agency, regulatory or political body or organisation of any investigation or other action against a Director or any of the covenants to the Public Offer Underwriting Agreement (the “**Covenants**”) or an announcement by any governmental, regulatory or political body or organisation that it intends to take any such action;
- (ix) any material litigation, legal action, claim or legal proceeding of any third party being threatened or instigated against a Director or any member of the Group or any of the Covenants;
- (x) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company;
- (xi) the chairman or chief executive officer of the Company vacating his or her office;
- (xii) save as disclosed in this prospectus, a contravention by any Director or any member of the Group or any of the Covenants of the Listing Rules, the SFO, the Companies Ordinance, the Companies (WUMP) Ordinance or any other applicable laws and regulations;
- (xiii) any material non-compliance with this prospectus (or any other documents used in connection with the Public Offer) or any aspect of the Share Offer with the Listing Rules, the SFO, the Companies Ordinance, the Companies (WUMP) Ordinance or any other applicable laws or regulations;

UNDERWRITING

- (xiv) other than with the approval of the Sole Bookrunner (for itself and on behalf of the other Public Offer Underwriters), the issue or requirement to issue by the Company of a supplement or amendment to this prospectus (or any other documents used in connection with the Public Offer) pursuant to the SFO, the Companies Ordinance, the Companies (WUMP) Ordinance, and the Listing Rules or any applicable law and regulation or any requirement or request of the Stock Exchange or SFC;

- (xv) a prohibition by a competent authority on the Company for whatever reason from allotting and issuing the Shares under the Share Offer;

- (xvi) any change or prospective change in, or materialisation of, any of the risks set forth in the section headed “Risk Factors” of this prospectus; or

- (xvii) an order or petition for the winding-up of any member of the Group or any of the Covenantors or any composition or arrangement made by any member of the Group or any of the Covenantors with its creditors or a scheme of arrangement entered into by any member of the Group or any of the Covenantors or any resolution for the winding-up of any member of the Group or any of the Covenantors or the appointment of a provisional liquidator, receiver or manager over all or part of the assets or undertaking of any member of the Group or any of the Covenantors or anything analogous thereto occurring in respect of any member of the Group or any of the Covenantors;

which, any of the above events, individually or in the aggregate, in the sole and absolute opinion of the Sole Bookrunner, (i) has or will or may have a material adverse effect on the business, financial or other condition or prospects of the Group, (ii) has or will have or may have a material adverse impact on the success of the Share Offer or the level of applications under the Public Offer or the level of interest under the Placing, (iii) makes or will make or may make it inadvisable or inexpedient or impracticable for any part of the Public Offer Underwriting Agreement, or for any part of the Public Offer or the Share Offer to be performed or implemented or proceed as envisaged or to market the Share Offer or to deliver the Offer Shares on the terms and in the manner contemplated by this prospectus, or (iv) has or would or may have the effect of making any part of the Public Offer Underwriting Agreement incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Share Offer or pursuant to the underwriting thereof.

UNDERWRITING

- (b) there has come to the notice of the Sole Bookrunner:
- (i) that any statement contained in this prospectus, the Application Forms and/or any announcement or advertisement or document issued by or on behalf of the Company in connection with the Public Offer (including any supplement or amendment thereto) was, when it was issued, or has become untrue or incorrect or misleading in any material respect, or that any forecast, expression of opinion, intention or expectation expressed in this prospectus and/or any announcements or documents issued by the Company in connection with the Public Offer (including any supplement or amendment thereto) is not fair, honest and based on reasonable assumptions;
 - (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission from any of this prospectus, the Application Forms and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Public Offer (including any supplement or amendment thereto);
 - (iii) any material adverse change, or any development involving a prospective material adverse change, in or affecting the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of the Company and the other members of the Group;
 - (iv) any breach of, or any event rendering untrue or incorrect or inaccurate or misleading in any material respect, any of the warranties given by the Company or any of the Covenantors under the Public Offer Underwriting Agreement;
 - (v) any breach of any of the obligations imposed upon any party to the Public Offer Underwriting Agreement or the Placing Underwriting Agreement (other than the part on any of the Public Offer Underwriters or the Placing Underwriters);
 - (vi) any claim or demand from any third party being threatened or instigated against the Company or any member of the Group including any demand for repayment or payment of any indebtedness of the Company or any member of the Group;
 - (vii) approval by the Listing Committee of the listing of, and permission to deal in, the Shares in issue and to be issued under the Share Offer and the Capitalisation Issue, on or before the date of the Listing Date is refused or not granted, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld;

UNDERWRITING

- (viii) that the Company withdraws this prospectus (or any other documents used in connection with the Share Offer) or suspends the Share Offer; and
- (ix) any expert (other than the Sole Sponsor) named in the section headed “Appendix V – Statutory and General Information – Other Information – 20. Qualifications and consents of experts” of this prospectus, has withdrawn its consent to being named in any of this prospectus and the Application Forms or to the issue of any of this prospectus and the Application Forms.

UNDERTAKINGS GIVEN TO THE STOCK EXCHANGE PURSUANT TO THE GEM LISTING RULES

Undertaking by the Company

Pursuant to Rule 17.29 of the GEM Listing Rules, the Company has undertaken to the Stock Exchange that no further Shares or securities convertible into the equity securities (whether or not of a class already listed) may be issued by the Company or form the subject of any agreement to such an issue by the Company within six months from the Listing Date (whether or not such issue of Shares or the securities will be completed within six months from the commencement of dealing), except in certain circumstances prescribed by Rule 17.29 of the GEM Listing Rules.

Undertaking by the Controlling Shareholders

Pursuant to Rule 13.16A(1) of the GEM Listing Rules, each of the Controlling Shareholders has undertaken to the Stock Exchange and the Company that, save as provided in Rule 13.18 of the GEM Listing Rules and pursuant to the Share Offer, she/it will not and will procure that the relevant registered holder(s) will not:

- (a) in the period commencing on the date by reference to which disclosure of her/its shareholding in the Company is made in this prospectus and ending on the date which is six months from the date on which dealings in the Shares commence on the Stock Exchange, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which she/it is shown by this prospectus to be the beneficial owner; and
- (b) in the period of six months commencing on the date on which the period referred to in the paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in the paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, she/it would cease to be a Controlling Shareholder of the Company.

UNDERWRITING

Pursuant to Rule 13.19 of the GEM Listing Rules, each of the Controlling Shareholders has undertaken to the Stock Exchange and the Company to comply with the following requirements:

- (a) in the event that she/it pledges or charges any direct or indirect interest in the Shares in respect of which she/it is shown by this prospectus to be the beneficial owner in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong), as security for a bona fide commercial loan under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, at any time during the period commencing on the date by reference to which disclosure of her/its shareholding in the Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, she/it must inform the Company immediately thereafter, disclosing the details specified in Rules 17.43(1) to (4) of the GEM Listing Rules; and
- (b) having pledged or charged any interest in Shares under sub-paragraph (a) above, she/it must inform the Company immediately in the event that she/it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of Shares affected.

The Company will inform the Stock Exchange as soon as it has been informed of such matters and must forthwith publish an announcement giving details of the same in accordance with the requirements of Rule 17.43 of the GEM Listing Rules.

UNDERTAKINGS PURSUANT TO THE PUBLIC OFFER UNDERWRITING AGREEMENT

Undertaking by the Company

The Company has undertaken to the Sole Sponsor, the Sole Bookrunner and the Public Offer Underwriters that, except pursuant to the Share Offer and the Capitalisation Issue, it will not, and each of the executive Directors and the Controlling Shareholders has undertaken to the Sole Sponsor, the Sole Bookrunner and the Public Offer Underwriters to procure the Company not to, without the prior written consent of the Sole Bookrunner (acting for itself and on behalf of the other Public Offer Underwriters), at any time from the date of the Public Offer Underwriting Agreement up to and including the date falling six months after the Listing Date (the “**First Six-Month Period**”):

- (a) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the Company’s share capital or other securities of the Company or any interest therein (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such share capital or securities or any interest therein); or

UNDERWRITING

- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein; or
- (c) enter into any transaction with the same economic effect as any transaction described in paragraphs (a) or (b) above; or
- (d) offer to or agree to enter into, any such transaction described in paragraphs (a), (b) or (c) above;

whether any of the foregoing transactions is to be settled by delivery of share or such other securities, in cash or otherwise and in the event of the Company doing any of the foregoing by virtue of the aforesaid exceptions or during the period of six months immediately following the First Six-Month Period, the Company will take all reasonable steps to ensure that any such act will not create a disorderly or false market for the Shares or other securities of the Company.

Undertaking by the Controlling Shareholders

Each of the Controlling Shareholders has irrevocably undertaken with the Company, the Sole Sponsor, the Sole Bookrunner and the Public Offer Underwriters that:

- (a) at any time from the date of the Public Offer Underwriting Agreement up to and including the date falling after 24 months after the Listing Date, except pursuant to the Share Offer, each of the Controlling Shareholders will not and will procure that none of its associates or companies controlled by it or any nominee or trustee holding in trust for it will, without the prior written consent of the Sole Bookrunner (acting for itself and on behalf of the other Public Offer Underwriters), at any time:
 - (i) offer, mortgage, hypothecate, pledge, charge, sell, contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of) the Shares, either directly or indirectly, conditionally or unconditionally, or any of the Company's share or debt capital or the Company's other securities or any interest therein (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein owned directly or indirectly by each of the Controlling Shareholders (including holding as a custodian) or with respect to which each of the Controlling Shareholders have beneficial ownership) (collectively the "**Controlling Shareholders Lock-up Shares**"). The foregoing restriction is expressly agreed to preclude each of the Controlling Shareholders from engaging in any hedging or other transaction which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of the Controlling Shareholders Lock-up Shares even

UNDERWRITING

if such Shares would be disposed of by someone other than each of the Controlling Shareholders. Such prohibited hedging or other transactions would include without limitation any short sale or any purchase, sale or grant of any right (including without limitation any put or call option) with respect to any of the Controlling Shareholders Lock-up Shares (except for certain Controlling Shareholders Lock-up Shares pledged in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) as security for a bona fide commercial loan) or with respect to any security that includes, relates to, or derives any significant part of its value from such Shares; or

- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; or
- (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or
- (iv) agree or contract to, or publicly announce any intention to enter into, any transaction described in (i) or (ii) or (iii) above, whether any such transaction described in (i) or (ii) or (iii) above is to be settled by delivery of Shares or such other securities, in cash or otherwise.

For the avoidance of doubt, the undertaking given by each of the Controlling Shareholders as described above cannot be waived.

Undertaking by Sheen Vision and Apex Green

Each of Sheen Vision and Apex Green (collectively, the “**Obligors**”) has irrevocably undertaken with the Company, the Sole Sponsor, the Sole Bookrunner and the Public Offer Underwriters that:

- (a) at any time from the date of the Public Offer Underwriting Agreement up to and including the date falling after 12 months after the Listing Date, except pursuant to the Share Offer, each of the Obligors will not, and will procure that none of its associates or companies controlled by it or any nominee or trustee holding in trust for it will, and Mr. Chen and Mr. J Zheng as the directors of the Obligors respectively has undertaken to the Company, the Sole Sponsor, the Sole Bookrunner and the Public Offer Underwriters to procure the Obligors not to, without the prior written consent of the Sole Bookrunner (acting for itself and on behalf of the other Public Offer Underwriters), at any time:
 - (i) offer, mortgage, hypothecate, pledge, charge, sell, contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any

UNDERWRITING

agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of) the Shares, either directly or indirectly, conditionally or unconditionally, or any of the Company's share or debt capital or the Company's other securities or any interest therein (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein owned directly or indirectly by each of the Obligors (including holding as a custodian) or with respect to which each of the Controlling Shareholders have beneficial ownership) (collectively the ("**Obligors Lock-up Shares**"). The foregoing restriction is expressly agreed to preclude each of the Obligors from engaging in any hedging or other transaction which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of the Obligors Lock-up Shares even if such Shares would be disposed of by someone other than each of the Obligors. Such prohibited hedging or other transactions would include without limitation any short sale or any purchase, sale or grant of any right (including without limitation any put or call option) with respect to any of the Obligors Lock-up Shares (except for certain Obligors Lock-up Shares pledged in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) as security for a bona fide commercial loan) or with respect to any security that includes, relates to, or derives any significant part of its value from such Shares; or

- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; or
- (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or

agree or contract to, or publicly announce any intention to enter into, any transaction described in (i) or (ii) or (iii) above, whether any such transaction described in (i) or (ii) or (iii) above is to be settled by delivery of Shares or such other securities, in cash or otherwise.

Since Sheen Vision and Apex Green are not Controlling Shareholders of the Company, they are not subject to the mandatory lock-up under Rule 13.16A(1) of the GEM Listing Rules. The lock-up undertaking is given by each of them on a voluntary basis.

PLACING

In connection with the Placing, it is expected that on 28 December 2017, the Company will enter into the Placing Underwriting Agreement with, amongst others, the Placing Underwriters, on terms and conditions that are substantially similar to the Public Offer Underwriting Agreement as described above. Under the Placing Underwriting Agreement, the Placing Underwriters will severally agree to subscribe or procure subscribers for the Placing Shares being offered pursuant to the Placing.

UNDERWRITING

Potential investors should note that if the Placing Underwriting Agreement is terminated, the Share Offer will not proceed.

COMMISSION AND EXPENSES

The Underwriters will receive an underwriting commission of 3.0% on the aggregate Offer Price of all the Offer Shares, out of which any sub-underwriting commission and praecipium will be paid.

The aggregate of the underwriting commissions, documentation fee, listing fees, Stock Exchange trading fee and transaction levy, legal and printing and other professional fees and expenses relating to the Share Offer which estimated to amount to approximately HK\$25.2 million in total, based on the Offer Price of HK\$0.23 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$0.18 to HK\$0.28.

UNDERWRITERS' INTERESTS IN THE COMPANY

Save for the obligations under the Underwriting Agreements, as at the Latest Practicable Date, none of the Underwriters was interested, directly or indirectly, in any shares or securities in any member of the Group or had any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any shares or securities in any member of the Group.

SPONSOR'S INDEPENDENCE

The Sole Sponsor satisfies the independence criteria applicable to sponsor as set out in Rule 6A.07 of the GEM Listing Rules.

MINIMUM PUBLIC FLOAT

The Directors will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 11.23 of the GEM Listing Rules after the completion of the Share Offer.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

THE SHARE OFFER

The Share Offer comprises:

- (i) the Public Offer of 30,000,000 Public Offer Shares (subject to reallocation as mentioned below) in Hong Kong; and
- (ii) the Placing of 270,000,000 Placing Shares being offered by the Company for subscription (subject to reallocation as mentioned below).

Investors may apply for Offer Shares under the Public Offer or, if qualified to do so, apply for or indicate an interest for Offer Shares under the Placing, but may not do both.

The Offer Shares will represent approximately 30% of the enlarged issued share capital of the Company immediately after completion of the Share Offer and the Capitalisation Issue.

OFFER PRICE

Determination of the Offer Price

The Placing Underwriter(s) will be soliciting from prospective investors' indications of interest in acquiring Offer Shares in the Placing. Prospective investors will be required to specify the number of the Placing Shares under the Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to, and to cease on or around, the last day for lodging applications under the Public Offer.

The Offer Price will be fixed by the Price Determination Agreement on the Price Determination Date, which is expected to be on or around Thursday, 28 December 2017 (or such later time as agreed between the Company and the Sole Bookrunner (for itself and on behalf of the Underwriters)), but in any event not later than Friday, 29 December 2017. If the Sole Bookrunner (for themselves and on behalf of the other Underwriters) and our Company are unable to reach an agreement on the Offer Price on or before Friday, 29 December 2017, the Share Offer will not become unconditional and will not proceed.

The Sole Bookrunner (for itself and on behalf of the other Underwriters) may, with the consent of our Company, reduce the indicative Offer Price range to below that stated in this prospectus at any time not later than the morning of the last day for loading applications under the Public Offer. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Public Offer, cause to be published on the website of the Stock Exchange at www.hkexnews.hk and our Company's website at www.kx-machine.com an announcement of such change. Prospective investors of the Offer Shares should be aware that the Offer Price to be determined on the Price Determination Date may be, but is currently not expected to be, lower than the indicative Offer Price range stated in this prospectus.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Applicants should have regard to the possibility that any announcement of reduction in the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Public Offer. Applicants who have submitted their applications for Public Offer Shares before such an announcement is made may subsequently withdraw their applications if such an announcement is made.

If for any reason the Price Determination Date is changed, our Company will as soon as practicable cause to be published on the website of the Stock Exchange at www.hkexnews.hk and our Company's website at www.kx-machine.com a notice of the change and if applicable the revised date.

Price payable on application

The Offer Price will be not more than HK\$0.28 per Offer Share and is expected to be not less than HK\$0.18 per Offer Share. If you apply for the Offer Shares under the Public Offer, you must pay the maximum Offer Price of HK\$0.28 per Offer Share plus a 1.0% brokerage, 0.005% Stock Exchange trading fee and 0.0027% SFC transaction levy. This means a total of HK\$3,393.86 is payable for every board lot of 12,000 Shares.

ANNOUNCEMENT OF THE BASIS OF ALLOCATIONS

The final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares are expected to be announced on Wednesday, 3 January 2018 in The Standard (in English) and Sing Tao Daily (in Chinese) and on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.kx-machine.com.

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for Offer Shares will be conditional on, among other things:

- (i) the Stock Exchange granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalisation Issue and the Share Offer on GEM and such approval not having been withdrawn;
- (ii) the obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements, in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and, in any event, not later than the date which is 30 days after the date of this prospectus; and
- (iii) the Offer Price having been fixed on or about the Price Determination Date.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Public Offer will be published by the Company on the websites of the Company and the Stock Exchange at www.kx-machine.com and www.hkexnews.hk respectively, on the next day following such lapse. In such a situation, all application monies will be returned, without interest, on the terms set out in “How to apply for Public Offer Shares – 13. Refund of application monies”. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares are expected to be issued on Wednesday, 3 January 2018 and will only become valid certificates of title at 8:00 a.m. on Thursday, 4 January 2018 provided that (i) the Share Offer has become unconditional in all respects; and (ii) the right of termination as described in “Underwriting – Public Offer underwriting arrangements – Grounds for termination” has not been exercised at or before that time.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

All necessary arrangements have been made for the Shares to be admitted into CCASS. Subject to the granting of listing of, and permission to deal in, the Shares on the Stock Exchange and the Company’s compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or under contingent situation, any other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. If you are unsure about the details of CCASS settlement arrangements and how such arrangements will affect your rights and interests, you should seek the advice of your stockbrokers or other professional advisers.

DEALING ARRANGEMENTS

Assuming that the Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 4 January 2018, it is expected that dealing in the Shares on the Stock Exchange will commence at 9:00 a.m. on Thursday, 4 January 2018.

The Shares will be traded in board lots of 12,000 Shares each and the stock code of the Shares will be 8506.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

THE PUBLIC OFFER

Number of the Public Offer Shares initially offered

The Public Offer is a fully underwritten public offer (subject to satisfaction or waiver of the other conditions provided in the Public Offer Underwriting Agreement and described in the paragraph headed “Conditions of the Share Offer” of this section) for the subscription in Hong Kong of, initially, 30,000,000 Public Offer Shares at the Offer Price (representing 10% of the total number of the Offer Shares initially available under the Share Offer). Subject to the reallocation of Offer Shares between the Placing and the Public Offer described below, the Public Offer Shares will represent approximately 3% of the enlarged issued share capital of the Company immediately after completion of the Capitalisation Issue and the Share Offer.

Allocation

The Public Offer is open for subscription to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The allocation of the Public Offer Shares to investors will be based solely on the level of valid applications received under the Public Offer at the sole discretion of the Sole Bookrunner.

Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application have not indicated an interest for or taken up and will not indicate an interest for or take up any Placing Shares in the Placing, and such applicant’s application will be rejected if the said undertaking and/or confirmation is breached and/or untrue, as the case may be.

