



合寶豐年
ALPHA ERA

ALPHA ERA INTERNATIONAL HOLDINGS LIMITED

合寶豐年控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 8406

PUBLIC OFFER

Sole Sponsor

FRONTPAGE 富比

Joint Lead Managers

平安證券有限公司
Ping An Securities Limited

FRONTPAGE 富比

IMPORTANT

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



ALPHA ERA INTERNATIONAL HOLDINGS LIMITED

合寶豐年控股有限公司

(Incorporated in the Cayman Islands with limited liability)

LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED PUBLIC OFFER

Number of Offer Shares : 200,000,000 Shares (comprising 120,000,000 new Shares and 80,000,000 Sale Shares)
Offer Price : Not more than HK\$0.35 per Offer Share and not less than HK\$0.20 per Offer Share (payable in full on application in Hong Kong dollar and subject to refund)
Nominal Value : HK\$0.01 per Share
Stock Code : 8406

Sole Sponsor

FRONTPAGE 富比

Frontpage Capital Limited

Joint Lead Managers

平安證券有限公司
Ping An Securities Limited

FRONTPAGE 富比

Hong Kong Exchanges and Clearing Limited, the Stock Exchange 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 V 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 and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between our Company (for itself and on behalf of the Vendor) and the Joint Lead Managers (for themselves and on behalf of the Underwriters) on the Price Determination Date or such later date as may be agreed by our Company (for itself and on behalf of the Vendor) and the Joint Lead Managers (for themselves and on behalf of the Underwriters) but in any event no later than Monday, 10 July 2017. The Offer Price will be not more than HK\$0.35 per Offer Share and is expected to be not less than HK\$0.20 per Offer Share, unless otherwise announced. Applicants for the Public Offer Shares are required to pay, on application, the maximum Offer Price of HK\$0.35 for each Offer Share together with brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is lower than HK\$0.35 per Offer Share.

The Joint Lead Managers (for themselves and on behalf of the Underwriters) may, with the consent of our Company (for itself and on behalf of the Vendor), may extend or reduce the indicative Offer Price range stated in this prospectus and/or the number of Offer Shares being offered at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such a case, a notice of the extension or reduction of the indicative Offer Price range and/or the number of Offer Shares will be published on the website of the Stock Exchange at www.hkexnews.hk and our website at www.alpha-era.co not later than the morning of the day which is the last day for lodging applications under the Public Offer. Further details are set out in the sections headed "Structure and Conditions of the Public Offer" and "How to Apply for the Offer Shares" in this prospectus.

If, for any reason, the Offer Price is not agreed between the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company (for itself and on behalf of the Vendor) on or before Monday, 10 July 2017, the Public Offer will not become unconditional and will lapse immediately.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus and the Application Forms, including the risk factors set out in the section headed "Risk Factors" of this prospectus. The obligations of the Underwriters under the Underwriting Agreements are subject to termination by the Joint Lead Managers (for themselves and on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in the section headed "Underwriting – Underwriting arrangements and expenses – The Public Offer – Grounds for termination" of this prospectus.

30 June 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 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 newspaper. Accordingly, prospective investors should note that they need to have access to the HKEx website at *www.hkexnews.hk* in order to obtain up-to-date information on GEM-listed issuers.

EXPECTED TIMETABLE⁽¹⁾

If there is any change in the following expected timetable, we will issue an announcement on the respective website of our Company at www.alpha-era.co and the Stock Exchange at www.hkexnews.hk.

2017

Application lists open⁽²⁾ 11:45 a.m. on Wednesday, 5 July

Latest time for lodging **WHITE** and **YELLOW**

Application Forms 12:00 noon on Wednesday, 5 July

Latest time for giving electronic application

instructions to HKSCC⁽⁴⁾ 12:00 noon on Wednesday, 5 July

Application lists close⁽²⁾ 12:00 noon on Wednesday, 5 July

Expected Price Determination Date⁽³⁾ Thursday, 6 July

Announcement of the final Offer Price, the level of applications in the Public Offer, and the basis of allotment of the Offer Shares

(a) on the website of our Company at www.alpha-era.co⁽⁵⁾; and

(b) on the website of the Stock Exchange at www.hkexnews.hk

on or before Tuesday, 11 July

Announcement of results of allocations under the Public Offer

(with successful applicant's identification document numbers,

where appropriate) to be available through a variety of

channels including our Company's website at

www.alpha-era.co and the website of the Stock Exchange at

www.hkexnews.hk (for further details, please

refer to the section headed "How to Apply for the Offer

Shares – 10. Publication of results"

in this prospectus) from Tuesday, 11 July

Results of allocation in the Public Offer will be available

at www.tricor.com.hk/ipo/result with a

"search by ID Number" function from Tuesday, 11 July

Despatch of Share certificates or deposit of the

Share certificates into CCASS in respect of wholly

or partially successful applications pursuant to

the Public Offer on or before⁽⁶⁾⁽⁸⁾ Tuesday, 11 July

EXPECTED TIMETABLE⁽¹⁾

Despatch of refund cheques in respect of wholly
or partially successful applications (if applicable)
or wholly or partially unsuccessful applications
pursuant to the Public Offer on or before⁽⁷⁾⁽⁸⁾ Tuesday, 11 July

Dealings in the Shares on the Stock Exchange
expected to commence at 9:00 a.m. on Wednesday, 12 July

Notes:

1. All times and dates refer to Hong Kong local times and dates, unless otherwise stated.
2. If there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 5 July 2017, the application lists will not open on that day. For details, please refer to the section headed “How to Apply for the Offer Shares – 9. Effect of bad weather on the opening of the application lists” of this prospectus.
3. The Price Determination Date is expected to be on or around Thursday, 6 July 2017 and, in any event, not later than Monday, 10 July 2017. If, for any reason, the Offer Price is not agreed between the Joint Lead Manages (for themselves and on behalf of the Underwriters) and our Company (for itself and on behalf of the Vendor) by Monday, 10 July 2017, the Public Offer will not proceed and will lapse.
4. Applicants who apply for Public Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed “How to Apply for the Offer Shares – 5. Applying by giving electronic application instructions to HKSCC via CCASS” of this prospectus.
5. None of the website or any of the information contained on the website forms part of this prospectus.
6. Share certificates will only become valid at 8:00 a.m. on Wednesday, 12 July 2017 provided that the Public Offer has become unconditional and the right of termination described in the section headed “Underwriting – Underwriting arrangements and expenses – Grounds for termination” of this prospectus has not been exercised. 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.
7. Refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Public Offer and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before encashment of the refund cheque, if any. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may invalidate or delay encashment of the refund cheque, if any.
8. Applicants who apply on **WHITE** Application Forms for 1,000,000 or more Offer Shares and have provided all information required by the Application Form may collect any refund cheques and/or Share certificates (where applicable) in person from our Company’s 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 Tuesday, 11 July 2017 or such other date as notified by our Company as the date of despatch/ collection of Share certificates/refund cheques. Applicants being individuals who are eligible for personal collection may not authorise any other person to collect on their behalf. Applicants being corporations which are eligible for personal collection must attend through their authorised representatives bearing letters of authorisation from their corporation stamped with the corporation’s chop. Both individuals and authorised representatives of corporations must produce evidence of identity acceptable to our Company’s Hong Kong Branch Share Registrar at the time of collection. Applicants who apply on **YELLOW** Application Forms for 1,000,000 or more Offer Shares and have provided all information required by the Application Form may collect their refund cheques, if any, in person but may not elect to collect their Share certificates as such

EXPECTED TIMETABLE⁽¹⁾

Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit to their or the designated CCASS Participants' stock account as stated in their Application Forms. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants. Applicants who have applied for Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for the Offer Shares – 13. Despatch/Collection of Share certificates and refund monies – Personal collection – (iii) If you apply via electronic application instructions to HKSCC" of this prospectus for details. Applicants who have applied for less than 1,000,000 Offer Shares and any uncollected Share certificates and/or refund cheques will be despatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications. Further information is set out in the sections headed "How to Apply for the Offer Shares – 12. Refund of application monies" and "How to Apply for the Offer Shares – 13. Despatch/Collection of Share certificates and refund monies" of this prospectus. The above expected timetable is a summary only. You should read carefully the sections headed "Structure and Conditions of the Public Offer" and "How to Apply for the Offer Shares" of this prospectus for details of the structure of the Public Offer, including the conditions of the Public Offer and the procedures for application for the Offer Shares.

CONTENTS

IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Public 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 pursuant to the Public Offer. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell of 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. Our Company, the Vendor, the Sole Sponsor, the Joint Lead Managers and the Underwriters have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by our Company, the Vendor, the Sole Sponsor, the Joint Lead Managers, the Underwriters, and any of our/their respective directors, officers, employees, agents or representatives or any other party involved in the Public Offer. The contents on the website at www.alpha-era.co which is the official website of our Company do not form part of this prospectus.

	<i>Page</i>
Characteristics of GEM	i
Expected Timetable	ii
Contents	v
Summary	1
Definitions	15
Glossary of Technical Terms	24
Forward-looking Statements	27
Risk Factors	28
Information about this Prospectus and the Public Offer	42
Directors and Parties involved in the Public Offer	48
Corporate Information	52
Industry Overview	55
Regulatory Overview	66
History, Development and Reorganisation	87




CONTENTS




	<i>Page</i>
Business	98
Relationship with our Controlling Shareholders	139
Business Objectives and Future Plans	143
Directors, Senior Management and Employees	151
Share Capital	164
Substantial Shareholders	167
Financial Information	169
Underwriting	220
Structure and Conditions of the Public Offer	231
How to Apply for the Offer Shares	236
Appendix I – Accountants’ Report	I-1
Appendix II – Unaudited Pro Forma Financial Information	II-1
Appendix III – Summary of the Constitution of our Company and Cayman Islands Company Law	III-1
Appendix IV – Statutory and General Information	IV-1
Appendix V – Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection	V-1

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. You should read the whole 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” in this prospectus which you should read carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a manufacturer of inflatable products in the PRC with focus on producing inflatable playgrounds with air blowers. In addition to inflatable playgrounds with air blowers, we also produce other inflatable products and inflatable products related accessories. Founded in 2003, we have over 10 years’ experience in designing, manufacturing and marketing high quality inflatable playgrounds and other inflatable products. We sell our inflatable playgrounds and other inflatable products under various brands including “”, “”, “”. According to the Euromonitor Report, our Group’s output value of inflatable playground products in 2015 was approximately 3% of the total market size in China.