Reallocation

The allocation of the Offer Shares between the Public Offer and the Placing is subject to the following reallocation in the event of over-subscription under the Public Offer:

- if the number of the Offer Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Public Offer, then Placing Shares will be reallocated to the Public Offer from the Placing, so that the total number of the Public Offer Shares available under the Public Offer will be 90,000,000 Offer Shares, representing approximately 30% of the Offer Shares initially available under the Share Offer;

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

- if the number of the Offer Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Public Offer, then the number of Placing Shares to be reallocated to the Public Offer from the Placing will be increased so that the total number of the Public Offer Shares available under the Public Offer will be 120,000,000 Offer Shares, representing approximately 40% of the Offer Shares initially available under the Share Offer; and
- if the number of the Offer Shares validly applied for under the Public Offer represents 100 times or more the number of the Offer Shares initially available for subscription under the Public Offer, then the number of Placing Shares to be reallocated to the Public Offer from the Placing will be increased, so that the total number of the Public Offer Shares available under the Public Offer will be 150,000,000 Offer Shares, representing approximately 50% of the Offer Shares initially available under the Share Offer.

In each case, based on the additional Offer Shares reallocated to the Public Offer, the number of Offer Shares allocated to the Placing will be correspondingly reduced, in such manner as the Sole Bookrunner (for itself and on behalf of the Public Offer Underwriter(s)) deems appropriate. In addition, the Sole Bookrunner may in their sole and absolute discretion reallocate Offer Shares from the Placing to the Public Offer to satisfy valid applications under the Public Offer.

In any event, the Sole Bookrunner (for itself and on behalf of the Public Offer Underwriter(s)) will have the discretion to reallocate all or any unsubscribed Public Offer Shares in such amount as the Sole Bookrunner deems appropriate.

PLACING

Number of the Placing Shares initially offered

The number of the Offer Shares to be initially offered for subscription under the Placing will be 270,000,000 Placing Shares (subject to reallocation as described above), representing approximately 90% of the Offer Shares initially available under the Share Offer. The Placing is fully underwritten by the Placing Underwriters.

Allocation

The Placing will include selective marketing of Offer Shares to institutional and professional investors and/or other investors expected to have a sizeable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Pursuant to the Placing, the Placing Shares will be conditionally placed on the Company's behalf by the Placing Underwriters or through selling agents appointed by them. The Placing is subject to the Public Offer becoming unconditional.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Allocation of the Placing Shares to investors under the Placing will be determined by the Sole Bookrunner and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not the relevant investor is likely to buy further, and/or hold or sell its Placing Shares after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of an appropriate shareholder base to the benefit of the Company and the benefit of the Shareholders as a whole.

The Placing Underwriters may require any investor who has been offered Offer Shares under the Placing and who has made an application under the Public Offer to provide sufficient information to the Sole Bookrunner so as to allow them to identify the relevant applications under the Public Offer and to ensure that such investor is excluded from any application of Placing Shares under the Placing.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Share Offer are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, holding or disposal of, and dealing in the Shares (or exercising rights attached to them). None of the Group, the Sole Sponsor, the Joint Lead Managers, the Sole Bookrunner, the Underwriters, any of their respective directors, agents or advisors or any other person or party involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, the Shares.

HONG KONG REGISTER OF MEMBERS

The Company's principal register of members will be maintained by the principal share registrar, Estera Trust (Cayman) Limited in the Cayman Islands and the Company's Hong Kong branch register of members will be maintained in Hong Kong by Tricor Investor Services Limited, the Hong Kong Branch Share Registrar.

STAMP DUTY

Dealings in the Shares registered in the Hong Kong branch register of members will be subject to Hong Kong stamp duty. The current ad valorem rate of Hong Kong stamp duty is 0.1% on the higher of the consideration for or the market value of the Shares and it is charged on the purchaser on every purchase and on the seller on every sale of the Shares. Therefore a total stamp duty of 0.2% is currently payable on a typical sale and purchase transaction involving the Shares.

HOW TO APPLY FOR PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for the Public Offer Shares, then you may not apply for or indicate an interest for the Placing Shares.

To apply for the Public Offer Shares, you may:

- (a) use a **WHITE** or **YELLOW** Application Form;
- (b) apply online via **HK eIPO White Form** service at www.hkeipo.hk; or
- (c) electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application. The Company, the Sole Bookrunner, the **HK eIPO White Form** Service Provider and their respective agents and nominees may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY FOR THE PUBLIC OFFER SHARES

You can apply for the Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you (or the person(s) for whose benefit you are applying):

- (a) are 18 years of age or older;
- (b) have a Hong Kong address;
- (c) are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- (d) are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his or her representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Company, the Sole Bookrunner or their respective agents and nominees may accept or reject it at its discretion, and on any conditions it thinks fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Public Offer Shares.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Unless permitted by the GEM Listing Rules, you cannot apply for any Public Offer Shares if you:

- are an existing beneficial owner of Shares and/or any of the Company's subsidiaries;
- are a Director or chief executive officer of the Company and/or any of the Company's subsidiaries;
- are a connected person of the Company or will become a connected person of the Company immediately upon completion of the Share Offer;
- are an associate or a close associate of any of the above; and
- have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

3. APPLYING FOR THE PUBLIC OFFER SHARES

Which Application Channel to Use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.hkeipo.hk.

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, 20 December 2017 until 12:00 noon on Wednesday, 27 December 2017 from:

- (a) any of the following address of the Public Offer Underwriters:

Essence International Securities (Hong Kong) Limited	39/F, One Exchange Square, Central, Hong Kong
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SBI China Capital Financial Services Limited	Unit A2, 32/F, United Centre, 95 Queensway, Hong Kong
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HOW TO APPLY FOR PUBLIC OFFER SHARES

(b) or any of the following branches of the receiving bank:

Industrial and Commercial Bank of China (Asia) Limited

District	Branch	Address
Hong Kong Island	Central Branch	1/F., 9 Queen's Road Central, Hong Kong
	Causeway Bay Branch	Shop A on G/F, 1/F, Hennessy Apartments, 488 & 490 Hennessy Road, Hong Kong
	Quarry Bay Branch	Shop SLG1, Sub-Lower Ground Floor, Westlands Gardens, Nos. 2-12 Westlands Road, Quarry Bay, Hong Kong
Kowloon	Tsim Sha Tsui Branch	Shop 1&2, G/F, No. 35-37 Hankow Road, Tsimshatsui, Kowloon
	Mongkok Branch	G/F, Belgian Bank Building, 721-725 Nathan Road, Mongkok, Kowloon
	San Po Kong Branch	Shop G10, Yue Xiu Plaza, 3-23 Ning Yuen Street, San Po Kong, Kowloon
	Kwun Tong Branch	Shop 5&6, 1/F, Crocodile Center, 79 Hoi Yuen Road, Kwun Tong, Kowloon
New Territories	Tseung Kwan O Branch	Shop 1025A, Level 1, Metro City Phase II, 8 Yan King Road, Tseung Kwan O, New Territories
	Sha Tsui Road Branch	Shop 4, G/F Chung On Building, 297-313 Sha Tsui Road, Tsuen Wan, New Territories
	Shatin Branch	Shop 22J, Level 3, Shatin Centre, New Territories

HOW TO APPLY FOR PUBLIC OFFER SHARES

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, 20 December 2017 until 12:00 noon on Wednesday, 27 December 2017 from:

- (i) the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong; or
- (ii) your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "ICBC (Asia) Nominee Ltd – China Futex Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Wednesday, 20 December 2017 – 9:00 a.m. to 5:00 p.m.
Thursday, 21 December 2017 – 9:00 a.m. to 5:00 p.m.
Friday, 22 December 2017 – 9:00 a.m. to 5:00 p.m.
Saturday, 23 December 2017 – 9:00 a.m. to 1:00 p.m.
Wednesday, 27 December 2017 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, 27 December 2017, the last application day or such later time as described in the paragraph headed "10. Effect of Bad Weather on the Opening of the Applications Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form, you:

- undertake to execute all relevant documents and instruct and authorise the Company, the Sole Bookrunner, the Sole Sponsor, and/or the Joint Lead Managers (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- agree to comply with the Companies Ordinance, the Companies (WUMP) Ordinance and the Articles;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- confirm that you are aware of the restrictions on the Share Offer in this prospectus;
- agree that none of the Company, the Sole Bookrunner, the Sole Sponsor, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers or any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing nor participated in the Placing;
- agree to disclose to the Company, the Hong Kong Branch Share Registrar, receiving bank, the Sole Bookrunner, the Sole Sponsor, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Sole Bookrunner, the Sole Sponsor, the Joint Lead Managers, and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- agree that your application will be governed by the laws of Hong Kong;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- warrant that the information you have provided is true and accurate;
- agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- authorise the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- understand that the Company, the Directors, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers and their respective agents and nominees will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

HOW TO APPLY FOR PUBLIC OFFER SHARES

5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in “Who can apply for the Public Offer Shares” section, may apply through the **HK eIPO White Form** service for the Public Offer Shares to be allotted and registered in their own names through the designated website at www.hkeipo.hk.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for submitting applications under the HK eIPO White Form

You may submit your application online to the **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Wednesday, 20 December 2017 until 11:30 a.m. on Wednesday, 27 December 2017 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, 27 December 2017 or such later time as described in the paragraph headed “10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

No multiple applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

HOW TO APPLY FOR PUBLIC OFFER SHARES

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the monies due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System at <https://ip.ccass.com> (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square,
8 Connaught Place, Central,
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are **not a CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Lead Managers and the Hong Kong Branch Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

HOW TO APPLY FOR PUBLIC OFFER SHARES

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
- agree to accept the Public Offer Shares applied for or any lesser number allocated;
- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;
- declare that only one set of **electronic application instructions** has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
- confirm that you understand that the Company, the Directors, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers and their respective agents and nominees will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of the Company, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers or any other parties involved in the Share Offer is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to the Company, the Hong Kong Branch Share Registrar, receiving bank, the Sole Sponsor, the Sole Bookrunner, the Joint Lead Managers, the Underwriters and/or its respective advisers and agents;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Public Offer results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for the Public Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (WUMP) Ordinance and the Articles; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- (a) instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- (b) instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the final Offer Price is less than the Offer Price per Public Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and Stock Exchange trading fee) by crediting your designated bank account; and
- (c) instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions for a minimum of 12,000 Public Offer Shares. Instructions for more than 12,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Wednesday, 20 December 2017	–	9:00 a.m. to 8:30 p.m. ⁽¹⁾
Thursday, 21 December 2017	–	8:00 a.m. to 8:30 p.m. ⁽¹⁾
Friday, 22 December 2017	–	8:00 a.m. to 8:30 p.m. ⁽¹⁾
Wednesday, 27 December 2017	–	8:00 a.m. ⁽¹⁾ to 12:00 noon

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

HOW TO APPLY FOR PUBLIC OFFER SHARES

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Wednesday, 20 December 2017 until 12:00 noon on Wednesday, 27 December 2017 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Wednesday, 27 December 2017, the last application day or such later time as described in the paragraph headed “10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the Hong Kong Branch Share Registrar, the receiving bank, the Sole Bookrunner, the Joint Lead Managers, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Public Offer Shares through **HK eIPO White Form** service is also only a facility provided by **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Sole Bookrunner, the Joint Lead Managers, the Sole Sponsor and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or persons applying through the **HK eIPO White Form** service will be allotted any Public Offer Shares.

HOW TO APPLY FOR PUBLIC OFFER SHARES

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, 27 December 2017.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- (a) the principal business of that company is dealing in securities; and
- (b) you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange. "Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

HOW TO APPLY FOR PUBLIC OFFER SHARES

9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for the Public Offer Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through **HK eIPO White Form** service in respect of a minimum of 12,000 Public Offer Shares. Each application or **electronic application instruction** in respect of more than 12,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website www.hkeipo.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- (a) a tropical cyclone warning signal number 8 or above; or
- (b) a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 27 December 2017. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Wednesday, 27 December 2017 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the indication of the level of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Wednesday, 3 January 2018 (a) in The Standard (in English) and Sing Tao Daily (in Chinese); (b) on the Company’s website at www.kx-machine.com and (c) the website of the Stock Exchange at www.hkexnews.hk.

HOW TO APPLY FOR PUBLIC OFFER SHARES

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- (a) in the announcement to be posted on the Company's website at www.kx-machine.com and the Stock Exchange's website at www.hkexnews.hk by no later than 9:00 a.m. on Wednesday, 3 January 2018;
- (b) from the designated results of allocations website at www.tricor.com.hk/ipo/result with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Wednesday, 3 January 2018 to 12:00 midnight on Tuesday, 9 January 2018;
- (c) by telephone enquiry line by calling (852) 3691 8488 between 9:00 a.m. and 6:00 p.m. from Wednesday, 3 January 2018 to Monday, 8 January 2018 (excluding Saturday, Sunday and Hong Kong public holiday); and
- (d) in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, 3 January 2018 to Friday, 5 January 2018 at all the receiving bank's designated branches.

If the Company accepts your offer to purchase (in whole or in part), which we may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in the section headed "Structure and Conditions of the Share Offer" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

(a) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions, such acceptance will be subject to the satisfaction of such conditions.

(b) If the Company or its agents exercise their discretion to reject your application:

The Company, the Sole Bookrunner, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(c) If the allotment of the Public Offer Shares is void:

The allotment of the Public Offer Shares will be void if the Stock Exchange does not grant permission to list the Shares either:

- (i) within three weeks from the closing date of the application lists; or
- (ii) within a longer period of up to six weeks if the Stock Exchange notifies the Company of that longer period within three weeks of the closing date of the application lists.

(d) If:

- (i) you make multiple applications or suspected multiple applications;
- (ii) you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
- (iii) your Application Form is not completed in accordance with the stated instructions;
- (iv) your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (v) your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- (vi) the Underwriting Agreements do not become unconditional or are terminated;
- (vii) the Company or the Sole Bookrunner believes that by accepting your application, it would violate applicable securities or other laws, rules or regulations; or
- (viii) your application is for more than 100% of the Public Offer Shares initially offered under the Public Offer.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the conditions of the Public Offer are not fulfilled in accordance with "Structure and Conditions of the Share Offer" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Wednesday, 3 January 2018.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- (a) share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- (b) refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the final Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the final Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and Stock Exchange trading fee but without interest).

HOW TO APPLY FOR PUBLIC OFFER SHARES

Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Wednesday, 3 January 2018. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier order(s).

Share certificates will only become valid at 8:00 a.m. on Thursday, 4 January 2018 provided that the Share Offer has become unconditional and the right of termination described in the section headed "Underwriting – Public Offer Underwriting Arrangements – Grounds for termination" in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(a) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 3 January 2018 or such other date as notified by us.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Wednesday, 3 January 2018, by ordinary post and at your own risk.

HOW TO APPLY FOR PUBLIC OFFER SHARES

(b) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above for collection of your refund cheque(s). If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Wednesday, 3 January 2018, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Wednesday, 3 January 2018, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

(i) If you apply through a designated CCASS participant (other than a CCASS investor participant)

For Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS participant.

(ii) If you are applying as a CCASS investor participant

We will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in "11. Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 3 January 2018 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(c) If you apply through the HK eIPO White Form service

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 3 January 2018, or such other date as notified by the Company as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

HOW TO APPLY FOR PUBLIC OFFER SHARES

If you apply for less than 1,000,000 Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Wednesday, 3 January 2018 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(d) If you apply via Electronic Application Instructions to HKSCC

Allocation of the Public Offer Shares

For the purposes of allocating the Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, 3 January 2018 or on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer Shares in the manner specified in "11. Publication of Results" above on Wednesday, 3 January 2018. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 3 January 2018 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

HOW TO APPLY FOR PUBLIC OFFER SHARES

- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 3 January 2018. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 3 January 2018.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the GEM Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-41 received, from the Company's reporting accountants, RSM Hong Kong, Certified Public Accountants, Hong Kong for the purpose of inclusion in this investment circular.



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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA FUTEX HOLDINGS LIMITED AND ESSENCE CORPORATE FINANCE (HONG KONG) LIMITED

Introduction

We report on the historical financial information of China Futex Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-5 to I-41, which comprises the consolidated statements of financial position of the Group as at 31 December 2015 and 31 December 2016 and 30 June 2017, the statements of financial position of the Company as at 31 December 2016 and 30 June 2017, and the consolidated statements of profit or loss, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the periods then ended (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-5 to I-41 forms an integral part of this report, which has been prepared for inclusion in the investment circular of the Company dated 20 December 2017 (the "Investment Circular") in connection with the initial listing of shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

**Reporting accountants' responsibility**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that give a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Company's financial position as at 31 December 2016 and 30 June 2017 and the Group's financial position as at 31 December 2015 and 31 December 2016 and 30 June 2017 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.



Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises statements of consolidated profit or loss, comprehensive income, changes in equity and cash flows for the six months ended 30 June 2016 and other explanatory information (the “Stub Period Comparative Financial Information”). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants’ report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Report on matters under the Growth Enterprise Market Listing Rules of The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements as defined on page I-5 have been made.



Dividends

We refer to Note 14 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Track Record Period.

RSM Hong Kong
Certified Public Accountants
Hong Kong

20 December 2017

HISTORICAL FINANCIAL INFORMATION OF THE GROUP**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by RSM Hong Kong in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

		Year ended		Six months	
		31 December		period ended	
	Note	2015	2016	2016	2017
		RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Revenue	6	73,162	94,302	56,811	63,185
Cost of goods sold		<u>(50,576)</u>	<u>(60,882)</u>	<u>(36,286)</u>	<u>(40,511)</u>
Gross profit		22,586	33,420	20,525	22,674
Other income	7	806	813	303	417
Selling expenses		(1,711)	(2,111)	(1,115)	(1,038)
Administrative expenses		(5,386)	(8,972)	(4,238)	(5,231)
Listing expenses		<u>(150)</u>	<u>(6,205)</u>	<u>(1,372)</u>	<u>(2,870)</u>
Profit from operations		16,145	16,945	14,103	13,952
Finance costs	9	<u>(1,788)</u>	<u>(2,287)</u>	<u>(984)</u>	<u>(1,211)</u>
Profit before tax		14,357	14,658	13,119	12,741
Income tax expense	10	<u>(3,020)</u>	<u>(3,861)</u>	<u>(2,754)</u>	<u>(2,875)</u>
Profit for the year/period attributed to owners of the Company	11	<u>11,337</u>	<u>10,797</u>	<u>10,365</u>	<u>9,866</u>

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December		Six months period ended 30 June	
	2015 <i>RMB'000</i>	2016 <i>RMB'000</i>	2016 <i>RMB'000</i> <i>(unaudited)</i>	2017 <i>RMB'000</i>
Profit for the year/period	<u>11,337</u>	<u>10,797</u>	<u>10,365</u>	<u>9,866</u>
Other comprehensive income for the year/period, net of tax	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total comprehensive income for the year/period attributable to owners of the Company	<u>11,337</u>	<u>10,797</u>	<u>10,365</u>	<u>9,866</u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<i>Note</i>	As at 31 December 2015 RMB'000	2016 RMB'000	As at 30 June 2017 RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	16	24,732	24,761	23,895
Prepaid land lease payments	17	2,880	2,809	2,773
Total non-current assets		<u>27,612</u>	<u>27,570</u>	<u>26,668</u>
Current assets				
Inventories	19	10,094	10,079	11,491
Trade receivables	20	18,681	13,176	16,878
Deposits, prepayments and other receivables	21	549	2,718	5,189
Due from owners	28	–	338	–
Bank and cash balances	22	30,337	43,480	60,246
Total current assets		<u>59,661</u>	<u>69,791</u>	<u>93,804</u>
TOTAL ASSETS		<u><u>87,273</u></u>	<u><u>97,361</u></u>	<u><u>120,472</u></u>
EQUITY				
Equity attributable to owners of the Company				
Paid-in capital	23	7,340	338	360
Reserves	24	19,227	26,856	47,310
Total equity		<u>26,567</u>	<u>27,194</u>	<u>47,670</u>
LIABILITIES				
Current liabilities				
Trade payables	25	21,628	7,529	15,782
Deposits received, accruals and other payables	26	2,041	4,086	4,026
Bank loans	27	35,000	44,900	44,900
Due to a related company	28	1,389	4,130	–
Due to a director	28	–	460	–
Due to owners	28	–	8,572	–
Due to an owner of ultimate parent	28	–	–	6,733
Current tax liabilities		648	490	1,361
Total current liabilities		<u>60,706</u>	<u>70,167</u>	<u>72,802</u>
TOTAL EQUITY AND LIABILITIES		<u><u>87,273</u></u>	<u><u>97,361</u></u>	<u><u>120,472</u></u>
NET ASSETS		<u><u>26,567</u></u>	<u><u>27,194</u></u>	<u><u>47,670</u></u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company					Total RMB'000
	Paid-in capital RMB'000	Share premium RMB'000 (note 24(c)(i))	Capital reserve RMB'000 (note 24(c)(ii))	Statutory surplus reserve RMB'000 (note 24(c)(iii))	Retained profits RMB'000	
At 1 January 2015	7,340	–	1,830	594	5,466	15,230
Total comprehensive income for the year	–	–	–	–	11,337	11,337
Transfer to statutory surplus reserve	–	–	–	1,143	(1,143)	–
Changes in equity for the year	–	–	–	1,143	10,194	11,337
At 31 December 2015 and 1 January 2016	7,340	–	1,830	1,737	15,660	26,567
Total comprehensive income for the year	–	–	–	–	10,797	10,797
Issue of ordinary shares (note 23)	338	–	–	–	–	338
Purchase of equity capital of 漳州凯星机械有限公司 (Zhangzhou Kaixing Machinery Limited) ("Zhangzhou Kaixing") pursuant to group reorganisation (note 23)	(7,340)	–	–	–	–	(7,340)
Dividend approved and paid in respect of previous year (note 14)	–	–	–	–	(3,168)	(3,168)
Transfer to statutory surplus reserve	–	–	–	2,088	(2,088)	–
Changes in equity for the year	(7,002)	–	–	2,088	5,541	627
At 31 December 2016 and 1 January 2017	338	–	1,830	3,825	21,201	27,194
Issue of ordinary shares (note 23)	22	10,588	–	–	–	10,610
Total comprehensive income for the period	–	–	–	–	9,866	9,866
Changes in equity for the period	22	10,588	–	–	9,866	20,476
At 30 June 2017	360	10,588	1,830	3,825	31,067	47,670
At 1 January 2016	7,340	–	1,830	1,737	15,660	26,567
Total comprehensive income for the period (unaudited)	–	–	–	–	10,365	10,365
Changes in equity for the period (unaudited)	–	–	–	–	10,365	10,365
At 30 June 2016 (unaudited)	7,340	–	1,830	1,737	26,025	36,932

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December		Six months period ended 30 June	
	2015 RMB'000	2016 RMB'000	2016 RMB'000	2017 RMB'000
			<i>(unaudited)</i>	
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax	14,357	14,658	13,119	12,741
Adjustments for:				
Finance costs	1,788	2,287	984	1,211
Interest income	(89)	(101)	(39)	(81)
Depreciation	2,038	2,065	1,038	1,078
Amortisation of prepaid land lease payments	72	71	36	36
Write off of property, plant and equipment	–	1	–	–
Operating profit before working capital changes	18,166	18,981	15,138	14,985
(Increase)/decrease in inventories	(1,180)	15	(1,207)	(1,412)
(Increase)/decrease in trade receivables	(1,193)	5,505	3,813	(3,702)
(Increase)/decrease in deposits, prepayments and other receivables	(57)	(2,169)	437	(2,471)
Increase/(decrease) in trade payables	8,056	(14,099)	(11,537)	8,253
(Decrease)/increase in deposits received, accruals and other payables	(543)	2,045	1,734	(60)
Cash generated from operations	23,249	10,278	8,378	15,593
Income tax paid	(2,940)	(4,019)	(2,030)	(2,004)
Interest paid	(1,788)	(2,287)	(984)	(1,211)
Net cash generated from operating activities	18,521	3,972	5,364	12,378
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of property, plant and equipment	(772)	(2,095)	(87)	(212)
Interest received	89	101	39	81
Net cash used in investing activities	(683)	(1,994)	(48)	(131)

	Year ended 31 December		Six months period ended 30 June	
	2015 RMB'000	2016 RMB'000	2016 RMB'000	2017 RMB'000
			<i>(unaudited)</i>	
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment to a related company	(8,630)	(1,389)	(1,389)	–
Increase/(decrease) in due to owners	–	6,732	–	(6,732)
Increase in due to an owner of ultimate parent	–	–	–	6,733
Bank loans raised	35,000	44,900	44,900	44,900
Repayment of bank loans	(25,000)	(35,000)	(35,000)	(44,900)
Dividend paid to the then owners of Zhangzhou Kaixing	–	(3,168)	(3,168)	–
Purchase of equity capital of Zhangzhou Kaixing pursuant to group reorganisation	–	(910)	–	(6,430)
Issue of ordinary shares	–	–	–	10,948
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash generated from financing activities	1,370	11,165	5,343	4,519
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	19,208	13,143	10,659	16,766
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
CASH AND CASH EQUIVALENTS AT 1 JANUARY	11,129	30,337	30,337	43,480
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER/ 30 JUNE	<u>30,337</u>	<u>43,480</u>	<u>40,996</u>	<u>60,246</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ANALYSIS OF CASH AND CASH EQUIVALENTS				
Bank and cash balances	30,337	43,480	40,996	60,246
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

	<i>Note</i>	As at 31 December 2016 <i>RMB'000</i>	As at 30 June 2017 <i>RMB'000</i>
ASSETS			
Non-current assets			
Investment in a subsidiary		338	338
Current assets			
Prepayments		2,292	3,522
Due from owners	28	338	–
Due from a subsidiary	18	–	1,485
Bank and cash balances		–	170
Total current assets		2,630	5,177
TOTAL ASSETS		2,968	5,515
EQUITY			
Equity attributable to owners of the Company			
Paid-in capital		338	360
Reserves		(5,400)	2,201
Total equity		(5,062)	2,561
LIABILITIES			
Current liabilities			
Accruals and other payables		1,821	940
Due to an owner of ultimate parent	28	–	753
Due to owners	28	5,855	–
Due to a subsidiary	18	354	1,261
Total current liabilities		8,030	2,954
TOTAL EQUITY AND LIABILITIES		2,968	5,515

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GROUP REORGANISATION AND BASIS OF PRESENTATION OF THE HISTORICAL FINANCIAL INFORMATION

The Company was incorporated in the Cayman Islands with limited liability. The address of its registered office is P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The address of its principal place of business is Xiawei Village, Fugong Town, Longhai City, Fujian Province, the People's Republic of China (the "PRC").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 18 to the Historical Financial Information.

In the opinion of the directors of the Company, Azure Wealth Limited, a company incorporated in the Republic of Seychelles, is the immediate and ultimate parent.

Pursuant to a group reorganisation as more fully explained in the paragraph headed "The Reorganisation" in "History, Reorganisation and Group Structure" section to this investment circular (the "Group Reorganisation"), the Company became the holding company of the companies now comprising the Group on 9 November 2016. As the Group Reorganisation involved only the insertion of new holding companies at the top of the existing group and did not result in any change in economic substance, the Historical Financial Information for the Track Record Period has been prepared as a continuation of the existing group using the principles of merger accounting.

The consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows are prepared as if the current group structure had been in existence throughout the Track Record Period. The consolidated statements of financial position as at 31 December 2015 and 2016 and 30 June 2017 present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates.

Upon completion of the Group Reorganisation and as at the date of this report, the Company had direct or indirect interests in the following subsidiaries:

<u>Name of subsidiary</u>	<u>Place of incorporation/ establishment</u>	<u>Issued/ paid up capital</u>	<u>Attributable equity interest of the Group as at 30 June 2017</u>	<u>Principal activities</u>
Ace Progress Limited ("Ace Progress")	British Virgin Islands	US\$50,000	100%	Investment holding
Futex Machinery Limited ("Futex Machinery")	Hong Kong	HK\$10,000	100%	Investment holding
Zhangzhou Kaixing	PRC	RMB7,340,000	100%	Investment holding and manufacturing and trading of circular knitting machine
福建福紡精密機械有限公司 (Fujian Futex Machinery Co., Ltd.) ("Fujian Fufang")	PRC	RMB5,000,000	100%	Manufacturing and trading of circular knitting machine
漳州福凱貿易有限公司 (Zhangzhou Fukai Trading Co., Ltd.) ("Zhangzhou Fukai")	PRC	RMB5,000,000	100%	Trading of circular knitting machine

2. EARLY ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

During the Track Record Period, the Group has adopted all the new and revised International Financial Reporting Standards ("IFRSs") that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2017. IFRSs comprise International Financial Reporting Standards ("IFRS"), International Accounting Standards ("IAS") and Interpretations.

New and revised IFRSs in issue but not yet effective

The Group has not applied the new and revised IFRSs that have been issued but are not yet effective. The directors anticipate that the new and revised IFRSs will be adopted in the Historical Financial Information when they become effective. These new and revised IFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 16 Leases	1 January 2019
IFRS 17 Insurance Contracts	1 January 2021
Amendments to IFRS 1: First-time Adoption of IFRS (Annual improvements to IFRS 2014-2016 cycle)	1 January 2018
Amendments to IFRS 2: Clarify the classification and measurement of share-based payment transactions	1 January 2018
Amendments to IFRS 4: Amendments to clarify the classification and measurement of share-based payment transactions	1 January 2018
Amendments to IFRS 9: Amendments regarding prepayment features with negative compensation and modifications of financial liabilities	1 January 2019
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures : Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Amendments to IAS 28: Investments in Associates and Joint Ventures (Annual improvements to IFRS 2014-2016 cycle)	1 January 2018
Amendments to IAS 28: Amendments regarding long-term interests in associates and joint ventures	1 January 2019
Amendments to IAS 40: Amendments to clarify transfers or property to, or from, investment property	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRIC 23 Uncertainty over Income Tax Treatments	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the Historical Financial Information. Further details of the expected impacts are discussed below. As the Group has not completed its assessment, further impacts may be identified in due course.

IFRS 9 Financial Instruments

The standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The standard introduces a new approach to the classification of financial assets which is based on cash flow characteristics and the business model in which the asset is held. A debt instrument that is held within a business model whose objective is to collect the contractual cash flows and that has contractual cash flows that are solely payments of principal and interest on the principal outstanding is measured at amortised cost. A debt instrument that is held within a business model whose objective is achieved by both collecting the contractual cash flows and selling the instruments and that has contractual cash flows that are solely payments of principal and interest on the principal outstanding is measured at fair value through other comprehensive income. All other debt instruments are measured at fair value through profit or loss. Equity instruments are generally measured at fair value through profit or loss. However, an entity may make an irrevocable election on an instrument-by-instrument basis to measure equity instruments that are not held for trading at fair value through other comprehensive income.

The requirements for the classification and measurement of financial liabilities are carried forward largely unchanged from IAS 39 except that when the fair value option is applied changes in fair value attributable to changes in own credit risk are recognised in other comprehensive income unless this creates an accounting mismatch.

IFRS 9 introduces a new expected-loss impairment model to replace the incurred-loss impairment model in IAS 39. It is no longer necessary for a credit event or impairment trigger to have occurred before impairment losses are recognised. For financial assets measured at amortised cost or fair value through other comprehensive income, an entity will generally recognise 12-month expected credit losses. If there has been a significant increase in credit risk since initial recognition, an entity will recognise lifetime expected credit losses. The standard includes a simplified approach for trade receivables to always recognise the lifetime expected credit losses.

The de-recognition requirements in IAS 39 are carried forward largely unchanged.

IFRS 9 substantially overhauls the hedge accounting requirements in IAS 39 to align hedge accounting more closely with risk management and establish a more principle based approach.

The new expected credit loss impairment model in IFRS 9 may result in the earlier recognition of impairment losses on the Group's trade receivables and other financial assets. The Group is unable to quantify the impact until a more detailed assessment is completed.

The directors of the Company anticipate that the adoption of IFRS 9 in the future may have an impact on the Group's results and financial position, including the classification categories and the management of financial assets, and disclosure. For instance, the Group will be required to replace the incurred loss impairment model in IFRS 9 with an expected loss impairment model that will apply to various exposures to credit risk. IFRS 9 will also change the way the Group classifies and measures its financial assets, and will require the Group to consider the business model and contractual cash flow characteristics of financial assets to determine classification and subsequent measurement. Other than the adoption of an expected credit losses impairment model and disclosure changes, the directors of the Company anticipate that the adoption of IFRS 9 is currently not expected to have a material impact on Historical Financial Information of the Group based on an analysis of the Group's existing business model.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces all existing revenue standards and interpretations.

The core principle of the standard is that an entity recognises revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to become entitled in exchange for those goods and services.

An entity recognises revenue in accordance with the core principle by applying a 5-step model:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies a performance obligation

The standard also includes comprehensive disclosure requirements relating to revenue.

The Group has assessed the impacts of adopting IFRS 15 on the Historical Financial Information and the directors of the Company anticipate that the application of IFRS 15 in the future will not have a material impact on the amounts reported and disclosures made in the Group's Historical Financial Information in the future based on the existing business model of the Group as at 30 June 2017.

IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases and related interpretations. The new standard introduces a single accounting model for lessees. For lessees the distinction between operating and finance leases is removed and lessees will recognise right-of-use assets and lease liabilities for all leases (with optional exemptions for short-term leases and leases of low value assets). IFRS 16 carries forward the accounting requirements for lessors in IAS 17 substantially unchanged. Lessors will therefore continue to classify leases as operating or financing leases.

The Group has no lease arrangements as lessee. The directors expect that IFRS 16 will have no material effects on the Group's accounting for its lease arrangements as lessor.

3. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared under the historical cost convention.

The preparation of the Historical Financial Information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in note 4.

The significant accounting policies applied in the preparation of the Historical Financial Information are set out below.

(a) Consolidation

The Historical Financial Information include the financial statements of the Company and its subsidiaries made up to 31 December/30 June. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill and any accumulated foreign currency translation reserve relating to that subsidiary.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Foreign currency translation**(i) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Historical Financial Information is presented in RMB, which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of monetary items that form part of the net investment in foreign entities are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are reclassified to consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(c) Property, plant and equipment

Property, plant and equipment including buildings, held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual useful lives are as follows:

Buildings	20 years
Plant and machinery	10 years
Motor vehicles	5 years
Office equipment and others	5 years

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and equipment pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(d) Leases

Operating leases – as lessor

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

(e) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(g) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

(h) Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial assets within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortised cost using the effective interest method (except for short-term receivables where interest is immaterial) minus any reduction for impairment or uncollectibility. Typically trade and other receivables, bank balances and cash are classified in this category.

(i) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

(j) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(k) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(l) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(m) Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(o) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue from the sales of goods is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Interest income is recognised on a time-proportion basis using the effective interest method.

Rental income is recognised on a straight-line basis over the lease term.

(p) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits, and when the Group recognises restructuring costs and involves the payment of termination benefits.

(q) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(r) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit recognised in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(s) Impairment of non-financial assets

The carrying amounts of non-financial assets are reviewed at each reporting date for indications of impairment and where an asset is impaired, it is written down as an expense through the consolidated statement of profit or loss to its estimated recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs. Recoverable amount is the higher of value in use and the fair value less costs of disposal of the individual asset or the cash-generating unit.

Value in use is the present value of the estimated future cash flows of the asset/cash-generating unit. Present values are computed using pre-tax discount rates that reflect the time value of money and the risks specific to the asset/cash-generating unit whose impairment is being measured.

Impairment losses for cash-generating units are allocated first against the goodwill of the unit and then pro rata amongst the other assets of the cash-generating unit. Subsequent increases in the recoverable amount caused by changes in estimates are credited to profit or loss to the extent that they reverse the impairment.

(t) Impairment of financial assets

At the end of each reporting period, the Group assesses whether its financial assets are impaired, based on objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the group of financial assets have been affected.

In addition, for trade receivables that are assessed not to be impaired individually, the Group assesses them collectively for impairment, based on the Group's past experience of collecting payments, an increase in the delayed payments in the portfolio, observable changes in economic conditions that correlate with default on receivables, etc.

Only for trade receivables, the carrying amount is reduced through the use of an allowance account and subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For all other financial assets, the carrying amount is directly reduced by the impairment loss.

For financial assets measured at amortised cost, if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed (either directly or by adjusting the allowance account for trade receivables) through profit or loss. However, the reversal must not result in a carrying amount that exceeds what the amortised cost of the financial asset would have been had the impairment not been recognised at the date the impairment is reversed.

(u) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(v) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the Historical Financial Information. Events after the reporting period that are not adjusting events are disclosed in the notes to the Historical Financial Information when material.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned.

The carrying amount of property, plant and equipment as at 31 December 2015 and 2016 and 30 June 2017 was RMB24,732,000, RMB24,761,000 and RMB23,895,000 respectively.

(b) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts, in particular of a loss event, requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

As at 31 December 2015 and 2016 and 30 June 2017, accumulated impairment loss for bad and doubtful debts amounted to Nil, Nil and Nil respectively.

(c) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed.

No allowance for slow-moving inventories was made for the years ended 31 December 2015 and 2016 and six months period ended 30 June 2016 (unaudited) and 2017.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Group entities. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Credit risk

The Group's credit risk is primarily attributable to its trade receivables. In order to minimise credit risk, the directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The Group has no significant concentrations of credit risk.

It has policies in place to ensure that sales are made to customers with an appropriate credit history.

Amounts due from owners of the Company are closely monitored by the directors.

The credit risk on cash and bank balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity analysis based on contractual undiscounted cash flows of the Group's non-derivative financial liabilities is as follows:

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2015					
Trade payables	21,628	–	–	–	21,628
Accruals and other payables	1,822	–	–	–	1,822
Bank loans	35,564	–	–	–	35,564
Due to a related party	1,389	–	–	–	1,389
	<u>21,628</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>21,628</u>
At 31 December 2016					
Trade payables	7,529	–	–	–	7,529
Accruals and other payables	3,192	–	–	–	3,192
Bank loans	45,605	–	–	–	45,605
Due to owners	8,572	–	–	–	8,572
Due to a director	460	–	–	–	460
Due to a related party	4,130	–	–	–	4,130
	<u>7,529</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>7,529</u>

	Less than 1 year <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 and 5 years <i>RMB'000</i>	Over 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
At 30 June 2017					
Trade payables	15,782	–	–	–	15,782
Accruals and other payables	3,064	–	–	–	3,064
Bank loans	46,534	–	–	–	46,534
Due to an owner of ultimate parent	6,733	–	–	–	6,733
	<u>15,782</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>15,782</u>

(d) Interest rate risk

The Group's exposure to interest-rate risk arises from its bank deposits and bank borrowings. These deposits and borrowings bear interests at variable rates varied with the then prevailing market condition.

At 31 December 2015 and 2016 and 30 June 2017, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have increased/(decreased) the Group's profit after tax for the year/period as follows:

	As at 31 December		As at
	2015	2016	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Increase/(decrease) in interest rates			
50 basis points	115	163	226
(50) basis points	(115)	(163)	(226)

The sensitivity analysis above indicates the impact on the Group's profit for the year/period and retained profits that would have arisen assuming that there is an annualised impact on interest income and expense by a change in interest rates. The analysis has been performed on the same basis through the Track Record Period.

(e) Categories of financial instruments

	As at 31 December		As at
	2015	2016	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial assets:			
Loans and receivables (including cash and cash equivalents)	49,567	57,052	78,423
Financial liabilities:			
Financial liabilities at amortised cost	59,839	68,783	70,479

(f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statements of financial position approximate their respective fair values.