We use our “” and “” brands to promote smaller inflatable playgrounds that are able to accommodate one to six players at a time with a price range from RMB419.3 to RMB3,276.0 and “” brand for larger inflatable playgrounds with the capacity to accommodate up to ten players with a price range from RMB2,293.2 to RMB22,932.0.

During the Track Record Period, we exported our products to Europe, Australia and Oceania, North America, Asia, Central and South America and Africa. Europe and Australia and Oceania are the principal markets for our products and they together accounted for approximately 44.7%, 48.3% and 34.6% of our total revenue for each of the years ended 31 December 2014, 2015 and 2016, respectively. Hong Kong and Macau are our principal markets in Asia, and they together contributed for approximately 93.4%, 91.9% and 91.2% of our total sales in Asia for the years ended 31 December 2014, 2015 and 2016, respectively. Substantial sales to Hong Kong and Macau, which amounted to approximately RMB38,382,000, RMB31,893,000 and RMB29,430,000 for the years ended 31 December 2014, 2015 and 2016, respectively, or 22.0%, 18.9% and 17.1% of our total sales of corresponding years, are subsequently exported to overseas clients. During the Track Record Period, 14.2%, 17.8% and 34.4% of our total revenue were derived from sales in the PRC. Sales to China mainly includes sales to a trading company and local manufacturers in the PRC, which are subsequently exported to overseas clients. Such subsequent export sales accounted for approximately RMB11,841,000, RMB10,679,000 and RMB44,561,000 for the years ended 31 December 2014, 2015 and 2016, respectively, or 6.8%, 6.3% and 25.9% of the total sales of corresponding years, respectively. Based on (i) the communications with our clients; (ii) the safety standards and parts adopted; and (iii) the package of the products, our Directors consider that most of the sales to Hong Kong and Macau and China are subsequently exported to overseas customers in Europe and North America.

SUMMARY

The table below sets out the geographical breakdown of our revenue during the Track Record Period:

	Year ended 31 December					
	2014		2015		2016	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Domestic						
China	24,814	14.2	30,115	17.8	59,262	34.4
Overseas						
Europe	37,614	21.5	41,610	24.7	37,325	21.7
Australia and Oceania	40,449	23.2	39,821	23.6	22,285	12.9
North America	22,051	12.6	18,968	11.2	18,551	10.8
Asia (<i>Note</i>)	41,091	23.5	34,705	20.5	32,287	18.7
Central and South America	8,083	4.6	2,807	1.7	2,588	1.5
Africa	707	0.4	776	0.5	49	0.0
	<u>149,995</u>	<u>85.8</u>	<u>138,687</u>	<u>82.2</u>	<u>113,085</u>	<u>65.6</u>
Total	<u>174,809</u>	<u>100.0</u>	<u>168,802</u>	<u>100.0</u>	<u>172,347</u>	<u>100.0</u>

Note: Hong Kong and Macau are our principal markets in Asia, and they together contributed for approximately 93.4%, 91.9% and 91.2% of our total sales in Asia for the years ended 31 December 2014, 2015 and 2016, respectively.

The increase in our domestic sales was mainly due to our Group's continuing efforts to broaden our sales channel by cooperating with local manufacturers. Owing to our relatively stronger design and better automatic production capability which can produce more quality products in cost-effective and competitive manners, our Group has successfully secured more orders, from local manufacturers' sales network, which are generally subsequently exported to overseas clients for their onward sales. To the best knowledge to our Directors, the orders are mostly exported to Europe or North America for retail sales. Contributed by our expanded sales channel and better cooperation with local manufacturers, our domestic sales of inflatable playgrounds with air blowers and PVC inflatable products under ODM arrangement increased by approximately RMB24,051,000 and RMB4,633,000, respectively in 2016 as compared with 2015. Our Group has secured the orders from the local toy manufacturers as they did not have the relevant design and manufacturing techniques or capacities and relied on us to produce more quality and cost-effective products to meet their customers' needs. It is our Group's intention to continue cooperating with these local manufacturers and exploring business opportunities and sales channel from both overseas and local orders to maximise our benefit and diversify the market risk.