6. REVENUE

An analysis of the Group's revenue for the Track Record Period is as follows:

	Year ended 31 December		Six months period ended 30 June	
	2015 <i>RMB'000</i>	2016 <i>RMB'000</i>	2016 <i>RMB'000</i> <i>(unaudited)</i>	2017 <i>RMB'000</i>
Sales of circular knitting machines	72,484	87,985	51,241	62,624
Sales of parts and consumable of circular knitting machines	678	6,317	5,570	561
	<u>73,162</u>	<u>94,302</u>	<u>56,811</u>	<u>63,185</u>

7. OTHER INCOME

	Year ended 31 December		Six months period ended 30 June	
	2015 <i>RMB'000</i>	2016 <i>RMB'000</i>	2016 <i>RMB'000</i> <i>(unaudited)</i>	2017 <i>RMB'000</i>
Rental income	540	521	225	257
Scrap sales	177	191	39	79
Interest income on bank deposits	89	101	39	81
	<u>806</u>	<u>813</u>	<u>303</u>	<u>417</u>

8. SEGMENT INFORMATION

The Group has three operating segments as follows:

Single circular knitting machine	–	manufacture and sales of single circular knitting machines
Double circular knitting machine	–	manufacture and sales of double circular knitting machines
Others	–	manufacture and sales of parts of circular knitting machines and sales of consumables

The accounting policies of the operating segments are the same as those described in note 3 to the Historical Financial Information. Segment profits or losses do not include corporate income and expenses. Segment assets do not include property, plant and equipment, prepaid land lease payments, deposit and other receivables, due from owners of the Company and bank and cash balances.

Information about reportable segment profit or loss and assets:

	Single circular knitting machine <i>RMB'000</i>	Double circular knitting machine <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2015				
Revenue from external customers	28,509	43,975	678	73,162
Segment profit	8,126	14,363	97	22,586
As at 31 December 2015				
Segment assets	8,669	13,073	20	21,762
	Single circular knitting machine <i>RMB'000</i>	Double circular knitting machine <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2016				
Revenue from external customers	32,208	55,777	6,317	94,302
Segment profit	11,692	20,548	1,180	33,420
As at 31 December 2016				
Segment assets	5,771	11,528	2,581	19,880
	Single circular knitting machine <i>RMB'000</i>	Double circular knitting machine <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Six months period ended 30 June 2016 (unaudited)				
Revenue from external customers	16,578	34,663	5,570	56,811
Segment profit	6,215	13,212	1,098	20,525
Six months period ended 30 June 2017				
Revenue from external customers	16,498	46,126	561	63,185
Segment profit	5,606	17,000	68	22,674
As at 30 June 2017				
Segment assets	5,368	15,131	1,300	21,799

APPENDIX I

ACCOUNTANTS' REPORT ON HISTORICAL
FINANCIAL INFORMATION

Reconciliations of segment revenue, profit or loss:

	Year ended 31 December		Six months period ended 30 June	
	2015 RMB'000	2016 RMB'000	2016 RMB'000 (unaudited)	2017 RMB'000
Revenue				
Total revenue of reportable segments and consolidated revenue	73,162	94,302	56,811	63,185
Profit or loss				
Total profit or loss of reportable segments	22,586	33,420	20,525	22,674
Research and development expenditure	(2,657)	(4,999)	(2,538)	(2,773)
Interest expenses	(1,788)	(2,287)	(984)	(1,211)
Listing expenses	(150)	(6,205)	(1,372)	(2,870)
Depreciation	(2,038)	(2,065)	(1,038)	(1,078)
Other profit or loss	(1,596)	(3,206)	(1,474)	(2,001)
Consolidated profit before tax	14,357	14,658	13,119	12,741

Reconciliations of segment assets:

	As at 31 December		As at
	2015 RMB'000	2016 RMB'000	30 June 2017 RMB'000
Assets			
Total assets of reportable segments	21,762	19,880	21,799
Property, plant and equipment	24,732	24,761	23,895
Prepaid land lease payments	2,880	2,809	2,773
Bank and cash balances	30,337	43,480	60,246
Other assets	7,562	6,431	11,759
Consolidated total assets	87,273	97,361	120,472

Geographical information:

The Group's revenue from external customers by location of operations (included through the trading companies) are detailed below:

	Revenue			
	Year ended 31 December		Six months period ended 30 June	
	2015 RMB'000	2016 RMB'000	2016 RMB'000 (unaudited)	2017 RMB'000
PRC	56,815	57,814	37,247	32,944
India	7,642	17,328	10,610	11,678
Bangladesh	7,238	11,807	5,428	6,450
Thailand	1,083	3,309	3,085	11
South Korea	384	1,544	7	11,059
Egypt	–	–	–	271
Vietnam	–	1,260	–	–
Turkey	–	1,240	434	772
Consolidated total	73,162	94,302	56,811	63,185

All the Group's non-current assets are located in the PRC.

Information about major customers

Revenue from customers contributing more than 10% of the total revenue of the Group are as follows:

	Year ended 31 December		Six months period ended 30 June	
	2015 RMB'000	2016 RMB'000	2016 RMB'000 (unaudited)	2017 RMB'000
Single circular knitting machine				
Customer a	1,634	636	477	–
Customer b	2,858	5,103	4,122	1,026
Customer c	1,891	1,942	963	3,956
Customer e	–	408	–	3,619
Customer f	3,633	1,720	342	–
Double circular knitting machine				
Customer a	6,187	1,985	1,626	–
Customer b	1,644	7,987	4,218	–
Customer c	1,239	7,397	4,348	2,427
Customer d	–	–	–	7,350
Customer e	–	664	–	1,348
Customer f	2,479	6,594	4,169	–

9. FINANCE COSTS

	Year ended 31 December		Six months period ended 30 June	
	2015 RMB'000	2016 RMB'000	2016 RMB'000 (unaudited)	2017 RMB'000
Interest on bank borrowings	1,788	2,287	984	1,211

10. INCOME TAX EXPENSE

	Year ended 31 December		Six months period ended 30 June	
	2015 RMB'000	2016 RMB'000	2016 RMB'000 (unaudited)	2017 RMB'000
Current tax – PRC				
Provision for the year/period	3,005	3,958	2,754	2,875
Under/(over) provision in prior year	15	(97)	–	–
	3,020	3,861	2,754	2,875

No provision for Hong Kong Profits Tax is required since the Group has no assessable profit for the Track Record Period.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

Under the Law of Enterprise Income Tax of the PRC (the “EIT Law”) and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

A wholly owned subsidiary of the Company was granted the status of a “High and New Technology Enterprise” that entitled to a preferential enterprise income tax rate of 15% for three years commencing from the year ended 31 December 2012 and further extended for three more years commencing from the year ended 31 December 2015.

Pursuant to the EIT Law, the subsidiaries incorporated in the PRC is required to withhold 10% PRC enterprise income tax when it distributes dividends to its non-PRC resident enterprise shareholders.

As at 31 December 2015, 2016 and 30 June 2017, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is approximately RMB777,000, RMB1,417,000 and RMB1,960,000 respectively. No liability has been recognised in respect of these differences because the Group is in a position to control the timing reversal of the temporary differences and it is probable that such differences will not reverse in foreseeable future.

The reconciliation between the income tax expense and the product of profit before tax multiplied by the PRC enterprise income tax rate is as follows:

	Year ended 31 December		Six months period ended 30 June	
	2015 RMB'000	2016 RMB'000	2016 RMB'000 (unaudited)	2017 RMB'000
Profit before tax	14,357	14,658	13,119	12,741
Tax at the domestic income tax rate	3,589	3,665	3,280	3,186
Tax effect of income that is not taxable	(316)	(481)	(310)	(338)
Tax effect of expenses that are not deductible	118	1,372	13	794
Tax effect of temporary differences not recognised	93	313	326	218
Tax effect of tax concession	(479)	(911)	(555)	(985)
Under/(over) provision in prior year	15	(97)	–	–
Income tax expense	<u>3,020</u>	<u>3,861</u>	<u>2,754</u>	<u>2,875</u>

11. PROFIT FOR THE YEAR/PERIOD

The Group's profit for the year/period is stated after charging/(crediting) the following:

	Year ended 31 December		Six months period ended 30 June	
	2015 RMB'000	2016 RMB'000	2016 RMB'000 (unaudited)	2017 RMB'000
Amortisation of prepaid land lease payments	72	71	36	36
Depreciation	2,038	2,065	1,038	1,078
Research and development expenditure	2,657	4,999	2,538	2,773
Listing expenses	150	6,205	1,372	2,870
Cost of inventories sold	50,576	60,882	36,286	40,511
Net exchange (gain)/loss	–	(34)	–	106
Write off of property, plant and equipment	–	1	–	–
	<u>–</u>	<u>1</u>	<u>–</u>	<u>–</u>

Cost of inventories sold includes staff costs, amortisation and depreciation of approximately RMB2,664,000, RMB3,696,000, RMB1,788,000 (unaudited) and RMB1,969,000 for the year ended 31 December 2015 and 31 December 2016 and six months period ended 30 June 2016 and 30 June 2017 respectively, which are included in the amounts disclosed separately.

12. EMPLOYEE BENEFITS EXPENSE

	Year ended 31 December		Six months period ended 30 June	
	2015 <i>RMB'000</i>	2016 <i>RMB'000</i>	2016 <i>RMB'000</i> <i>(unaudited)</i>	2017 <i>RMB'000</i>
Employee benefit expense:				
Salaries, bonuses and allowances	4,356	4,671	2,288	2,710
Retirement benefit scheme contributions	579	729	169	408
	<u>4,935</u>	<u>5,400</u>	<u>2,457</u>	<u>3,118</u>

Five highest paid individuals

The five highest paid individuals in the Group during the Track Record Period included three, three, three (unaudited) and three directors and whose emoluments are reflected in the analysis presented in note 13. The emoluments of the remaining two, two, two (unaudited) and two individuals are set out below:

	Year ended 31 December		Six months period ended 30 June	
	2015 <i>RMB'000</i>	2016 <i>RMB'000</i>	2016 <i>RMB'000</i> <i>(unaudited)</i>	2017 <i>RMB'000</i>
Basic salaries and allowances	217	217	112	143
Discretionary bonus	17	19	–	–
Retirement benefit scheme contributions	5	11	4	22
	<u>239</u>	<u>247</u>	<u>116</u>	<u>165</u>

The emoluments fell within the following band:

	Number of individuals			
	Year ended 31 December		Six months period ended 30 June	
	2015	2016	2016 <i>(unaudited)</i>	2017
Nil to HK\$1,000,000	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

13. BENEFITS AND INTERESTS OF DIRECTORS

(a) The emoluments of each director were as follows:

	Fees <i>RMB'000</i>	Salaries and allowances <i>RMB'000</i>	Discretionary bonus <i>RMB'000</i>	Retirement benefit scheme contributions <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2015					
Mr. Chen Yihui	–	188	15	2	205
Mr. Zheng Jiafu	–	186	15	3	204
Ms. Yuan Yuan	–	100	8	2	110
	–	474	38	7	519
Year ended 31 December 2016					
Mr. Chen Yihui	–	189	15	8	212
Mr. Zheng Jiafu	–	187	15	8	210
Ms. Yuan Yuan	–	157	15	8	180
	–	533	45	24	602
Six months period ended 30 June 2016 (unaudited)					
Mr. Chen Yihui	–	96	–	2	98
Mr. Zheng Jiafu	–	95	–	2	97
Ms. Yuan Yuan	–	66	–	2	68
	–	257	–	6	263
Six months period ended 30 June 2017					
Mr. Chen Yihui	–	107	–	15	122
Mr. Zheng Jiafu	–	105	–	15	120
Ms. Yuan Yuan	–	105	–	15	120
	–	317	–	45	362

Note: During the Track Record Period, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. No director has waived or agreed to waive any emoluments during the Track Record Period.

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company and the director's connected party has a material interest, whether directly or indirectly, subsisted at the end of the Track Record Period or at any time during the Track Record Period.

14. DIVIDEND

	Year ended 31 December		Six months period ended 30 June	
	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Dividend declared and paid/payable to its then shareholders during the Track Record Period by:			(unaudited)	
Zhangzhou Kaixing	–	3,168	–	–

The rate of dividend and the number of shares ranking for dividend is not presented as such information is not meaningful having regard to the purpose of this report.

15. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this Historical Financial Information, is not considered meaningful due to the Group Reorganisation and the basis of presentation of the results of the Group for the Track Record Period as further explained in note 1 to the Historical Financial Information.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Motor vehicles	Office equipment and others	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At 1 January 2015	29,916	6,351	328	261	–	36,856
Additions	–	34	–	102	636	772
Transfer	636	–	–	–	(636)	–
At 31 December 2015 and 1 January 2016	30,552	6,385	328	363	–	37,628
Additions	–	78	–	102	1,915	2,095
Write off	–	–	–	(1)	–	(1)
Transfer	1,915	–	–	–	(1,915)	–
At 31 December 2016 and 1 January 2017	32,467	6,463	328	464	–	39,722
Additions	–	4	–	–	208	212
Transfer	208	–	–	–	(208)	–
At 30 June 2017	32,675	6,467	328	464	–	39,934

APPENDIX I

ACCOUNTANTS' REPORT ON HISTORICAL
FINANCIAL INFORMATION

	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Office equipment and others <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
Accumulated depreciation						
At 1 January 2015	8,783	1,863	113	99	–	10,858
Charge for the year	<u>1,351</u>	<u>567</u>	<u>59</u>	<u>61</u>	<u>–</u>	<u>2,038</u>
At 31 December 2015 and 1 January 2016	10,134	2,430	172	160	–	12,896
Charge for the year	<u>1,375</u>	<u>570</u>	<u>52</u>	<u>68</u>	<u>–</u>	<u>2,065</u>
At 31 December 2016 and 1 January 2017	11,509	3,000	224	228	–	14,961
Charge for the period	<u>735</u>	<u>289</u>	<u>22</u>	<u>32</u>	<u>–</u>	<u>1,078</u>
At 30 June 2017	<u>12,244</u>	<u>3,289</u>	<u>246</u>	<u>260</u>	<u>–</u>	<u>16,039</u>
Carrying amount						
At 30 June 2017	<u>20,431</u>	<u>3,178</u>	<u>82</u>	<u>204</u>	<u>–</u>	<u>23,895</u>
At 31 December 2016	<u>20,958</u>	<u>3,463</u>	<u>104</u>	<u>236</u>	<u>–</u>	<u>24,761</u>
At 31 December 2015	<u>20,418</u>	<u>3,955</u>	<u>156</u>	<u>203</u>	<u>–</u>	<u>24,732</u>

As at 31 December 2015, 2016 and 30 June 2017, the carrying amount of property, plant and equipment pledged as security for the Group's bank loans amounted to RMB23,645,000, RMB19,043,000 and RMB20,015,000 respectively.

17. PREPAID LAND LEASE PAYMENTS

The Group's prepaid land lease payments represent payments for land use rights in the PRC under medium term leases as follow:

	As at 31 December		As at
	2015	2016	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	2,952	2,880	2,809
Amortisation of prepaid land lease payments	<u>(72)</u>	<u>(71)</u>	<u>(36)</u>
At 31 December/30 June	<u>2,880</u>	<u>2,809</u>	<u>2,773</u>

As at 31 December 2015, 2016 and 30 June 2017, the carrying amount of prepaid land lease payments pledged as security for the Group's bank loans amounted to RMB2,880,000, RMB2,809,000 and RMB2,773,000 respectively.

18. INVESTMENTS IN SUBSIDIARIES

Particulars of the subsidiaries are as follows:

Name	Date and place of incorporation/ establishment	Issued and paid-up/ registered capital	Effective interests held by the Group (%)			Principal activities
			As at 31 December		As at	
			2015	2016	30 June 2017	
<u>Directly held</u>						
Ace Progress	4 July 2016 British Virgin Islands	US\$50,000	–	100	100	Investment holding
<u>Indirectly held</u>						
Futex Machinery	29 July 2016 Hong Kong	HK\$10,000	–	100	100	Investment holding
Zhangzhou Kaixing	15 March 2004 PRC	RMB7,340,000	100	100	100	Investment holding and manufacturing and trading of circular knitting machine
Fujian Fufang	4 November 2010 PRC	RMB5,000,000	100	100	100	Manufacturing and trading of circular knitting machine
Zhangzhou Fukai	12 October 2016 PRC	RMB5,000,000	–	100	100	Trading of circular knitting machine

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

As at 31 December 2015, 2016 and 30 June 2017, the bank and cash balances of the Group's subsidiaries in the PRC denominated in RMB amounted to RMB30,337,000, RMB43,480,000 and RMB59,739,000 respectively. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

19. INVENTORIES

	As at 31 December		As at
	2015	2016	30 June
	RMB'000	RMB'000	2017
Raw materials	7,012	3,374	6,570
Work in progress	1,648	2,314	1,644
Finished goods	1,434	4,391	3,277
	<u>10,094</u>	<u>10,079</u>	<u>11,491</u>

20. TRADE RECEIVABLES

The credit terms of trade receivables are in accordance with specific payment schedules agreed with various customers and generally range from 30 to 365 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

Included in the trade receivables there were amount due from 廈門龍懷進出口貿易有限公司 (Xiamen Longhuai Import & Export Co., Ltd) ("Longhuai Import & Export"), the then immediate parent of Zhangzhou Kaixing, of approximately RMB2,150,000, RMB3,350,000 and Nil as at 31 December 2015, 2016 and 30 June 2017 respectively.

The ageing analysis of trade receivables, based on the invoice date, and net of allowance, is as follows:

	As at 31 December		As at
	2015	2016	30 June
	RMB'000	RMB'000	2017
			RMB'000
0 to 90 days	6,809	4,854	9,795
91 to 180 days	2,756	2,477	4,214
181 to 365 days	8,369	5,845	2,869
Over 365 days	747	–	–
	<u>18,681</u>	<u>13,176</u>	<u>16,878</u>

As of 31 December 2015, 2016 and 30 June 2017, trade receivables of RMB1,314,000, Nil and Nil were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	As at 31 December		As at
	2015	2016	30 June
	RMB'000	RMB'000	2017
			RMB'000
Up to 3 months	567	–	–
3 to 6 months	175	–	–
6 to 12 months	–	–	–
Over 12 months	572	–	–
	<u>1,314</u>	<u>–</u>	<u>–</u>

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	As at 31 December		As at
	2015	2016	30 June
	RMB'000	RMB'000	2017
			RMB'000
RMB	18,681	13,176	14,068
United States dollars ("USD")	–	–	2,810
	<u>18,681</u>	<u>13,176</u>	<u>16,878</u>

21. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December		As at
	2015	2016	30 June
	RMB'000	RMB'000	2017
			RMB'000
Sundry deposits	3	3	3
Prepayments	–	2,660	3,890
Other receivables	546	55	1,296
	<u>549</u>	<u>2,718</u>	<u>5,189</u>

22. BANK AND CASH BALANCES

The carrying amounts of the Group's bank and cash balances are denominated in the following currencies:

	As at 31 December		As at
	2015	2016	30 June
	RMB'000	RMB'000	2017
			RMB'000
RMB	30,337	43,480	59,739
USD	–	–	483
Hong Kong dollars	–	–	24
	<u>30,337</u>	<u>43,480</u>	<u>60,246</u>

Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

23. PAID-IN CAPITAL

	Number of shares issued	Authorised US\$'000	Authorised HK\$'000	Issued and fully paid RMB'000
Equity capital of Zhangzhou Kaixing				
Balance at 1 January 2015, 31 December 2015 and 1 January 2016				7,340
Purchase of equity capital (<i>note (b)</i>)				(7,340)
Share capital of the Company				
Ordinary shares of US\$1 each				
– upon incorporation on 28 July 2016 (<i>note (a)</i>)	–	100	–	–
– issue of 50,000 shares at US\$1 paid (<i>note (a)</i>)	50,000	–	–	338
	<u>50,000</u>	<u>–</u>	<u>–</u>	<u>338</u>
Balance at 31 December 2016 and 1 January 2017	50,000	100	–	338
Share capital of the Company				
Ordinary shares of US\$1 each				
– issue of 3,322 shares (<i>note (c)</i>)	3,322	–	–	22
– repurchase of shares (<i>note (d)</i>)	(53,322)	–	–	–
– cancellation of authorised capital (<i>note (e)</i>)	–	(100)	–	–
Ordinary shares of HK\$0.01 each				
– increase of authorised share capital (<i>note (d)</i>)	–	–	200,000	–
– allotment of the shares as the consideration for repurchase of the shares of US\$1 each from each of the shareholders (<i>note (d)</i>)	41,591,160	–	–	–
	<u>41,591,160</u>	<u>–</u>	<u>200,000</u>	<u>360</u>
Balance at 30 June 2017	<u>41,591,160</u>	<u>–</u>	<u>200,000</u>	<u>360</u>

Notes:

- (a) The Company was incorporated in the Cayman Islands under the Cayman Islands Companies Law as an exempted company with limited liability on 28 July 2016 with an authorised share capital of US\$100,000 divided into 100,000 shares of US\$1.00 each. On the same day, the initial subscribing shareholder transferred one issued share to Azure Wealth Limited (“Azure Wealth”) at par and allotted credited as fully paid at par and the Company further allotted 49,999 shares of US\$1.00 each at par credited as fully paid to the then shareholders who directly/indirectly held an interest in Zhangzhou Kaixing.
- (b) Futex Machinery entered into sales and purchase agreements for acquisition of entire equity capital of Zhangzhou Kaixing in November 2016 with total consideration of RMB7,340,000.
- (c) On 2 February 2017, the Company issued 3,322 shares of US\$1.00 each to PAM Global Opportunities Fund pursuant to a share subscription agreement dated 27 January 2017 at a consideration of HK\$12,000,000.
- (d) On 7 March 2017, the authorised share capital of the Company increased to the aggregate of US\$100,000 and HK\$200,000,000 by the creation of an additional 20,000,000,000 shares with a par value of HK\$0.01 each.

On the same date, the Company allotted 41,591,160 shares of HK\$0.01 each to the shareholders of the Company as fully paid shares in consideration of the repurchase of 53,322 shares of US\$1 each in issue from each of the shareholders by the Company.

- (e) On 7 March 2017 the authorised but unissued share capital of the Company was then diminished by the cancellation of 100,000 shares of US\$1 each and resulted the authorised share capital of the Company became HK\$200,000,000 divided into 20,000,000,000 shares of HK\$0.01 each.

For the purpose of this report, the paid-in capital as presented in the consolidated statements of the financial position as at 31 December 2015 represented the equity capital of Zhangzhou Kaixing.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

24. RESERVES

(a) Group

The amounts of the Group's reserves and movements therein are presented in the consolidated statements of profit or loss and other comprehensive income and consolidated statements of changes in equity.

(b) The Company

	Share premium <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
Total comprehensive income for the period	—	(5,400)	(5,400)
At 31 December 2016 and 1 January 2017	—	(5,400)	(5,400)
Issue of ordinary shares (<i>note 23</i>)	10,588	—	10,588
Total comprehensive income for the period	—	(2,987)	(2,987)
At 30 June 2017	<u>10,588</u>	<u>(8,387)</u>	<u>2,201</u>

(c) Nature and purpose of reserves

(i) Share premium

Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) Capital reserve

Capital reserve comprises difference between the total amount of registered capital and the amount of the contributions from the owners of a subsidiary.

(iii) Statutory surplus reserve

The statutory surplus reserve, which is non-distributable, is appropriated from the profit after taxation of the Group's PRC subsidiaries under the applicable laws and regulations in the PRC.

25. TRADE PAYABLES

The ageing analysis of trade payables, based on the date of receipt of goods, is as follows:

	As at 31 December		As at
	2015	2016	30 June
	RMB'000	RMB'000	2017
			RMB'000
0 to 90 days	9,187	7,529	15,782
91 to 180 days	6,635	–	–
181 to 365 days	3,145	–	–
Over 365 days	2,661	–	–
	<u>21,628</u>	<u>7,529</u>	<u>15,782</u>

The carrying amounts of the Group's trade payables are denominated in RMB.

26. DEPOSITS RECEIVED, ACCRUALS AND OTHER PAYABLES

	As at 31 December		As at
	2015	2016	30 June
	RMB'000	RMB'000	2017
			RMB'000
Deposits received in advance	219	894	962
Accruals	616	2,711	1,368
Other payables	1,206	481	1,696
	<u>2,041</u>	<u>4,086</u>	<u>4,026</u>

27. BANK LOANS

	As at 31 December		As at
	2015	2016	30 June
	RMB'000	RMB'000	2017
			RMB'000
Bank loans repayable on demand or within one year	<u>35,000</u>	<u>44,900</u>	<u>44,900</u>

The carrying amounts of the Group's bank loans are denominated in RMB.

The average interest rates at 31 December/30 June were as follows:

	As at 31 December		As at
	2015	2016	30 June
			2017
Bank loans	<u>6.63%</u> per annum	<u>5.73%</u> per annum	<u>4.91%</u> per annum

Bank loans as at 31 December 2015, 2016 and 30 June 2017 are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

Bank loans as at 31 December 2015, 2016 and 30 June 2017 were secured by pledge of the Group's property, plant and equipment, prepaid land lease payments, personal guarantees provided by the directors, an owner of the ultimate parent and corporate guarantee provided by Longhuai Import & Export.

28. DUE FROM/(TO) A RELATED COMPANY/OWNERS/A DIRECTOR

As at 31 December 2015 and 2016, the amount due to a related company represented the advancement from Longhuai Import & Export of RMB1,389,000 and consideration for purchase of equity capital of Zhangzhou Kaixing by Futex Machinery pursuant to Group Reorganisation respectively which are non-trade in nature, unsecured, interest-free and have no fixed repayment terms.

As at 31 December 2016, amount due from/(to) owners are non-trade in nature, unsecured, interest-free and have no fixed repayment terms. Amounts due from owners represented the share capital due from owners of the Company. Amount due to owners represented the advancements from the owners and consideration for purchase of equity capital of Zhangzhou Kaixing by Futex Machinery pursuant to Group Reorganisation respectively.

As at 30 June 2017, amounts due to an owner of ultimate parent are non-trade in nature, unsecured, interest-free and have no fixed repayment terms. Amount due to an owner of ultimate parent represented the advancements from an owner of ultimate parent.

As at 31 December 2016, amount due to a director is non-trade in nature, unsecured, interest-free and has no fixed repayment terms. Amount due to a director represented the consideration for purchase of equity capital of Zhangzhou Kaixing by Futex Machinery pursuant to Group Reorganisation.

29. CAPITAL COMMITMENTS

The Group's capital commitments at the end of each Track Record Period are as follows:

	As at 31 December		As at
	2015	2016	30 June
	RMB'000	RMB'000	2017
			RMB'000
Property, plant and equipment			
Contracted but not provided for	—	—	—

30. LEASE COMMITMENTS

The total future minimum lease payment under non-cancellable operating lease of which the Group as the lessor are receivables as follows:

	As at 31 December		As at
	2015	2016	30 June
	RMB'000	RMB'000	2017
			RMB'000
Within one year	540	515	496

31. RELATED PARTY TRANSACTIONS

(a) In addition to those related party transactions and balances disclosed elsewhere in the Historical Financial Information, the Group had the following transactions with its related parties during the Track Record Period:

	Year ended 31 December		Six months period	
	2015	2016	ended 30 June	2017
	RMB'000	RMB'000	2016	RMB'000
			(unaudited)	
Sales to Longhuai Import & Export	4,709	13,136	8,386	1,026

(b) Key management personnel remuneration

Remuneration for key management personnel, including amount paid to the Company's directors as disclosed in note 13 to the Historical Financial Information and certain of the highest paid employees as disclosed in note 12 to Historical Financial Information is as follows:

	Year ended 31 December		Six months period ended 30 June	
	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Short term employee benefits	805	872	350	420
Retirement benefit scheme contributions	15	40	10	63
	<u>820</u>	<u>912</u>	<u>360</u>	<u>483</u>

32. RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES

	Due to a related company	Due to a director	Due to owners	Due to an owner of ultimate parent	Bank loans
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	10,019	–	–	–	25,000
Cash flows	(8,630)	–	–	–	10,000
At 31 December 2015 and 1 January 2016	1,389	–	–	–	35,000
Cash flows	(1,389)	–	6,732	–	9,900
Consideration for purchase of equity capital of Zhangzhou Kaixing	4,130	460	1,840	–	–
At 31 December 2016 and 1 January 2017	4,130	460	8,572	–	44,900
Cash flows	(4,130)	(460)	(8,572)	6,733	–
At 30 June 2017	<u>–</u>	<u>–</u>	<u>–</u>	<u>6,733</u>	<u>44,900</u>

33. EVENTS AFTER THE REPORTING PERIOD

On 11 December 2017, written resolutions of the shareholders of the Company were passed to approve various matters, as detailed in the section headed "Statutory and General information – Further Information about the Company and its Subsidiaries – 3. Resolutions in writing of the Shareholders passed on 11 December 2017" in Appendix V to the Prospectus, pursuant to which, among other things, the following were conditionally approved:

- (i) conditional upon the share premium account of the Company being credited as a result of issue of 300,000,000 ordinary shares of the Company of HK\$0.01 each, the directors of the Company were authorised to capitalise the amount of HK\$6,584,088.40 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 658,408,840 ordinary shares of the Company of HK\$0.01 each for allotment and issue to the shareholders of the Company whose names appear on the register of members of the Company as at the close of business on the day before the date of these resolutions, and the shares shall rank pari passu in all respects with the then existing issued ordinary shares of the Company; and
- (ii) the adoption of share option scheme, as detailed in the paragraph headed "Statutory and General Information – Share Option Scheme – 13. Share Option Scheme" in Appendix V to the Prospectus.

34. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to 30 June 2017.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

For illustrative purpose only, the pro forma financial information prepared in accordance with paragraph 31 of Chapter 7 of the GEM Listing Rules is set out herein to provide the investors with further information to assess the financial performance of the Group after taking into account the adjusted net tangible assets of the Group to illustrate the financial position of the Group after completion of the Share Offer and to illustrate the performance of the Group had the Share Offer been completed on 30 June 2017.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The unaudited pro forma financial information has been prepared, on the basis of the notes set out below, to illustrate how the Share Offer may have affected the net tangible assets attributable to owners of the Company had it occurred as of 30 June 2017. It has been prepared for illustrative purpose only and, because of its nature, may not give a true picture of the financial position of our Group.

	Audited consolidated net tangible assets attributable to owners of the Company as of 30 June 2017 <i>RMB'000</i>	Estimated net proceeds from the Share Offer <i>(Note 1)</i> <i>RMB'000</i>	Unaudited pro forma adjusted net tangible assets <i>RMB'000</i>	Unaudited pro forma adjusted net tangible assets per Share <i>(Note 2)</i>	
Based on a minimum Offer					
Price of HK\$0.18 per					
Offer Share	47,670	26,080	73,750	RMB0.074	HK\$0.083
Based on a maximum Offer					
Price of HK\$0.28 per					
Offer Share	47,670	51,979	99,649	RMB0.100	HK\$0.112

Notes:

- (1) The adjustment to the pro forma statement of net tangible assets reflects the estimated proceeds from the Share Offer to be received by the Company. The estimated proceeds from the Share Offer is based on the Offer Price of HK\$0.18 and HK\$0.28 per Offer Share, respectively, being the lower and higher end price of the stated Offer Price range, and 300,000,000 Shares, net of underwriting fee and other estimated listed-related expenses of approximately RMB21.98 million and RMB22.78 million, respectively.
- (2) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company and the amounts per Share are arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,000,000,000 Shares are expected to be in issue following the Share Offer (including 300,000,000 shares newly issued upon the Share Offer) and the respective Offer Prices of HK\$0.18 and HK\$0.28 per Share.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

- (3) The estimated net proceeds from the Share Offer and the unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share are converted from or into Hong Kong dollars at an exchange rate of RMB0.89 to HK\$1.00. No representation is made that the HK\$ amounts have been, could have been or may be converted into RMB, or vice versa, at that rate.

- (4) The number of Shares is based on a total of 1,000,000,000 Shares issued, adjusted as if the Share Offer had occurred at 30 June 2017. Our property interests as of 30 September 2017 have been valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix III “Valuation Report” to this prospectus. The above adjustment does not take into account the surplus arising from the revaluation of our property interests amounting to RMB16.33 million. The revaluation surplus was not incorporated in our financial statements for property, plant and equipment and prepaid land lease payment. If the valuation surplus was recorded in the financial statements, the depreciation expense for the year would be increased by approximately RMB1,178,000.

- (5) No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2017.

B. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the sole purpose of inclusion in this prospectus, from the independent reporting accountants, RSM Hong Kong, Certified Public Accountants, Hong Kong.



RSM Hong Kong	中瑞岳華(香港)會計師事務所
29th Floor, Lee Garden Two, 28 Yun Ping Road, Causeway Bay, Hong Kong	香港銅鑼灣恩平道二十八號 利園二期二十九字樓
T +852 2598 5123	電話 +852 2598 5123
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www.rsmhk.com	www.rsmhk.com

20 December 2017

The Board of Directors
China Futex Holdings Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of pro forma financial information of China Futex Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The pro forma financial information consists of the pro forma adjusted net tangible assets statement as at 30 June 2017 as set out on pages II-1 to II-2 of the prospectus issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described on section A of Appendix II of the prospectus.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the Share Offer of 300,000,000 Shares of HK\$0.01 each on the Group’s financial position as at 30 June 2017 as if the Share Offer had been taken place at 30 June 2017. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s financial statements for the three months period ended 30 June 2017 on which an accountants’ report has been published.



Directors' Responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline ("AG") 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 31(7) of Chapter 7 of the GEM Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and performs procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 31 of Chapter 7 of the GEM Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of unaudited pro forma financial information included in the prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2016 would have been as presented.



A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Listing Rules.

Yours faithfully,

RSM Hong Kong
Certified Public Accountants
Hong Kong

The following is the text of a letter and valuation certificate, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at 30 September 2017 of the property held by the Group.



仲量聯行

Jones Lang LaSalle Corporate Appraisal and Advisory Limited
6/F Three Pacific Place 1 Queen's Road East Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Licence No.: C-030171

20 December 2017

The Board of Directors
China Futex Holdings Limited
P.O. Box 1350
Clifton House
75 Fort Street
Grand Cayman
KY1-1108
Cayman Islands

Dear Sirs,

In accordance with your instructions to value the property interest held by China Futex Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property interest as at 30 September 2017 (the "valuation date").

Our valuation is carried out on a market value basis. Market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Due to the nature of the buildings and structures of the property and the particular location in which it is situated, there are unlikely to be relevant market comparable sales readily available. The property interest has therefore been valued by Cost Approach with reference to its depreciated replacement cost.

Depreciated replacement cost is defined as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation”. It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. In arriving at the value of land portion, reference has been made to the sales evidence as available in the locality. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business. In our valuation it applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

Our valuation has been made on the assumption that the seller sells the property interest in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the value of the property interest.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interest valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

In valuing the property interest, we have complied with all requirements contained in Chapter 8 of the Rules Governing the Listing of Securities on the Growth Enterprise Market issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation – Global Standards 2017 published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificate, Building Ownership Certificate and Real Estate Title Certificate relating to the property interest and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interest in the PRC and any material encumbrance that might be attached to the property interest or any tenancy amendment. We have relied considerably on the advice given by the Company’s PRC legal advisers – Jingtian & Gongcheng, concerning the validity of the property interest in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the property but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the property. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but, in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the property is free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

Inspection of the property was carried out in July 2016 by Mr. Jack Ye, who is a China Certified Public Valuer and has 10 years' experience in the valuation of properties in the PRC. Re-inspection of the property was carried out in November 2017.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation certificate is attached.

Yours faithfully,
for and on behalf of

Jones Lang LaSalle Corporate Appraisal and Advisory Limited

Eddie T. W. Yiu

MRICS MHKIS RPS (GP)

Director

Note: Eddie T.W. Yiu is a Chartered Surveyor who has 23 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

VALUATION CERTIFICATE

Property interest held by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 September 2017 RMB																		
An industrial complex located in Xiawei Village Fugong Town Longhai City Zhangzhou City Fujian Province The PRC	<p>The property comprises 2 parcels of land with a total site area of approximately 30,462 sq.m., 7 buildings and various ancillary structures erected thereon which were completed in various stages between 2007 and 2016.</p> <p>The buildings have a total gross floor area of approximately 20,333.53 sq.m. They comprises industrial workshops and a dormitory. The details are set out as below:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Usage</th> <th style="text-align: right;">Gross Floor Area (sq.m.)</th> </tr> </thead> <tbody> <tr> <td>Workshop No. 2</td> <td style="text-align: right;">3,577.02</td> </tr> <tr> <td>Workshop No. 3</td> <td style="text-align: right;">1,962.58</td> </tr> <tr> <td>Workshop No. 4</td> <td style="text-align: right;">2,169.62</td> </tr> <tr> <td>Workshop No. 5</td> <td style="text-align: right;">3,977.48</td> </tr> <tr> <td>Workshop No. 6</td> <td style="text-align: right;">4,046.47</td> </tr> <tr> <td>Workshop A</td> <td style="text-align: right;">1,651.98</td> </tr> <tr> <td>Dormitory No. 1</td> <td style="text-align: right;">2,948.38</td> </tr> <tr> <td>Total:</td> <td style="text-align: right;"><u>20,333.53</u></td> </tr> </tbody> </table>	Usage	Gross Floor Area (sq.m.)	Workshop No. 2	3,577.02	Workshop No. 3	1,962.58	Workshop No. 4	2,169.62	Workshop No. 5	3,977.48	Workshop No. 6	4,046.47	Workshop A	1,651.98	Dormitory No. 1	2,948.38	Total:	<u>20,333.53</u>	<p>As at the valuation date, approximately 9,004.50 sq.m. of the buildings was rented to an independent third party for manufacturing production purpose at a monthly rent of approximately RMB45,022.5 (see note 4). Approximately 1,600 sq.m. of the buildings was rented to Fujian Fufang for office use at nil rent (see note 5). Approximately 100 sq.m. of the buildings was rented to Zhangzhou Fukai for place of business at nil rent (see note 6). The remaining portions of the buildings were occupied by the Group for manufacturing production and ancillary purposes.</p>	39,150,000
Usage	Gross Floor Area (sq.m.)																				
Workshop No. 2	3,577.02																				
Workshop No. 3	1,962.58																				
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Workshop A	1,651.98																				
Dormitory No. 1	2,948.38																				
Total:	<u>20,333.53</u>																				
	<p>The structures mainly include sheds, security room, restroom, boundary walls and plant area roads.</p> <p>The land use rights of the property have been granted for terms of 50 years with the expiry date on 22 February 2056 for industrial use.</p>																				

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Long Te Guo Yong (2007) Di No. GC0169, the land use rights of 4 buildings of the property with a site area of approximately 15,741.82 sq.m. have been granted to Zhangzhou Kaixing Machine Co., Ltd (漳州凯星机械有限公司, “Zhangzhou Kaixing”, an indirect wholly-owned subsidiary of the Company) for a term of 50 years with the expiry date on 22 February 2056 for industrial use.
2. Pursuant to a Building Ownership Certificate – Long Fang Quan Zheng Zi Di No. 20123248, 4 buildings of the property with a total gross floor area of approximately 13,141.95 sq.m. are owned by Zhangzhou Kaixing.
3. Pursuant to a Real Estate Title Certificate – Min (2017) Long Hai Shi Bu Dong Chan Quan Di No. 0001480, 3 buildings of the property with a total gross floor area of approximately 7,191.58 sq.m. are owned by Zhangzhou Kaixing. The relevant land use rights of the 3 buildings with a site area of approximately 14,720.18 sq.m. have been granted to Zhangzhou Kaixing for a term of 50 years with the expiry date on 22 February 2056 for industrial use.
4. According to a Tenancy Agreement, approximately 9,004.50 sq.m. of the buildings was rented to an independent third party for a term of 10 years commencing from 3 December 2010. The prevailing contracted annual rent (exclusive of water and electricity charges) accruing to the Company is set out as below:

Date of Commencement	Date of Expiry	Annual Rent (RMB)
3 December 2015	2 December 2018	540,270
3 December 2018	2 December 2020	648,324

5. According to a Tenancy Agreement, approximately 1,600 sq.m. of the buildings was rented to Fujian Futex Machinery Co., Ltd (福建福纺精密机械有限公司, “Fujian Fufang”, an indirect wholly-owned subsidiary of the Company) for a term of 20 years commencing from 3 November 2010 at nil rent.
6. According to a Tenancy Agreement, approximately 100 sq.m. of the buildings was rented to Zhangzhou Fukai Trading Co., Ltd (漳州福凯贸易有限公司, “Zhangzhou Fukai”, an indirect wholly-owned subsidiary of the Company) for a term of 20 years commencing from 10 October 2016 at nil rent.
7. Pursuant to a Building Other Rights Certificate – Long Fang Ta Zheng Di Ya Zi Di No. 20140221 dated 9 April 2014, the land use rights of two parcels of land with a total area of approximately 30,462 sq.m. and six buildings with a total gross floor area of approximately 18,681.55 sq.m. are subject to a mortgage in favour of Agricultural Bank of China Co., Ltd Longhai Branch as security to guarantee the obligation for an amount of RMB41,457,000.
8. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. The Group has the rights to occupy, use, transfer, lease, mortgage or otherwise dispose of the land legally in accordance with the use and terms as stipulated on the land use rights certificate or real estate title certificate;
 - b. The Group legally owns the building ownership rights of Workshop Nos. 2, 3, 4, 5, 6, Workshop A and Dormitory No. 1;
 - c. All the buildings can be freely transferred, leased, mortgaged or otherwise disposed of by the Group;

- d. The validity of the Tenancy Agreements mentioned in notes 4 & 5 & 6 will not be affected by the lack of relevant tenancy agreements registration; and
- e. Apart from the Tenancy Agreements mentioned in notes 4 & 5 & 6 and the mortgage mentioned in note 7, there are no circumstances in which any third party may restrict the use or other rights of the property.
9. As the property is the major asset held by the Group, we are of the view that the property is a material property.