SUMMARY

The table below sets forth the revenue of our Group for the periods indicated by major product categories, which are also expressed as a percentage of total revenue and the sales volume of each product category during the Track Record Period:

	Year ended 31 December											
	2014				2015				2016			
	Revenue	Percentage of total sales	Sales volume	Average selling price	Revenue	Percentage of total sales	Sales volume	Average selling price	Revenue	Percentage of total sales	Sales volume	Average selling price
	(RMB'000)	(%)	(pieces)	(RMB per piece)	(RMB'000)	(%)	(pieces)	(RMB per piece)	(RMB'000)	(%)	(pieces)	(RMB per piece)
Inflatable playgrounds with air blowers	157,147	89.9	181,592	865.4	148,315	87.9	173,784	853.4	148,863	86.4	161,814	920.0
Other inflatable products (note 1)	5,604	3.2	34,797	161.0	1,433	0.8	4,527	316.5	5,803	3.4	63,171	91.9
Inflatable products related accessories (note 2) and subcontracting work (note 3)	12,058	6.9			19,054	11.3			17,681	10.2		
Total	<u>174,809</u>	<u>100.0</u>			<u>168,802</u>	<u>100.0</u>			<u>172,347</u>	<u>100.0</u>		

Notes:

1. Other inflatable products include inflatable products without air blowers such as mini inflatable playgrounds, inflatable tents and inflatable ball pools.
2. Inflatable products related accessories mainly include PVC laminated oxford, plastic nails and other accessories.
3. Subcontracting work includes cutting of materials and sewing work performed by our Group for other manufacturers. The income from subcontracting works amounted to approximately RMB1,208,000, RMB1,900,000 and nil, respectively for each of the years ended 31 December 2014, 2015 and 2016.

SUMMARY

Although we generated most of our revenue from sales under our own brands during the Track Record Period, we have provided ODM services to some customers located at North America, Australia and Oceania, and the PRC. The following table sets forth our sales through different channels on our own brands or to our ODM customers:

	Year ended 31 December					
	2014		2015		2016	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Sales under our own brands	125,686	71.9	111,757	66.2	80,376	46.6
ODM business						
Inflatable playgrounds with air blowers	35,956	20.6	37,365	22.2	69,561	40.4
Other inflatable products and inflatable products related accessories	2,306	1.3	1,593	0.9	10,607	6.1
	38,262	21.9	38,958	23.1	80,168	46.5
Others (<i>note</i>)	10,861	6.2	18,087	10.7	11,803	6.9
Total	<u>174,809</u>	<u>100.0</u>	<u>168,802</u>	<u>100.0</u>	<u>172,347</u>	<u>100.0</u>

Note: Others include sales of inflatable products related accessories and intermediate materials which are not under our own brands or ODM business, and subcontracting work performed by our Group for other manufacturers.

During the Track Record Period, our ODM business mainly include sales of inflatable playgrounds with air blowers not under our own brands, which accounted for approximately RMB35,956,000, RMB37,365,000 and RMB69,561,000 for the years ended 31 December 2014, 2015 and 2016, respectively, representing approximately 94.0%, 95.9% and 86.8% of the total sales from ODM business for the corresponding year, other inflatable products and inflatable products related accessories accounted for the remaining sum of our ODM business. Our increase in sales from ODM business in 2016 is mainly owing to the increase in our domestic sales of inflatable playgrounds with air blowers and PVC inflatable products under ODM arrangement by cooperating with local manufacturers. Such increase was mainly due to our Group's continuing efforts to broaden our sales channel and reduced promotion efforts in sales under our own brands. Having considered that (i) the efficiency in manufacturing orders secured by the local manufacturer is generally higher, mainly due to the relatively bulk purchase for their ODM customers; (ii) cooperating with these local manufacturers could provide our Group with alternative income stream, which could assist in diversifying the market risk; and (iii) we would accept the orders secured from these local manufacturers only if the profitability of the orders is acceptable by us, our Directors are of the view that cooperating with these local manufacturers are beneficial to our Group. It is our Group's intention to continue exploring ODM business opportunities from both overseas and local orders to maximise our benefit and diversify the market risk.

SUMMARY

The table below sets forth our gross profit and gross profit margin by each of our product categories and sales under our own brands or on ODM basis for the periods indicated:

	Year ended 31 December					
	2014		2015		2016	
	Gross profit (RMB'000)	Gross profit margin (%)	Gross profit (RMB'000)	Gross profit margin (%)	Gross profit (RMB'000)	Gross profit margin (%)
Inflatable playgrounds with air blowers	29,342	18.7	28,720	19.4	35,716	24.0
Other inflatable products	459	8.2	267	18.7	537	9.2
Inflatable products related accessories and subcontracting work	<u>532</u>	4.4	<u>3,040</u>	16.0	<u>2,668</u>	15.1
Total	<u><u>30,333</u></u>	17.4	<u><u>32,027</u></u>	19.0	<u><u>38,921</u></u>	22.6
Sales under own brands	23,182	18.4	22,884	20.5	20,440	25.4
ODM business	6,476	16.9	6,222	16.0	16,577	20.7
Others	<u>675</u>	6.2	<u>2,921</u>	16.1	<u>1,904</u>	16.1
Total	<u><u>30,333</u></u>	17.4	<u><u>32,027</u></u>	19.0	<u><u>38,921</u></u>	22.6

During the Track Record Period, we recorded a higher gross margin for sales under our own brands, as compared to our sales from ODM, mainly because a layer of profit are generally captured by the brand owners of our ODM products.

Our gross profit margin increased to 22.6% for the year ended 31 December 2016 from 19.0% in 2015 and 17.4% in 2014. Such increase was primarily driven by the improved efficiency in production of PVC laminated oxford and lower cost of raw materials and the plummeting crude oil price. Upon the commencement of business of Swiftech International in June 2015, our Group has made direct sales to some of our overseas customers to whom we sold through other export agents including Swan Plastic and SHD International before. From then on, we are able to capture the layer of margin used to be earned by the export agents. In addition, we have been focusing our resources in manufacturing and promoting products and related accessories which are more profitable. The gross profit margin improvement was also supported by (i) the exchange rate impact on the continual depreciation of RMB against US Dollars. From mid 2015 to December 2016, RMB has depreciated against US Dollars by more than 10%, and therefore our US Dollars denominated export sales were translated into higher RMB equivalent amounts; and (ii) the decrease in cost of air blowers mainly attributable to the improvement in design and manufacturing of air blowers by our suppliers. As a result of the above, our gross profit margin has improved during the three years ended 31 December 2014, 2015 and 2016. For details, please refer to the section headed “Financial Information” in this prospectus.

SUMMARY

The aggregate production capacity of the factories and the utilisation rate during the Track Record Period are set out below:

	For the year ended 31 December 2014			For the year ended 31 December 2015			For the year ended 31 December 2016		
	Estimated annual production capacity	Production volume	Utilisation rate	Estimated annual production capacity	Production volume	Utilisation rate	Estimated production capacity	Production volume	Utilisation rate
Inflatable playgrounds with air blowers									
Small to medium size	210,894 pieces	189,960 pieces	90.1%	192,075 pieces	187,445 pieces	97.6%	185,900 pieces	164,965 pieces	88.7%
Large size	150 pieces	118 pieces	78.7%	154 pieces	148 pieces	96.1%	149 pieces	148 pieces	99.3%
Other inflatable products	100,975 pieces	38,331 pieces	38.0%	103,425 pieces	3,822 pieces	3.7%	100,100 pieces	73,450 pieces	73.4%
PVC laminated oxford	7.8 million yards	5.0 million yards	64.1%	7.9 million yards	5.6 million yards	70.9%	7.9 million yards	4.5 million yards	57.0%

OUR CUSTOMERS

The revenue of our Group for each of the years ended 31 December 2014, 2015 and 2016 amounted to approximately RMB174,809,000, RMB168,802,000 and RMB172,347,000, respectively and our Group had approximately 103, 135 and 135 customers, respectively. The five largest customers of our Group in aggregate accounted for approximately 47.0%, 44.3% and 44.5% of our total revenue, respectively and our largest customer accounted for approximately 17.9%, 10.9% and 14.2% of our total revenue, respectively. Please refer to the section headed “Business – Our customers” in this prospectus for further details.

Among our five largest customers during the Track Record Period, Swan Group and SHD International were our related parties at the material time, and in aggregate accounted for 22.7%, 21.8% and 6.8% of our total sales for the years ended 31 December 2014, 2015 and 2016, respectively. In 2015, two of our related customers, namely Swan Plastic and SHD International, had ceased to purchase from our Group. For further details, please refer to the section headed “Financial Information – Related party transactions and balances” in this prospectus.

RAW MATERIALS PROCUREMENT AND MERCHANDISING

Raw materials purchased for use in our Group’s manufacturing process during the Track Record Period included air blowers, PVC cloth, PE cloth, PVC laminated oxford, polyester cloth, PVC coating materials, oxford cloth, PP tape, polypropylene resin and velcro.

SUMMARY

During the years ended 31 December 2014, 2015 and 2016, purchases of materials from our five largest suppliers amounted to approximately RMB62,482,000, RMB65,091,000 and RMB63,118,000 and represented 73.5%, 78.4% and 72.2% of our total cost of goods purchased, respectively, and purchases from our single largest supplier accounted for 32.2%, 35.5% and 28.8% of our total cost of goods purchased, respectively.

Please refer to the section headed “Business – Raw materials procurement and merchandising – Suppliers” in this prospectus for further details.

SUBCONTRACTING

For each of the years ended 31 December 2014, 2015 and 2016, we subcontracted a portion of sewing, printing and packaging works to 5, 5 and 9 subcontractors, respectively. The total subcontracting fees amounted to approximately RMB6,514,000, RMB6,486,000 and RMB14,721,000, representing 4.5%, 4.7% and 11.0% of our total cost of sales for each of the years ended 31 December 2014, 2015 and 2016, respectively. Our subcontracting expenses increased mainly due to the increase in demand of outsourcing work to fulfill the sales order to be delivered in 2016 under the reduction in our number of employees. Such reduction in number of employees is primarily resulted from natural attrition followed by the increase in wages and labour shortfall pressure in Zhongshang region. Please refer to the sections headed “Business – Subcontracting” and “Business – Employees” in this prospectus for further details.

COMPETITIVE STRENGTHS

We believe that the following competitive strengths allow us to achieve sustainable growth of our business:

- We place great emphasis on the quality and safety of our products
- Our factory and production facilities is well-equipped and strategically located
- We have established relationships with our major customers
- Expertise and experience of our management team provides multiple benefits for our Group’s business

BUSINESS STRATEGIES

- Expand and enhance our product offering through continuous product development and continue to strengthen our brand recognition
- Expand production capability
- Attract and retain quality personnel
- Increase marketing effort, expand distribution network and explore new business opportunities

SUMMARY

RECENT DEVELOPMENTS

Our Directors observed and noted that the market in which our Group operates remained stable after 31 December 2016 as reflected by the continued stable operation of our Group during the period from 1 January 2017 to the Latest Practicable Date.