Details of the material property

- a) General description of location of the property : The property is located in Fugong Town industrial area. The area mainly consists of two industrial parks, namely Tiantou-Xiawei Industrial Park and Xiaxing-Xiazhen Industrial Park. Tiantou-Xiawei Industrial Park (where the property is located) covers a site area of approximately 2.5 sq.km. with various low-rise industrial buildings and warehouses erected thereon. Fugong Town is adjacent to various wharves, and the waterway transportation of Fugong Town is convenient.
- b) Details of encumbrances, liens, pledges, mortgages against the property : The property is subject to a mortgage mentioned in note 7.
- c) Environmental Issue : According to the PRC legal opinion, there is no record of administrative punishment due to non-compliance with relevant environmental protection laws and regulations by the Environmental Protection Bureau of Longhai City since the commencement of production operation of Zhangzhou Kaixing. No environmental pollution incidents occurred yet.
- d) Details of investigations, notices, pending litigation, breaches of law or title defects : Nil.
- e) Future plans for construction, renovation, improvement or development of the property and estimated associated costs : As advised by the Group, there is no plan for new major development or renovation in the next 12 months from the date of this prospectus.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 28 July 2016 under the Cayman Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association ("**Memorandum**") and its Amended and Restated Articles of Association ("**Articles**").

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 11 December 2017. A summary of certain provisions of the Articles is set out below.

(a) Shares

(i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(ii) *Variation of rights of existing shares or classes of shares*

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall *mutatis mutandis* apply to every such separate general meeting,

but so that the necessary quorum (other than at an adjourned meeting) shall be not less than two persons together holding (or, in the case of a shareholder being a corporation, by its duly authorised representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; and (g) change the currency of denomination of its share capital.

(iv) Transfer of shares

Subject to the Cayman Companies Law and the requirements of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register. Unless the Board otherwise

agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the GEM Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine.

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

(v) Power of the Company to purchase its own shares

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any, code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

(b) Directors*(i) Appointment, retirement and removal*

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the “retirement by rotation” provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

- (aa) resign;
- (bb) dies;
- (cc) is declared to be of unsound mind and the Board resolves that his office be vacated;
- (dd) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) he is prohibited from being or ceases to be a director by operation of law;
- (ff) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (gg) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or
- (hh) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iv) Borrowing powers

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, pro rata. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) Compensation or payments for loss of office

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more of the Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(viii) Disclosure of interest in contracts with the Company or any of its subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (aa) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (ee) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

(ix) Proceedings of the Board

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(c) Alterations to the constitutional documents and the Company's name

To the extent that the same is permissible under Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

(d) Meetings of member***(i) Special and ordinary resolutions***

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(ii) Voting rights and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the GEM Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

- (A) at least two members;
- (B) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (C) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the GEM Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

(iv) Notices of meetings and business to be conducted

An annual general meeting of the Company shall be called by at least 21 days' notice in writing, and any other general meeting of the Company shall be called by at least 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Cayman Companies Law and the GEM Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting holding not less than 95% of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

(v) *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) *Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise

the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(e) Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarised financial statements to shareholders who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarised financial statements instead of the full financial statements. The summarised financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

(f) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;
- (ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and
- (iii) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

- (aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

(g) Inspection of corporate records

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

(h) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(i) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up, the surplus assets remaining after payment to all creditors shall be divided among the members in proportion to the capital paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the surplus assets available for distribution among the members are insufficient to repay the whole of the paid-up capital, such assets shall be distributed, subject to the rights of any shares which may be issued on special terms and conditions, so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(j) Subscription rights reserve

Provided that it is not prohibited by and is otherwise in compliance with the Cayman Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on 28 July 2016 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company operations

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

Under Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums

on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (i) paying distributions or dividends to members;
- (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii) any manner provided in section 37 of the Cayman Companies Law;
- (iv) writing-off the preliminary expenses of the company; and
- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so

by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Cayman Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

Subject to a solvency test, as prescribed in the Cayman Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) Disposal of assets

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

(h) Accounting and auditing requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that:

- (i) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (ii) no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (aa) on or in respect of the shares, debentures or other obligations of the Company;
or
 - (bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking for the Company is for a period of 20 years from 29 June 2017.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

(n) Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands.

(o) Register of Directors and officers

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 60 days of any change in such directors or officers, including a change of the name of such directors or officers.

(p) Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

(q) Reconstructions

Reconstructions and amalgamations may be approved by a majority in number representing 75% in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(r) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

(s) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT THE COMPANY AND ITS SUBSIDIARIES**1. Incorporation of the Company**

The Company was incorporated under the name of “CHINA Precision Machinery Limited” in the Cayman Islands under the Companies Law as an exempted company with limited liability on 28 July 2016. The Company passed a special resolution on 25 October 2016 to change its name to “China Precision Machinery Limited” and adopt its Chinese name “中國精密機械有限公司”. The Company subsequently passed a special resolution to change its name to “China Futex Holdings Limited” and adopt its Chinese name “中國福紡控股有限公司” on 28 April 2017. The Company has established a place of business in Hong Kong at Unit 2406, 24/F., Bonham Trade Centre, 50 Bonham Strand, Sheung Wan, Hong Kong and was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 9 December 2016. Ms. Chan So Fong, the company secretary of the Company, has been appointed as the authorised representative of the Company for acceptance of service of process and notices on behalf of the Company in Hong Kong.

As the Company is incorporated in the Cayman Islands, its operations are subject to the Companies Law and its constitution, which comprises a memorandum of association and the articles of association. A summary of certain provisions of its constitution and relevant aspects of the Companies Law is set out in Appendix IV to this prospectus.

2. Changes in authorised and issued share capital of the Company

The Company was incorporated in the Cayman Islands on 28 July 2016 and one subscriber share was allotted and issued to the initial subscriber at a consideration of US\$1.00 and such share was subsequently transferred to Azure Wealth as fully paid on the same date. The authorised share capital of the Company as at the date of its incorporation was US\$100,000 divided into 100,000 shares of US\$1.00 each.

On the same date, 49,999 shares of US\$1.00 each were allotted and issued as fully paid, of which 28,124 shares of US\$1.00 each were issued to Azure Wealth; 6,185 shares of US\$1.00 each to Sheen Vision; 3,190 shares of US\$1.00 each to Apex Green; 3,250 shares of US\$1.00 each to Green Fountain; 3,250 shares of US\$1.00 each to Palm Voyage; 3,000 shares of US\$1.00 each to Palm Fortune and 3,000 shares of US\$1.00 each to Fortunate Times, respectively.

Pursuant to the resolutions in writing of the Shareholders passed on 28 February 2017, amongst other things, the authorised share capital of the Company was changed from US\$100,000 divided into 100,000 Shares of US\$1.00 each to HK\$200,000,000 divided into 20,000,000,000 Shares, which rank *pari passu* in all respect with the then existing Shares with effect from 7 March 2017.

Immediately following the completion of the Share Offer and the Capitalisation Issue (but without taking into account any Shares to be issued upon the exercise of the options which may be granted under the Share Option Scheme), the authorised share capital of the Company will

be HK\$200,000,000 divided into 20,000,000,000 Shares of HK\$0.01 each and the issued share capital of the Company will be HK\$10,000,000, divided into 1,000,000,000 Shares of HK\$0.01 each, all fully paid or credited as fully paid.

Save as disclosed in this prospectus, there has been no alteration in the share capital of the Company within two years immediately preceding the date of this prospectus and up to the Latest Practicable Date.

3. Resolutions in writing of the Shareholders passed on 11 December 2017

Pursuant to the resolutions in writing passed by the Shareholders on 11 December 2017:

- (a) the Company approved and adopted the new memorandum of association with immediate effect and adopted the new articles of association with effect from the Listing Date;
- (b) conditional on (i) the GEM Listing Committee of the Stock Exchange granting the listing of, and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus and such listing and permission not subsequently having been revoked prior to the commencement of dealing in the Shares on the Stock Exchange; (ii) the entering into of the agreement on the Offer Price between the Company and the Sole Bookrunner (for itself and on behalf of the Public Offer Underwriters and the Placing Underwriters) on or before the Price Determination Date; and (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before the dates specified in the Underwriting Agreement(s):
 - (i) the Share Offer was approved and the Directors were authorised to allot and issue the new Shares under the Share Offer;
 - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “13. Share Option Scheme” below, were approved and adopted and the Directors were authorised to grant options to subscribe for the Shares thereunder and to allot, issue and deal with the Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to carry into effect the Share Option Scheme;
 - (iii) conditional on the share premium account of the Company being credited as a result of the Share Offer, the Directors were authorised to capitalise the amount of HK\$6,584,088.40 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 658,408,840 Shares for allotment and issue to the Shareholders whose names appear on the register of members of the Company as at the close of business on the day before the date of these resolutions (or such other date as any one Director may determine) in proportion (as nearly as possible without involving fractions so that no fraction of a Share shall be allotted and issued) to their then shareholdings in the Company so that the Shares allotted and issued shall rank *pari passu* in all respects with the then existing issued Shares;

- (iv) a general unconditional mandate was given to the Directors to exercise all powers of the Company to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements in accordance with the Articles of Association, or pursuant to the exercise of any options which have been or may be granted under the Share Option Scheme, or under the Share Offer or the Capitalisation Issue, unissued Shares of not exceeding the sum of (aa) 20% of the aggregate number of issued Shares immediately following completion of the Share Offer and the Capitalisation Issue (excluding Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme); and (bb) the aggregate number of issued Shares of the Company which may be purchased by the Company pursuant to the authority granted to the Directors as referred to in paragraph (vi) below, until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the Articles of Association or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors as set out in this paragraph (iv), whichever occurs first;
- (v) a general unconditional mandate (the “**Repurchase Mandate**”) was given to the Directors to exercise all powers of the Company to purchase the Shares not exceeding 10% of the aggregate number of issued Shares immediately following completion of the Share Offer and the Capitalisation Issue (excluding Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme) until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the Articles of Association or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying the authority given to the Directors as set out in this paragraph (v), whichever occurs first; and
- (vi) the general unconditional mandate mentioned in paragraph (v) above was extended by the addition to the aggregate number of issued Shares which may be allotted or agreed to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate number of issued Shares bought back by the Company pursuant to the mandate to repurchase Shares as referred to in paragraph (v) above, provided that such extended amount shall not exceed 10% of the aggregate number of issued Shares immediately following completion of the Share Offer and the Capitalisation Issue but excluding the Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme.

4. The Reorganisation

The Group underwent the Reorganisation to rationalise the Group's structure in preparation for the Listing. For information relating to the Reorganisation, please refer to the section headed "History, Reorganisation and Group Structure" in this prospectus.

5. Changes in share capital of subsidiaries

The Company's subsidiaries are referred to in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

Save as disclosed in section headed "History, Reorganisation and Group Structure" in this prospectus, there are no changes in the registered capital of the subsidiaries during the two years preceding the date of this prospectus.

6. Repurchase by the Company of its own securities

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(a) Provisions of the GEM Listing Rules

The GEM Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) Shareholders' approval

All proposed repurchase of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to a resolution in writing passed by the Shareholders on 11 December 2017, the Repurchase Mandate was given to the Directors to exercise all powers of the Company to purchase Shares on the Stock Exchange or any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10% of the aggregate number of issued Shares immediately following completion of the Share Offer and the Capitalisation Issue (excluding Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme). The Repurchase Mandate will expire at the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying the authority given to the Directors, whichever occurs first.

(ii) Source of funds

Repurchase by the Company must be paid out of funds legally available for the purpose in accordance with the Company's Memorandum and Articles of Association and the Companies Law. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Under the Cayman Islands law, any repurchase by the Company may only be made out of profits of the Company, or out of share premium account, or out of the proceeds of a fresh issue of share made for the purpose of the repurchase, or, if so authorised by its Articles of Association and subject to the provisions of the Companies Law, out of capital. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of profits of the Company or from sums standing to the credit of the Company's share premium account, or, if so authorised by its Articles of Association and subject to the provisions of the Companies Law, out of capital.

(iii) Trading restrictions

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue.

A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The GEM Listing Rules also prohibit a listed company from repurchasing its securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may request.

(iv) Status of repurchased Shares

All repurchased securities that are not held by the Company as treasury shares (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed. Under the Companies Law, a company's shares being repurchased may be treated as cancelled and the amount of the company's issued share capital shall be reduced by the aggregate number of issued Shares repurchased accordingly although the authorised Share capital of the Company will not be reduced.

(v) Suspension of repurchase

A listed company may not make any repurchase of securities at any time after inside information has come to its knowledge until the information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of a listed company's results for any year, half-year, or quarter-year period or any other interim period (whether or not required under the GEM Listing Rules); and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year or quarter-year period or any other interim period (whether or not required under the GEM Listing Rules), and ending on the date of the results announcement, the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the GEM Listing Rules.

(vi) Reporting requirements

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following Business Day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

(vii) Connected persons

A company is prohibited from knowingly repurchasing securities from a "core connected person", that is, a director, chief executive or substantial shareholder of the Company or any of their respective close associates and a core connected person shall not knowingly sell his securities to the Company, on the Stock Exchange.

(b) *Reasons for repurchase*

The Directors believe that it is in the best interests of the Company and the Shareholders for the Directors to have general authority from the Shareholders to enable the Company to repurchase Shares in the market. Such repurchase may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if the Directors believe that such repurchase will benefit the Company and the Shareholders.

(c) *Funding of repurchase*

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with its Memorandum and Articles of Association, the GEM Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of the Group as disclosed in this prospectus and taking into account the current working capital position of the Group, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Group as compared with the position disclosed in this prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Group or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Group.

The exercise in full of the Repurchase Mandate, on the basis of 1,000,000,000 Shares in issue immediately after the listing of the Shares on the Stock Exchange, would result in up to 100,000,000 Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

(d) *General*

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective close associates (as defined in the GEM Listing Rules currently intends to sell any Shares to the Company or its subsidiaries if the Repurchase Mandate is exercised.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules and the applicable laws of the Cayman Islands.

No connected person (as defined in the GEM Listing Rules) has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP

7. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this prospectus and are or may be material:

- (a) the equity transfer agreement dated 5 November 2016 entered into between Futex Machinery and Longhuai Import & Export in respect of the transfer of 56.25% equity interest of Zhangzhou Kaixing from Longhuai Import & Export to Futex Machinery at a consideration of RMB4,130,000;
- (b) the equity transfer agreement dated 5 November 2016 entered into between Futex Machinery and Mr. Chen in respect of the transfer of 12.375% equity interest of Zhangzhou Kaixing from Mr. Chen to Futex Machinery at a consideration of RMB910,000;
- (c) the equity transfer agreement dated 5 November 2016 entered into between Futex Machinery and Mr. J Zheng in respect of the transfer of 6.375% equity interest of Zhangzhou Kaixing from Mr. J Zheng to Futex Machinery at a consideration of RMB460,000;
- (d) the equity transfer agreement dated 5 November 2016 entered into between Futex Machinery and Green Fountain in respect of the transfer of 6.5% equity interest of Zhangzhou Kaixing from Green Fountain to Futex Machinery at a consideration of RMB480,000;
- (e) the equity transfer agreement dated 5 November 2016 entered into between Futex Machinery and Palm Voyage in respect of the transfer of 6.5% equity interest of Zhangzhou Kaixing from Palm Voyage to Futex Machinery at a consideration of RMB480,000;
- (f) the equity transfer agreement dated 5 November 2016 entered into between Futex Machinery and Palm Fortune in respect of the transfer of 6% equity interest of Zhangzhou Kaixing from Palm Fortune to Futex Machinery at a consideration of RMB440,000;

- (g) the equity transfer agreement dated 5 November 2016 entered into between Futex Machinery and Fortunate Times in respect of the transfer of 6% equity interest of Zhangzhou Kaixing from Fortunate Times to Futex Machinery at a consideration of RMB440,000;
- (h) the share subscription agreement dated 27 January 2017 entered into between the Company and PAM Global pursuant to which the Company issued and PAM Global subscribed for 3,322 shares of US\$1.00 each in the share capital of the Company at a consideration of HK\$12,000,000;
- (i) the Deed of Indemnity;
- (j) the Deed of Non-Competition; and
- (k) the Public Offer Underwriting Agreement.

8. Intellectual Property Rights of the Group

(a) Trademarks

As at the Latest Practicable Date, the Group has applied for registration of the following trademarks which are material in relation to the Group's business:

Trademark application number	Trademark	Applicant	Class	Place of application	Application date
21492302	FUTEX 福紡	Fujian Fufang	6 (Note 1)	PRC	8 October 2016
21492130	FUTEX 福紡	Fujian Fufang	7 (Note 2)	PRC	8 October 2016
21491987	FUTEX 福紡	Fujian Fufang	9 (Note 3)	PRC	8 October 2016
21491733	FUTEX 福紡	Fujian Fufang	11 (Note 4)	PRC	8 October 2016

Notes:

- (1): Class 6: metal pipes; railway metal materials; small hardware; hardware; metal buckles for machine drive belt; metal packaging containers; metal cages; anchors; metal identification wristbands; metal wind vanes; metal protectors for trees; traps for capturing beasts (金屬管道; 鐵路金屬材料; 小五金器具; 五金器具; 機器傳動帶用金屬扣; 金屬包裝容器; 金屬制獸籠; 錨; 金屬制身份鑒別手環; 金屬風向標; 樹木金屬保護器; 捕野獸陷阱).
- (2): Class 7: machinery for textile industry; dyeing machines; agitators; tea manufacturing machines; tanning machines; sewing machines; casting machinery; zipper making machine (紡織工業用機器; 染色機; 攪動機; 制茶機械; 制革機; 縫紉機; 鑄造機械; 拉鍊機).
- (3): Class 9: pedometers; balances; scales; signal lamps; navigation instruments; loudspeakers; cinematographs; detectors; mirrors (optical) (計步器; 秤; 刻度尺; 信號燈; 導航儀器; 揚聲器; 電影攝影機; 探測器; 鏡(光學)).

- (4) Class 11: lamps for carriers; lamps; cooking appliances and equipment; biogas stoves; ice-making machines and equipment; cooling devices and machines; water heating systems; agricultural irrigation and drainage machines; flush equipment; disinfection equipment; electric heaters; air cooling units; furnace cooling units 運輸工具用燈; 燈; 烹調用裝置和設備; 沼氣灶; 制冰機和設備; 冷卻裝置和機器; 水供暖裝置; 農業用排灌機; 水沖洗設備; 消毒設備; 電暖器; 空氣冷卻裝置; 熔爐冷卻裝置).

As at the Latest Practicable Date, the Group has registered the following trademarks:

No.	Trademark	Registered Owner	Class	Place of registration	Registration No.	Expiry date
1.	 星 輝	Zhangzhou Kaixing	7 (Note 1)	PRC	4263344	13 February 2027
2.		Fujian Fufang	9 (Note 2)	PRC	13263475	13 January 2025
3.		Fujian Fufang	7 (Note 3)	PRC	13263288	20 January 2025
4.		Fujian Fufang	11 (Note 4)	PRC	13263603	06 January 2025
5.		Fujian Fufang	6 (Note 5)	PRC	13263070	13 January 2025
6.	FUFANG 福紡	Fujian Fufang	9 (Note 2)	PRC	13263429	13 January 2025
7.	FUFANG 福紡	Fujian Fufang	11 (Note 4)	PRC	13263663	06 January 2025
8.	FUFANG 福紡	Fujian Fufang	6 (Note 5)	PRC	13262996	06 January 2025
9.	FUFANG 福紡	Fujian Fufang	7 (Note 3)	PRC	13263336	20 January 2025
10.		the Company	7 (Note 6)	Hong Kong	303978947	29 November 2026

Notes:

- (1) Class 7: Knitting machine, Jacket, reel, cone, weaving loom (machine), spindle, transmission gear, slide, carriage, knitting cloth (carding machine) (織布機, 織布機套筒; 織布機卷線軸; 織布機筒管; 織機(機器); 織機軸; 織布機傳動齒輪; 針織機滑板; 針織機滑動架; 針布(梳棉機零件)).
- (2) Class 9: Illuminated electronic device; wireless electric equipment, optical instruments and apparatuses, power supply materials (wires and cables); semiconductors; integrated circuits; wire reels; transformers; video displays; remote devices; optical fibers; electrical equipment used in remote industrial operations (發光式電子指示器; 無線電設備; 光學器械和儀器; 電源材料(電線、電纜); 半導體; 集成電路; 電線圈; 變壓器; 視頻顯示屏; 遙控裝置; 光學纖維(光導纖維); 工業遙控操作電氣設備).

- (3) Class 7: Agricultural machines; textile machines for industrial use; electric machines used in food production; packaging machines; smelting machines and equipment for industrial use; casting machines; metal processing machines; button makers; centrifuges; pressure valves (machinery parts); compressors (machines); spindles; bearings (machinery parts); transmission belts (農業機械; 紡織工業用機器; 制食品用電動機械; 包裝機; 冶煉工業用機器設備; 鑄鐵機; 金屬加工機械; 制鈕扣機; 離心機; 壓力閥(機器部件); 壓縮機(機器); 機器軸; 軸承(機器零件); 機器傳動帶).
- (4) Class 11: Lights; cooking devices and equipment; cooling devices and equipment; air conditioning devices, heating devices; faucets; bathroom devices; water purification devices; electric heaters; gas lighters (燈; 烹調用裝置和設備; 冷卻設備和裝置; 空氣調節裝置; 熱氣裝置; 龍頭; 浴室裝置; 水淨化裝置; 電暖器; 氣體引燃器).
- (5) Class 6: Unprocessed or semi-processed common metal; metal pipes; metal buildings; metal ropes; metal bolts; metal accessories for household use; hardware tools; metal pallets for loading and unloading; metal packaging containers; common metal artworks (未加工或半加工普通金屬; 金屬管道; 金屬建築物; 金屬繩索; 金屬栓; 家具用金屬附件; 五金器具; 裝卸用金屬貨盤; 金屬包裝容器; 普通金屬藝術品).
- (6) Class 7: agricultural machinery; machinery for textile industry; electric machinery for making food; packing machines; machinery and equipment for smelting industry; cast iron machines; metal processing machinery; button makers; centrifuges; pressure valves (machine parts); compressors (machines); machine shafts; bearings (machine parts); machine drive belts (農業機械; 紡織工業用機器; 制食品用電動機械; 包裝機; 冶煉工業用機器設備; 鑄鐵機; 金屬加工機械; 制鈕扣機; 離心機; 壓力閥(機器部件); 壓縮機(機器); 機器軸; 軸承(機器零件); 機器傳動帶).

(b) Patents

As at the Latest Practicable Date, the Group has applied for registration of the following patents:

No.	Patent name	Patent type	Patent registration number	Date of application	Applicant
1.	A type of position fixing mechanism of cam box seat deck and main plate for circular knitting machines (一種大圓機馬座與大盤的定位系統)	Utility Model	201720184461.8	28 February 2017	Zhangzhou Kaixing
2.	A type of press plate structure for double linking computerized knitting machines (一種對筒機的壓板結構)	Utility Model	201720526659.X	12 May 2017	Zhangzhou Kaixing
3.	A type of press plate adjustment mechanism for circular knitting machines (一種大圓機的壓板調節機構)	Utility Model	201720526691.8	12 May 2017	Zhangzhou Kaixing

No.	Patent name	Patent type	Patent registration number	Date of application	Applicant
4.	A type of cam structure for double linking computerized knitting machines (一種對筒機的導針三角機構)	Utility Model	201720526767.7	12 May 2017	Zhangzhou Kaixing
5.	Inverted latch-needle opener (反開針舌器)	Utility Model	201720862966.5	17 July 2017	Zhangzhou Kaixing
6.	A type of yarn feeding device used in circular knitting machines (一種大圓機的對筒喂紗裝置)	Utility Model	201721181251.X	14 September 2017	Zhangzhou Kaixing

As at the Latest Practicable Date, the Group has registered the following patents:

No.	Patent type	Patent number	Patent description	Place of registration	Patentee	Date of application	Patent term
1.	Utility Model	201520147028.8	A type of knitting structure used in circular knitting machines (一種用於針織大圓機上的壓針結構)	PRC	Zhangzhou Kaixing	16 March 2015	10 years
2.	Utility Model	201520137564.X	A type of yarn adjusting device (一種喂紗調節裝置)	PRC	Zhangzhou Kaixing	11 March 2015	10 years
3.	Utility Model	201420233726.5	A type of transmission system with an anti-oil leakage device (一種具有防漏油裝置的傳動系統)	PRC	Zhangzhou Kaixing	8 May 2014	10 years
4.	Utility Model	201420233731.6	A type of transmission system with an oil immersion type of header spindle in two-sided circular knitting machines (一種雙面針織大圓機的泡油式首部心軸傳動系統)	PRC	Zhangzhou Kaixing	8 May 2014	10 years

No.	Patent type	Patent number	Patent description	Place of registration	Patentee	Date of application	Patent term
5.	Utility Model	201220214994.3	A type of structure in two-sided disc-shaped adjustable knitting machines (一種雙面圓盤可調節針織機的結構)	PRC	Zhangzhou Kaixing	14 May 2012	10 years
6.	Utility Model	201220146773.7	A type of yarn feeding box used in one-sided disc-shaped adjustable knitting machines (一種用於單面圓盤針織機的送紗箱)	PRC	Zhangzhou Kaixing	9 April 2012	10 years
7.	Utility Model	201220146323.8	A type of oil deflector used in two-sided disc-shaped adjustable knitting machines Signal plate (一種用於雙面圓盤針織機上的擋油結構)	PRC	Zhangzhou Kaixing	9 April 2012	10 years
8.	Utility Model	201020578236.0	Signal Plate (信克盤)	PRC	Zhangzhou Kaixing	27 October 2010	10 years
9.	Utility Model	201020578239.4	A type of large-disc gearing structure in disc-shaped knitting machines (一種圓盤針織機的大盤齒輪結構)	PRC	Zhangzhou Kaixing	27 October 2010	10 years
10.	Utility Model	201020578555.1	A type of disc-shaped knitting machine (一種圓盤針織機)	PRC	Zhangzhou Kaixing	27 October 2010	10 years
11.	Utility Model	201020578173.9	Cylinder structure of two-sided knitting machines (雙面針織機的針筒結構)	PRC	Zhangzhou Kaixing	27 October 2010	10 years
12.	Utility Model	201020568185.3	Pinhead of disc-shaped knitting machines (圓盤式針織機針頭)	PRC	Zhangzhou Kaixing	20 October 2010	10 years

No.	Patent type	Patent number	Patent description	Place of registration	Patentee	Date of application	Patent term
13.	Utility Model	201020568111.X	Pinhead drive system of disc-shaped knitting machines (圓盤式針織機針頭驅動裝置)	PRC	Zhangzhou Kaixing	20 October 2010	10 years
14.	Utility Model	201521136572.9	A device capable of adjusting the running track of circular knitting machines (能調節針織大圓機織針運行軌跡的裝置)	PRC	Zhangzhou Kaixing (Note 1)	31 December 2015	10 years
15.	Utility Model	201520250668.1	An interlock rib knitting machine (一種移圈羅紋機)	PRC	Zhangzhou Kaixing (Note 1)	23 April 2015	10 years
16.	Invention	201510196413.6	A configuration of triangles and loop transfer rib knitting machine (一種三角配置方式及移圈羅紋機)	PRC	Zhangzhou Kaixing (Note 1)	23 April 2015	20 years

Note:

- (1) On 9 May 2017, Fujian Fufang assigned the ownership and interests of the respective patent to Zhangzhou Kaixing at nil consideration.

(c) Domain names

As at the Latest Practicable Date, the Group has registered the following domain names:

Domain names	Date of registration	Expiry date
kx-machine.com	12 August 2009	12 August 2018
futex-machine.com	8 August 2014	8 August 2019

Information contained in the above website does not form part of this prospectus.

Save as disclosed above, there are no other trade or service marks, patents, other intellectual or industrial property rights which are material to the business of the Group.

FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF

9. Directors

(a) Particulars of service contracts and letters of appointment

Each of Ms. Yuan, Mr. Chen and Mr. J Zheng, being all the executive Directors, has entered into a service contract with the Company. Particulars of these contracts, except as indicated, are in all material respects identical and are set out below:

- (i) each service contract is of three years commencing from the Listing Date and will continue thereafter until terminated in accordance with the terms of the service agreement;
- (ii) the initial annual salary for each of Ms. Yuan, Mr. Chen and Mr. J Zheng is set out below, such salary to be reviewed annually by the Board and the Remuneration Committee; and
- (iii) each of the executive Directors is entitled to a discretionary year-end bonus by reference to the audited consolidated net profits of the Group after taxation and minority interests but before extraordinary and exceptional items as the Board and the Remuneration Committee may approve, provided that the relevant executive Director shall abstain from voting and not be counted in the quorum in respect of any resolution of the Board approving the amount of annual salary, discretionary year-end bonus and other benefits payable to him.

The current basic annual salaries (excluding discretionary bonus) of the executive Directors are as follows:

Name	Amount <i>(RMB)</i>
Ms. Yuan	184,680
Mr. Chen	188,880
Mr. J Zheng	186,480

Each of Dr. Mu, Dr. Hu and Mr. Simon Shum, being all the independent non-executive Directors, has entered into a letter of appointment with the Company. Each letter of appointment is for an initial term commencing on the Listing Date, and shall continue for a term of one year from the Listing Date and will continue thereafter until terminated in accordance with the terms of the letter of appointment.

The current basic annual salaries of the independent non-executive Directors are as follows:

Name	Amount
Dr. Mu	RMB60,000
Dr. Hu	RMB60,000
Mr. Simon Shum	HK\$100,000

Save as aforesaid, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the Group within one year without the payment of compensation (other than statutory compensation)).

(b) Directors' remuneration

During the Track Record Period, the aggregate of the remuneration (including salaries and allowance, if any) paid and benefits in kind granted by the Group to the Directors was approximately RMB519,000, RMB602,000 and RMB362,000 for the two financial years ended 31 December 2015 and 2016 and six months ended 30 June 2017 respectively. Details of the Directors' remuneration are set out in note 13 to the Accountants' Report in Appendix I to this prospectus.

Under the arrangements currently in force, the aggregate emoluments (excluding any discretionary bonus, if any, payable to the Director) payable by the Group to and benefits in kind receivable by the Directors for the financial year ending 31 December 2017 is estimated to be approximately HK\$834,044.

None of the Directors or any past directors of any member of the Group has been paid any sum of money for each of the two financial years ended 31 December 2015 and 2016 (i) as an inducement to join or upon joining the Company; or (ii) for loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group.

There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the two financial years ended 31 December 2015 and 2016.

(c) Interests and short positions of Directors in the share, underlying shares or debentures of the Company and its associated corporations

Immediately following completion of the Share Offer and the Capitalisation Issue (but not taking into account of any Shares that may be allotted and issued pursuant to the exercise of any option(s) which may be granted under the Share Option Scheme), the interests or short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, will be as follows:

Name	Capacity/Nature of interest	Number of Shares held after the Share Offer and the Capitalisation Issue (Note 1)	Percentage of shareholding after the Share Offer and the Capitalisation Issue
Mr. Chen	Interest in a controlled corporation (Note 2)	81,195,379 Shares (L)	8.119%
Mr. J Zheng	Interest in a controlled corporation (Note 3)	41,877,649 Shares (L)	4.188%

Notes:

- (1) The Letter "L" denotes the person's long position (as defined under Part XV of the SFO) in the Shares.
- (2) Sheen Vision is wholly owned by Mr. Chen and is the beneficial owner of 81,195,379 Shares. Accordingly, Mr. Chen is deemed to be interested in 81,195,379 Shares held by Sheen Vision by virtue of the SFO. Mr. Chen is an executive Director.
- (3) Apex Green is wholly owned by Mr. J Zheng and is the beneficial owner of 41,877,649 Shares. Accordingly, Mr. J Zheng is deemed to be interested in 41,877,649 Shares held by Apex Green by virtue of the SFO. Mr. J Zheng is an executive Director.

10. Interest discloseable under the SFO and substantial shareholders

So far as the Directors are aware, immediately following the completion of the Share Offer and the Capitalisation Issue and taking no account of any Shares which may be taken up under the Share Offer or any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme, based on the information available on the Latest Practicable Date, the following persons/entities (other than a director or chief executive of the Company) will have an interest or a short position in the Shares or the underlying Shares which would fall to be disclosed to the Company and the Stock

Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be recorded in the register of the Company required to be kept under section 336 of the SFO, or who will be, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other members of the Group:

Name	Capacity/ Nature of interest	Number of Shares held after the Share Offer (Note 1)	Percentage of shareholding after the Share Offer
Azure Wealth	Beneficial owner	369,219,084 Shares (L)	36.922%
Ms. Zheng	Interest in controlled corporation (Note 2)	369,219,084 Shares (L)	36.922%
Mr. Ke Weibin (柯葳彬)	Interest of spouse (Note 3)	369,219,084 Shares (L)	36.922%
Sheen Vision	Beneficial owner	81,195,379 Shares (L)	8.119%
Ms. Chen Qing (陳晴)	Interest of spouse (Note 4)	81,195,379 Shares (L)	8.119%

Notes:

- (1) The Letter “L” denotes the person’s long position (as defined under Part XV of the SFO) in the Shares.
- (2) Azure Wealth is owned as to 95% by Ms. Zheng. Accordingly, Ms. Zheng is deemed to be interested in 369,219,084 Shares held by Azure Wealth by virtue of the SFO.
- (3) Mr. Ke Weibin (柯葳彬) is the spouse of Ms. Zheng and is therefore deemed to be interested in all the Shares held/owned by Ms. Zheng through Azure Wealth by virtue of the SFO.
- (4) Ms. Chen Qing (陳晴) is the spouse of Mr. Chen and is therefore deemed to be interested in all the Shares held/owned by Mr. Chen through Sheen Vision by virtue of the SFO.

11. Related party transactions

During the two years immediately preceding the date of this prospectus, the Group has engaged in the related party transactions as mentioned in note 31 to the Accountants’ Report set out in Appendix I to this prospectus.

12. Disclaimers

Save as disclosed in this prospectus:

- (a) and taking no account of any Shares which may be taken up or acquired under the Share Offer or any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme, the Directors are not aware of any person who immediately following completion of the Share Offer and the Capitalisation Issue will have an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who is, either directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of the Company or any other members of the Group;
- (b) none of the Directors or chief executive of the Company has any interests and short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, in each case once the Shares are listed on the Stock Exchange;
- (c) none of the Directors has been interested in the promotion of, or has any direct or indirect interest in any assets acquired or disposed of by or leased to, any member of the Group within the two years immediately preceding the date of this prospectus, or which are proposed to be acquired or disposed of by or leased to any member of the Group nor will any Director apply for Offer Shares either in his/her own name or in the name of a nominee;
- (d) none of the Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole; and
- (e) none of the Directors has entered or has proposed to enter into any service agreements with the Company or any member of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

SHARE OPTION SCHEME**13. Share Option Scheme**

The Company has conditionally adopted the Share Option Scheme, which was approved by written resolutions passed by the Shareholders on 11 December 2017. The following is a summary of the principal terms of the Share Option Scheme but does not form part of, nor was it intended to be, part of the Share Option Scheme nor should it be taken as affecting the interpretation of the rules of the Share Option Scheme.

The terms of the Share Option Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules.

(a) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to reward Participants who have contributed or will contribute to the Group and to encourage Participants to work towards enhancing the value of the Company and its Shares for the benefit of the Company and its Shareholders as a whole, and to maintain or attract business relationships with Participants whose contributions are or may be beneficial to the growth of the Group.

For the purpose of the Share Option Scheme, “Participants” means any person who satisfied the eligibility criteria in paragraph (b) below.

(b) Who May Join

The Board may, at any time during the period for which the Share Option Scheme is valid and effective, make an offer for options to:

- (i) any directors (including executive directors, non-executive directors and independent non-executive directors) and employees of any member of the Group; and
- (ii) any advisers, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters and service providers of any member of the Group,

whom the Board considers, in its sole discretion, have contributed or will contribute to the Group.

(c) Grant of Option

An offer of the grant of an option shall be made to the Participants by letter in such form as the Board may from time to time determine, requiring the Participant to undertake to hold the option on the terms on which it is to be granted and to be bound by the provisions of the Share Option Scheme. The offer shall remain open for acceptance by the

Participant concerned for a period of five business days from the date on which it is made provided that the offer shall no longer be open for acceptance after expiry of the Option Period (as defined below), after the Share Option Scheme has been terminated or after the Participant concerned has ceased to be a Participant. An option shall be deemed to have been accepted and to have taken effect when the duplicate letter comprising acceptance of the option duly signed by the option-holder together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant of the option shall have been received by the Company on or before the last day for acceptance as set out in the offer letter. The remittance is not in any circumstances refundable. Once accepted, the option is granted as from the date on which it was offered to the relevant Participant.

(d) Payment on Acceptance of Option Offer

HK\$1.00 is payable by the Participant to the Company on acceptance of the option offer as consideration for the grant.

(e) Subscription Price

The subscription price (“**Subscription Price**”) shall, subject to any adjustment pursuant to paragraph (n) below, be a price determined by the Board but in any event shall be at least the higher of: (1) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheets on the date on which the option is offered to a Participant (“**Offer Date**”); (2) the average of the closing prices of the Shares as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the Offer Date; and (3) the nominal value of the Shares.

(f) Maximum Number of Shares

(1) Scheme mandate

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed the number of Shares that shall represent 10% of the total number of Shares in issue as at the date upon which the Share Option Scheme takes effect, which shall be deemed to fall on the date on which the Shares first commence trading on GEM (“**Scheme Mandate**”), which is expected to be 100,000,000 Shares. For the purpose of calculating the Scheme Mandate, options which have lapsed in accordance with the terms of the relevant scheme shall not be counted.

(2) Refreshment of the Scheme Mandate

The Company may seek approval by the Shareholders in general meeting for refreshing the Scheme Mandate provided that the total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company under the Scheme Mandate as refreshed must not

exceed 10% of the total number of Shares in issue as at the date of Shareholders' approval. For the foregoing purpose, options previously granted under the Share Option Scheme and any other share option schemes of the Company, whether outstanding, cancelled or lapsed in accordance with its applicable rules or already exercised, will not be counted.

(3) Grant of options beyond Scheme Mandate

The Company may seek separate approval by the Shareholders in general meeting for granting options beyond the Scheme Mandate provided the options in excess of the Scheme Mandate are granted only to Participants who are specifically identified before such approval is sought. A circular is required to be sent by the Company to the Shareholders in accordance with the GEM Listing Rules in connection with such grant.

(4) Maximum number of Shares issued pursuant to Options

Notwithstanding any provisions to the contrary, the limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed such number of Shares as shall represent 30% of the total number of Shares in issue from time to time. No options may be granted if such grant will result in this 30% limit being exceeded.