During the five months ended 31 May 2017, we have secured purchase orders from our customers with total sum amounted to approximately RMB88,015,000, representing a growth of approximately 10.2% in terms of value of new orders secured over the corresponding period in the prior year. As at the Latest Practicable Date, approximately 99.6% of our trade receivables as at 31 December 2016 were subsequently settled.

Our Directors have confirmed that, subsequent to the Track Record Period and up to the Latest Practicable Date, there had been no material adverse change in our pricing strategies or mark-up under our cost-plus business model.

LISTING EXPENSES AND FINANCIAL PERFORMANCE FOR THE YEAR ENDING 31 DECEMBER 2017

Our Group's financial performance for the year ending 31 December 2017 will be affected by the non-recurring expenses incurred in relation to the Listing. The listing expenses are estimated to be approximately RMB21,993,000, of which RMB8,797,000 will be borne by the Vendor and approximately RMB13,196,000 will be borne by our Group (assuming a Offer Price of HK\$0.275, being the midpoint of the indicative Offer Price range of HK\$0.20 to HK\$0.35 per Offer Share). Out of the portion of listing expense to be borne by our Group, (i) approximately RMB3,784,000 is directly attributable to the issue of Offer Shares which is to be accounted for as a deduction from equity; (ii) approximately RMB2,736,000 and RMB5,348,000 have been charged to profit or loss of our Group for each of the years ended 31 December 2015 and 2016; and approximately RMB1,328,000 is to be charged to profit or loss of our Group for the year ending 31 December 2017. Such cost is a current estimate and for reference only. The final amount to be recognised in profit or loss of our Group or to be capitalised is subject to adjustment based on audit and the changes in variables and assumptions. In addition, there will be an expected increase in administrative expenses which is primarily attributable to the increase in Directors' remuneration and other professional fees for the year ending 31 December 2017 arising from the increase in remuneration of our Directors and the appointment of the new independent non-executive Directors and professional parties prior to and after the Listing.

Our Directors are of the opinion that there has been no fundamental deterioration in the commercial and operational viability in our Group's business despite the expected increase in our Directors' remuneration and professional fees and the non-recurring listing expenses.

MATERIAL ADVERSE CHANGE

Save as disclosed above, our Directors have confirmed that, up to the date of this prospectus, there had been no material adverse change in the financial or trading positions or prospect of our Company or its subsidiaries since 31 December 2016 (being the date of which our Group's latest audited combined financial statements were made up as set out in

SUMMARY

the Accountants' Report in Appendix I to this prospectus) and there had been no event since 31 December 2016 which would materially affect the information shown in the Accountants' Report in Appendix I to this prospectus.

MARKET COMPETITION

The overall inflatable playground manufacturers market in the PRC is comparatively fragmented. It is estimated that there are more than five hundreds of inflatable playground manufacturers in China, with the largest inflatable playground manufacturer owning not exceeding 10% of market share in terms of turnover in China. Our Group's output value of inflatable playground products in 2015 was approximately RMB149.7 million, representing approximately 3% of the market's total. Since most of inflatable playground products manufacturers have adequate production lines in their factories and are experienced in inflatable playground manufacturing, they also receive original equipment manufacturing orders from time to time. However, some players, such as Swiftech Company, have already switched from purely original equipment manufacturing to ODM and OBM manufacturing to better improve their competitiveness in the market.

RISK FACTORS

There are risks associated with any investment. Some of the relatively material risks relating to our Group include:

- We are subject to risks of fluctuations in the exchange rate between RMB and US Dollars
- We have recorded negative operating cashflows in 2015
- The potential impact of our Group's future plans may adversely affect our financial performance
- We are subject to risks associated with marketing, distribution and sales of our products internationally

A detailed discussion of the risk factors is set forth in the section headed "Risk Factors" in this prospectus, and investors should read the entire section before deciding to invest in the Offer Shares.

NON-COMPLIANCE

Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, we had no material non-compliance of applicable laws and regulations in the PRC and our major overseas markets that would affect our Group's operation and financial position.

SUMMARY

SELECTED COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME AND COMBINED STATEMENTS OF FINANCIAL POSITION ITEMS

	Year ended 31 December		Percentage change %	Year ended 31 December	
	2014	2015		2016	Percentage change %
	(RMB'000)	(RMB'000)		(RMB'000)	
Revenue	174,809	168,802	(3.4)	172,347	2.1
Gross profit	30,333	32,027	5.6	38,921	21.5
Profit for the year (<i>Note</i>)	5,769	7,362	27.6	9,425	28.0

Note: If excluding the Listing expenses, which is a one-off non-recurring expense, our adjusted profit for the years ended 31 December 2014, 2015 and 2016 was approximately RMB5,769,000, RMB10,098,000 and RMB14,773,000, respectively. We use adjusted profit as an additional non-GAAP financial measure to supplement our consolidated financial statements which are prepared in accordance with HKFRS. A non-GAAP financial measure is a numerical measure that adjusts the most directly comparable measure determined in accordance with GAAP. Such measures provide supplemental information regarding a company's historical or future financial position, performance, cash flow, or liquidity. The use of adjusted profit has material limitations as an analytical tool, as it does not include all items that impact our profit or loss for the relevant period. In light of the foregoing limitations for this non-GAAP measure, when assessing our operating and financial performance, you should not consider adjusted profit in isolation or as a substitute for our profit or loss for the period, operating profit or any other operating performance measure that is calculated in accordance with HKFRS, because this non-GAAP measure may not be calculated in the same manner by all companies, it may not be comparable to other similar titled measures used by other companies.

For each of the years ended 31 December 2014, 2015 and 2016, our Group recorded net profit margins of 3.3%, 4.4% and 5.5%, respectively, as compared to our gross profit margins of 17.4%, 19.0% and 22.6% for the corresponding period, respectively. The relatively thin net profit margins are mainly attributable to (i) the one-off listing expenses incurred for each of the years ended 31 December 2015 and 2016; (ii) the considerable advertising promotion expenses during the Track Record Period; and (iii) the after-sales service expenses incurred by our after-sales service agents. Having considered that (i) our net profit margin has been continuously improving during the Track Record Period mainly resulting from our strategy to maximise our gross profit by fine tuning our product mix and improving our sales channel; (ii) the listing expenses is one-off in nature and will not recur; (iii) the forecast sales for the year 2017 is going upwards, as compared to that of 2016; and (iv) over 35% of our distribution and selling expenses and administrative expenses are variable in nature and may vary according to our sales performance, such as freight and

SUMMARY

transportation expenses, after-sales service expenses, discretionary bonus and other employee benefits and advertising and promotion expenses, our Directors are of the view that our Group will be able to maintain such margin going forward.

	As at 31 December		Percentage	As at 31 December	
	2014	2015	change	2016	change
	(RMB'000)	(RMB'000)	%	(RMB'000)	%
Current assets	78,778	60,083	(23.7)	73,503	22.3
Current liabilities	64,839	43,456	(33.0)	45,908	5.6
Net current assets	13,939	16,627	19.3	27,595	66.0
Net assets	20,748	28,106	35.5	37,421	33.1
Total assets	91,360	71,707	(21.5)	83,961	17.1

SELECTED COMBINED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2014	2015	2016
	(RMB'000)	(RMB'000)	(RMB'000)
Net cash generated from operating activities before working capital changes	10,198	11,138	16,487
Net cash generated by/(used in) operating activities	6,937	(1,825)	4,459
Net cash (used in)/generated by investing activities	(22,457)	37,197	(449)
Net cash generated by/(used in) financing activities	1,519	(29,992)	(436)
Net (decrease)/increase in cash and cash equivalents	(14,001)	5,380	3,574
Cash and cash equivalents at the end of year	2,659	8,290	11,719

We recorded net cash outflow by operating activities in the year ended 31 December 2015 mainly due to the increase in trade and other receivable in 2015 of approximately RMB14,249,000, which is primarily the result of the higher sales towards the year end of 2015 when compared to 2014.

SUMMARY

SUMMARY OF FINANCIAL RATIOS

	Year ended or as of 31 December		
	2014	2015	2016
Profitability ratios			
Return on assets	6.3%	10.3%	11.2%
Return on equity	27.8%	26.2%	24.7%
Liquidity ratios			
Current ratio	1.2	1.4	1.6
Quick ratio	1.0	1.1	1.3
Capital adequacy ratios			
Gearing ratio (<i>Note</i>)	175.4%	N/A	N/A
Interest coverage	6.5	15.6	N/A

Note: Gearing ratio is calculated based on the total debt of the period divided by total equity at the end of the respective period. Total debt represents bank and other borrowings, and amounts due to related parties not incurred in the ordinary course of business.

Please refer to the section headed “Financial Information – Selected key financial ratios” in this prospectus for an analysis of our Group’s key financial ratios.

DIVIDEND

During the Track Record Period, our Company and its subsidiaries did not declare or pay any dividends to the shareholders. In June 2017, we declared a dividend in an amount of HK\$7.0 million to the then shareholders to be settled by cash by internal resources before Listing. The payment and the amount of any future dividends will be at the discretion of our Directors and will depend on the future operations and earnings, capital requirements and surplus, general financial condition and other factors that our Directors deem relevant. Investors should note that historical dividend distributions are not indicative of our Company’s future dividend distribution. Our Company does not have any predetermined dividend payout ratio.

SHAREHOLDERS INFORMATION

Immediately following the completion of the Public Offer, Mr. Lee and Nonton, which is beneficially and wholly-owned by Mr. Lee, will hold 427,756,000 Shares (representing 53.5% of the enlarged issued share capital of our Company). For the purposes of the GEM Listing Rules, Mr. Lee and Nonton are the Controlling Shareholders. Please refer to the section headed “Relationship with our Controlling Shareholders” in this prospectus for further details.

Mr. Kevin Lee, a non-executive Director, is independent of Mr. Lee prior to its pre-IPO investment in the Company, and Mr. Kevin Lee confirmed that he is not acting in concert with the Controlling Shareholders.