(g) Maximum Holding by Option-holder

Unless approved by the Shareholders in general meeting in the manner prescribed in the GEM Listing Rules, the Board shall not grant options to any option-holder if it would result in the total number of Shares issued and to be issued to that Participant on exercise of his options (including both exercised and outstanding options) granted and to be granted to such person during any 12-month period exceeding 1% of the total Shares then in issue.

(h) Timing for Exercise of Options

The period during which an option may be exercised in accordance with the terms of the Share Option Scheme ("**Option Period**") shall be a period of time to be notified by the Board to each option-holder, which the Board may in its absolute discretion determine, save that such period shall not be more than ten years from the Offer Date.

(i) Rights Personal to Option-holder

An option is personal to the option-holder and shall not be transferable or assignable. No option-holder shall sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option or enter into any agreement to do so.

(j) Rights on Termination of Employment

- (1) If the option-holder ceases to be a Participant by reason of the termination of his employment or directorship on the grounds of serious misconduct, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has committed any act of bankruptcy or has become insolvent or has made any arrangements or compromise with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or on any other grounds on which an employer would be entitled to terminate his employment summarily, his option will lapse automatically (to the extent not already exercised) and not be exercisable on or after the date of termination of his employment.
- (2) If the option-holder who is an employee or a director of the Company or another member of the Group ceases to be a Participant for any reason other than his death or termination of his employment or directorship on one or more of the grounds specified in paragraph (1) above, the option (to the extent not already exercised) shall lapse on the date of cessation or termination of his employment (which date shall be the option-holder's last actual working day with the Company or the relevant subsidiary whenever salary is paid in lieu of notice or not) and shall on that day cease to be exercisable unless that option-holder continues to serve the Group in some other capacity, in which case the Board is authorised to determine the Option Period and, if appropriate, determine that the option shall not lapse on the date of cessation or termination of employment but on another date as the Board may determine.

(k) Rights on Death

If the option-holder ceases to be a Participant by reason of his death before exercising his option in full and (where the option-holder is an employee of the Group) none of the events which would be a ground for termination of his employment as described in paragraph (j)(1) above have arisen, his legal personal representative(s) may generally exercise the option up to the option-holder's entitlement as at the date of death (to the extent not already exercised) within a period of 12 months following the date of his death.

(l) Rights on ceasing to be a Participant

If the option-holder who is not an employee or a director of the Company or another member of the Group ceases to be a Participant as and when determined by the Board by resolution for any reason other than his death, the Board may by written notice to such option-holder within one month from the date of such cessation determine the period within which the option (or such remaining part thereof) shall be exercisable following the date of such cessation.

(m) Rights on a Compromise or Arrangement

If a compromise or arrangement (other than a scheme of arrangement) between the Company and its members or creditors is proposed in connection with a scheme for the reconstruction or amalgamation of the Company, the Company shall give notice to all the option-holders on the same date as it gives notice of the meeting to its members or creditors to consider such a compromise or arrangement, and the option-holder (or his legal personal representative) may at any time thereafter but before such time as shall be notified by the Company exercise the option either to its full extent or to the extent notified by the Company and the Company shall as soon as possible and in any event no later than three days prior to the date of the proposed Shareholders' meeting, allot, issue and register in the name of the option-holder such number of Shares which fall to be issued on such exercise.

(n) Effect of Alterations to Share Capital

If an alteration in the capital structure of the Company, while any option remains exercisable, by way of capitalisation of profits or reserves, bonus issue, rights issue, open offer, subdivision or consolidation of Shares, or reduction of the share capital of the Company in accordance with legal requirements and requirements of the Stock Exchange (other than any alteration in the capital structure of the Company as a result of an issue of Shares as consideration in a transaction to which the Company is a party), such corresponding adjustments (if any) shall be made to:

- (1) the number or nominal amount of Shares subject to the option so far as unexercised; and/or
- (2) the Subscription Price; and/or
- (3) the number of Shares subject to the Share Option Scheme, or any combination thereof, provided that:
 - (i) any such adjustments give an option-holder the same proportion of the equity capital of the Company as that to which that option-holder was previously entitled; and
 - (ii) notwithstanding paragraph (i) above, any adjustments as a result of an issue of securities with a price-dilutive element, such as a rights issue, open offer or capitalisation issue, should be based on a scrip factor similar to the one used in accounting standards in adjusting the earnings per share figures (referred to in Hong Kong Accounting Standard 33) and the acceptable adjustments set out in the supplementary guidance on Rule 23.03(13) of the GEM Listing Rules issued by the Stock Exchange on 5 September 2005 and any future guidance/interpretation of the GEM Listing Rules issued by the Stock Exchange from time to time;

but no such adjustments shall be made to the extent that a Share would be issued at less than its nominal value. In respect of any such adjustments, an independent financial advisor or the auditor of the Company must certify in writing that the adjustments satisfy the requirements in paragraphs (i) and (ii) above.

(o) Rights on Winding-up

If a notice is given by the Company to the Shareholders to convene a Shareholders' meeting to consider and, if thought fit, approve a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to all option-holders and any option-holder (or his legal personal representative) may at any time thereafter (but before such time as shall be notified by the Company) exercise the option either to its full extent or to the extent notified by the Company, and the Company shall as soon as possible and in any event no later than three days prior to the date of the proposed Shareholders' meeting, allot, issue and register in the name of the option-holder such number of Shares to the option-holder which fall to be issued on such exercise.

(p) Rights on a General Offer by way of Takeover

If a general offer by way of takeover or otherwise (other than by way of scheme of arrangement) being made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of the relevant option, the Company shall forthwith notify all the option-holders and any option-holder (or his legal personal representative) shall be entitled to exercise the option in full (to the extent not already exercised) or to the extent as notified by the Company at any time within such period as shall be notified by the Company.

(q) Rights on a General Offer by way of Scheme of Arrangement

If a general offer by way of scheme of arrangement being made to all the Shareholders and has been approved by the necessary number of Shareholders at the requisite meetings, the Company shall forthwith notify all the option-holders and any option-holder (or his legal personal representative) may at any time thereafter (but before such time as shall be notified by the Company) exercise the option either to its full extent or to the extent notified by the Company.

(r) Lapse of Option

An Option shall lapse automatically and shall not be exercisable, to the extent not already exercised, on the earliest of:

- (1) the expiry of the Option Period (subject to the provisions of the Share Option Scheme);

- (2) the expiry of the periods referred to in paragraphs (j) to (m) and (o) to (q) above respectively;
- (3) the expiry of the period referred to in paragraph (p) above, subject to any court of competent jurisdiction making an order to prohibit the offeror from acquiring the remaining Shares under the option offer;
- (4) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in paragraph (q) above;
- (5) the date of commencement of the winding-up of the Company;
- (6) the date on which the option-holder ceases to be a Participant as referred to in paragraph (j)(1) above;
- (7) the date on which the option-holder commits a breach by selling, transferring, charging, mortgaging, encumbering or creating any interest in favour of any other person over or in relation to any option or enter into any agreement to do so; and
- (8) subject to paragraph (j)(2), the date the option-holder ceases to be a Participant for any other reason.

(s) *Ranking of Shares*

The Shares to be allotted upon exercise of an option will be subject to all the provisions of the Company's Articles for the time being in force and will carry the same rights in all respects with the fully paid Shares in issue on the date of allotment. Accordingly, the Shares will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment provided that the record date for the dividend or distribution is a date after the date of allotment. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the option-holder has been duly entered onto the register of members of the Company as the holder thereof.

(t) *Performance Targets*

Save as determined by the Board and provided in the offer of the grant of the relevant options, there is no performance target which must be achieved before any of the options can be exercised.

(u) *Life of the Share Option Scheme*

The Share Option Scheme shall be valid and effective for a period of ten years commencing from the date on which the Share Option Scheme takes effect in accordance with its terms, after which period no further options will be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other respects. In particular, all options granted before the end of such period shall continue to be valid and exercisable after the end of such period in accordance with the terms of the Share Option Scheme.

(v) Alterations of the Share Option Scheme

- (1) The specific provisions of the Share Option Scheme which relate to the matters set out in Rule 23.03 of the GEM Listing Rules cannot be altered to the advantage of Participants and changes to the authority of the Board in relation to any alteration of the terms of the Share Option Scheme shall not be made, in either case, without the prior approval of Shareholders in general meeting (with all option-holders, prospective option-holders and their associates who are Shareholders abstaining from voting).
- (2) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature, or any change to the terms of options granted, must be approved by the Shareholders in general meeting (with all option-holders, prospective option-holders and their associates who are Shareholders abstaining from voting), except where the alterations take effect automatically under the existing terms of the Share Option Scheme. The Share Option Scheme so altered must comply with Chapter 23 and other relevant requirements of the GEM Listing Rules.

(w) Options to Related Persons

- (1) Any grant of options to a Director, chief executive or substantial Shareholder of the Company or any of their respective associates (“**Related Person**”) must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is also a proposed grantee of such options).
- (2) Any grant of options to a substantial Shareholder or an independent non-executive Director or any of their respective associates must be approved by the Shareholders in general meeting if the Shares issued and to be issued upon the exercise of all options already granted and proposed to be granted to him (whether exercised, cancelled or outstanding) in the 12-month period up to and including the proposed Offer Date: (a) would represent in aggregate more than 0.1% of the Shares then in issue; and (b) would have an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5,000,000.
- (3) At the general meeting to approve the proposed grant of options pursuant to this paragraph (w), the grantee, his associates and all core connected persons of the Company must abstain from voting in favour on the proposed grant. The Company will send a circular to the Shareholders containing the information required under the GEM Listing Rules.

(x) Restrictions on Grant of Options

No grant of options shall be made after inside information (as defined under the SFO) has come to the Company's knowledge until such inside information has been announced pursuant to the requirements of the GEM Listing Rules. Without prejudice to the foregoing, no option shall be granted during the period commencing one month immediately before the earlier of (i) the date of the Board meeting (as such date is first notified to the Exchange) for approving the Company's results for any yearly, half-yearly or quarter yearly period or any other interim period (whether or not required under the GEM Listing Rules); and (ii) the deadline for the Company to announce the results for any year, half year or quarter-year period or any other interim period (whether or not required under the GEM Listing Rules), and ending on the date of the results announcement.

(y) Cancellation of Options

- (i) The Board may effect the cancellation of any options granted but not exercised on such terms as may be agreed with the relevant option-holder, as the Board may in its absolute discretion see fit and in a manner that complies with all applicable legal requirements for such cancellation, except that where the option-holder is in breach of paragraph (i) above, the Board may cancel any outstanding option without the relevant option-holder's agreement.
- (ii) Where the Company cancels options and issues new ones to the same option-holder, the issue of such new options may only be made under the Share Option Scheme with available unissued Shares under the Scheme Mandate limit, excluding the Shares which were the subject of cancelled options.

(z) Termination

The Company may, by ordinary resolution in general meeting, or the Board may at any time terminate the Share Option Scheme and in such event no further options may be offered or granted but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect in respect of options which are granted during the life of the Share Option Scheme and which remain unexpired immediately prior to termination of the operation of the Share Option Scheme.

The Share Option Scheme is conditional upon, amongst others, the Stock Exchange granting approval of the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of any options to be granted under the Share Option Scheme. Application has been made to the Stock Exchange for the listing of and permission to deal in the Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme.

As at the date of this prospectus, no Option has been granted or agreed to be granted by the Company under the Share Option Scheme.

OTHER INFORMATION**14. Tax and other indemnities**

Each of Azure Wealth, Ms. Zheng and Ms. Yuan (the “**Indemnifiers**”) has, pursuant to the Deed of Indemnity, given indemnity in favour of the Group on a joint and several basis from and against, among other things, (i) any tax liabilities which might be paid or payable by any member of the Group (the “**Group Member(s)**”) in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received before the Listing Date, save in certain circumstances including where provision has been made for such taxation in the audited combined accounts of the Group as set out in Appendix I to this prospectus and (ii) all actions, claims, losses, damages, costs, charges, expenses, interests, penalties or other liabilities which the Group may reasonably and properly incur in relation to the non-compliance incidents as detailed in the section headed “Business – Legal Proceedings and Compliance – Non-compliance incidents” in this prospectus.

15. Litigation

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

16. Sole Sponsor

The Sole Sponsor has made an application for and on behalf of the Company to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, including the Offer Shares and any Shares which may fall to be allotted and issued pursuant to (a) the Capitalisation Issue; (b) the exercise of options which may be granted under the Share Option Scheme, representing 10% of the Shares in issue on the Listing Date.

The Sole Sponsor has declared its independence pursuant to Rule 6A.07 of the GEM Listing Rules. The Sole Sponsor’s fees in connection with the Share Offer are approximately HK\$4.0 million (excluding any disbursements).

17. Compliance adviser

In accordance with the requirements of the GEM Listing Rules, the Company has appointed the Sole Sponsor as its compliance adviser to provide consultancy services to the Company to ensure compliance with the GEM Listing Rules for a period commencing on the Listing Date and ending on the date on which the Company complies with the GEM Listing Rules in respect of the financial results for the second full financial year commencing after the Listing Date.

18. Preliminary expenses

The preliminary expenses relating to the incorporation of the Company are approximately RMB24,675 and are payable by the Company.

19. Promoters

The Company does not have any promoter (as defined in the GEM Listing Rules).

20. Qualifications and consents of experts

The qualifications of the experts who have given reports, letter or opinions (as the case may be) in this prospectus are as follows:

Name	Qualification
Appleby	Legal advisers to the Company as to Cayman Islands laws
DFDL Bangladesh	Legal advisers to the Company as to Bangladesh laws
Essence Corporate Finance (Hong Kong) Limited	Licensed by the SFC to conduct Type 6 (advising on corporate finance) of the regulated activities as defined under the SFO
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant
IndusLaw	Legal advisers to the Company as to Indian laws
Jingtian & Gongcheng	Legal advisers to the Company as to PRC laws
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Property valuer
RSM Hong Kong	Certified Public Accountants

Each of the experts named above has given and has not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, letters, opinions or summaries of opinions (as the case may be) and/or the references to their names included herein in the form and context in which they respectively appear.

None of the experts named above (i) has any shareholding interest in any members of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any members of the Group; nor (ii) has been interested in the promotion of, or has any direct or indirect interest in any assets acquired or disposed of by or leased to, any member of the Group within the two years immediately preceding the date of this prospectus, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

21. Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (WUMP) Ordinance so far as applicable.

22. Taxation of holders of Shares**(a) Hong Kong***(i) Profits*

No tax is imposed in Hong Kong in respect of capital gains from the sale of property such as the Shares. Trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax. Gains from sales of the Shares effected on the Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of the Shares realised by persons carrying on a business of trading or dealings in securities in Hong Kong.

(ii) Stamp duty

Hong Kong stamp duty will be payable by the purchaser on every purchase and by the seller on every sale of the Shares. The duty is charged at the current rate of 0.2% of the consideration or, if higher, the fair value of the Shares being sold or transferred (the buyer and seller each paying half of such stamp duty). In addition, a fixed duty of HK\$5 is currently payable on any instrument of transfer of shares.

(iii) Estate duty

Estate duty has been abolished in Hong Kong by the Revenue (Abolition of Estate Duty) Ordinance 2005 which came into effect on 11 February 2006.

(b) The Cayman Islands

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(c) Consultation with professional advisers

Intended holders of the Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealings in the Shares or exercising any rights

attaching to them. It is emphasised that none of the Company, the Directors or the other parties involved in the Share Offer can accept responsibility for any tax effect on, or liabilities of, holders of the Shares resulting from their subscription for, purchase, holding or disposal of or dealings in the Shares or exercising any rights attaching to them.

23. Miscellaneous

- (a) Save as disclosed in this prospectus, within two years preceding the date of this prospectus:
 - (i) no share or loan capital of the Company or of any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no commissions, discounts, brokerages (other than under the Underwriting Agreements) or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries;
 - (iii) no commission has been paid or payable for subscribing, agreeing to subscribe or procuring subscription or agreeing to procure subscription for any shares in the Company or any of its subsidiaries; and
 - (iv) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (b) Saved as disclosed in this prospectus, no founders, management or deferred shares of the Company or any of the subsidiaries have been issued or agreed to be issued;
- (c) The Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Group since 30 June 2017 (being the date to which the latest audited combined financial statements of the Group were made up);
- (d) There has not been any interruption in the business of the Group which has had a material adverse effect on the financial position of the Group in the 24 months preceding the date of this prospectus;
- (e) None of the equity and debt securities of the Company is listed or dealt with on any other stock exchange nor is any listing or submission to deal being or proposed to be sought;
- (f) None of the Directors nor any of the persons whose names are listed in the paragraph headed “20. Qualifications and consents of experts” in this Appendix has received any commissions, discounts, agency fees, brokerages or other special terms in connection with the issue or sale of any share or loan capital of any member of the Group;

- (g) There has not been any interruption in the business of the Company which may have or has had a significant effect on the financial position of the Company in the 24 months preceding the date of this prospectus;
- (h) Subject to the provisions of the Companies Law, the principal register of members of the Company will be maintained in the Cayman Islands by Estera Trust (Cayman) Limited and a branch register of members of the Company will be maintained in Hong Kong by Tricor Investor Services Limited. Unless the Directors otherwise agree, all transfers and other documents of title of the Shares must be lodged for registration with and registered by, the Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands;
- (i) All necessary arrangements have been made to enable the Shares to be admitted into CCASS;
- (j) There is no arrangement under which future dividends have been waived or agreed to be waived;
- (k) No company within the Group is presently listed on any stock exchange or traded on any trading system;
- (l) In case of any discrepancies between the English language version and the Chinese language version, the English language version shall prevail; and
- (m) The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided in section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
IN HONG KONG AND AVAILABLE FOR INSPECTION**

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of the **WHITE** Application Form, **YELLOW** Application Form and **GREEN** Application Form;
- (b) the written consents referred to in the paragraph headed “Other Information – 20. Qualifications and consents of experts” in Appendix V to this prospectus; and
- (c) a copy of each of the material contracts referred to in the paragraph headed “Further Information about the Business of the Group – 7. Summary of material contracts” in Appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the place of business of the Company in Hong Kong at Unit 2406, 24/F., Bonham Trade Centre, 50 Bonham Strand, Sheung Wan, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the accountants’ report of the Group dated 20 December 2017 prepared by RSM Hong Kong, the text of which is set out in Appendix I – “Accountants’ Report of the Group”;
- (c) the report dated 20 December 2017 on unaudited pro forma financial information of the Group issued by RSM Hong Kong, the text of which is set out in Appendix II – “Unaudited Pro Forma Financial Information”;
- (d) the audited combined financial statements of the Group for each of the two financial years ended 31 December 2015 and 2016 and six months ended 30 June 2017;
- (e) the rules of the Share Option Scheme;
- (f) the letter prepared by Appleby summarising certain aspects of the Companies Law referred to in Appendix IV – “Summary of the Constitution of the Company and Cayman Islands Company Law”;
- (g) the letter, certificate and the valuation report relating to the property interests of the Group prepared by JLL, the text of which is set out in Appendix III to this prospectus;

**APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
IN HONG KONG AND AVAILABLE FOR INSPECTION**

- (h) the Companies Law;
- (i) the material contracts referred to in the paragraph headed “Further Information about the Business of the Group – 7. Summary of material contracts” in Appendix V to this prospectus;
- (j) the written consents referred to in the section headed “Other Information – 20. Qualifications and consents of experts” in Appendix V to this prospectus;
- (k) the service contracts referred to in the paragraph headed “Further Information about Directors, Management and Staff – 9. Directors – (a) Particulars of service contracts and letters of appointment” in Appendix V to this prospectus;
- (l) the report prepared by Frost & Sullivan relating to, among other things, the circular knitting machines industry in the PRC referred to in the section headed “Industry Overview” in this prospectus;
- (m) the legal opinions issued by Jingtian & Gongcheng, the PRC Legal Adviser, in respect of certain aspects of the Group and the property interests of the Group in the PRC;
- (n) the legal opinion issued by DF DL Bangladesh, the legal adviser of the Company as to Bangladesh laws, in respect of certain aspects of Bangladesh laws; and
- (o) the legal opinion issued by IndusLaw, the legal adviser of the Company as to Indian laws, in respect of certain aspects of Indian laws.



China Futex Holdings Limited
中國福紡控股有限公司