SUMMARY

REASONS FOR THE PUBLIC OFFER

Our Directors believe that the Listing will enhance the profile and recognition of our Group and our brands and products and hence, further strengthen our existing and potential suppliers' and customers' confidence in us, enable us to attract and retain quality personnel in this competitive market, and enhance our internal corporate governance. In addition, the Listing and the Public Offer could enhance our capital base and provide our Company with additional avenues to raise capital to strengthen our financial position and enable us to implement our business objectives set out in the section headed "Business Objectives and Future Plans". Furthermore, a public listing status on GEM will allow us to access to capital market for future corporate finance exercises, which will assist in our future business development and strengthen our competitiveness. The net proceeds from the Public Offer of approximately HK\$17,883,000 will strengthen our financial position.

OFFER STATISTICS

Market capitalisation at Listing (<i>note 1</i>)	:	HK\$160.0 million to HK\$280.0 million
Offer size	:	25% of the enlarged issued share capital of our Company
Offer Price per Share	:	HK\$0.20 to HK\$0.35
Number of Offer Shares	:	200,000,000 Shares (comprising 120,000,000 new Shares and 80,000,000 Sale Shares)
Board lot	:	10,000 Shares
Unaudited pro forma adjusted combined net tangible assets per Share (<i>note 2</i>)	:	HK\$0.08 based on an Offer Price of HK\$0.20 per Share; and HK\$0.10 based on an Offer Price of HK\$0.35 per Share

Notes:

1. The calculation of the market capitalisation of the Shares is based on 800,000,000 Shares in issue immediately after completion of the Public Offer.
2. The unaudited pro forma adjusted combined net tangible assets per Share has been arrived at after the adjustments referred to under the paragraph headed "Unaudited pro forma adjusted combined net tangible assets" in the section headed "Unaudited Pro Forma Financial Information" in Appendix II to this prospectus and on the basis of 800,000,000 Shares in issue at the respective Offer Prices of HK\$0.20 and HK\$0.35 per Share immediately following completion of the Public Offer.
3. The unaudited pro forma adjusted combined net tangible assets of our Group does not take into account the dividend of approximately HK\$7,000,000 declared by the Group in June 2017. The unaudited pro forma adjusted combined net tangible assets per Share would have been HK\$0.07 and HK\$0.09 per Share based on the Offer Price of HK\$0.20 and HK\$0.35 respectively, after taking into account the declaration of dividend in the sum of approximately HK\$7,000,000.

SUMMARY

USE OF PROCEEDS

Based on the Offer Price of HK\$0.275 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$0.2 to HK\$0.35 per Offer Share, we will receive gross proceeds of HK\$33,000,000. All expenses (including underwriting fees) in connection with the Listing to our Group are estimated to be approximately HK\$15,117,000. Consequently, we should receive net proceeds, after deducting all related expenses (including underwriting fees), of approximately HK\$17,883,000 from the Public Offer. Our Directors intend to apply such net proceeds as follows:

	From the Latest Practicable Date to 31 December 2017 (HK\$'000)	For the six months ending 30 June 2018 (HK\$'000)	For the six months ending 31 December 2018 (HK\$'000)	For the six months ending 30 June 2019 (HK\$'000)	For the six months ending 31 December 2019 (HK\$'000)	Total (HK\$'000)	Approximate percentage (%)
Expand and enhance our product offerings through continuous product development efforts and continue to strengthen our brand recognition	900	900	900	900	900	4,500	25.2
Expand production capacity	2,000	2,500	–	–	–	4,500	25.2
Attract and retain quality personnel	720	720	720	720	720	3,600	20.1
Increase marketing effort, expand distribution network and explore new business opportunities	720	720	720	720	647	3,527	19.7
General working capital	1,756	–	–	–	–	1,756	9.8
	<u>6,096</u>	<u>4,840</u>	<u>2,340</u>	<u>2,340</u>	<u>2,267</u>	<u>17,883</u>	<u>100.0</u>

Please refer to the section headed “Business Objectives and Future Plans” in this prospectus for details.

DEFINITIONS

In this prospectus, the following terms shall have the meanings set forth below unless the context otherwise requires.

“Accountants’ Report”	the accountants’ report of our Group for the Track Record Period the text of which is set out in Appendix I to this prospectus
“Articles of Association” or “Articles”	the articles of association of our Company adopted on 20 June 2017 and which will become effective upon the Listing, as amended from time to time, a summary of which is set out in the section headed “Summary of the Constitution of our Company and Cayman Islands Company Law” in Appendix III to this prospectus
“associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Audit Committee”	the audit committee of our Board
“Australian Dollars” or “AUD”	Australian dollars, the lawful currency of Australia
“Blink Wishes”	Blink Wishes Limited, a company incorporated in the BVI on 18 November 2015 with limited liability and wholly-owned legally and beneficially by Mr. Kevin Lee, a non-executive Director
“Board”	the board of Directors
“Business day”	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	British Virgin Islands
“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”	a person or persons admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation

DEFINITIONS

“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Companies Law”	the Companies Law of the Cayman Islands, as amended, (as revised) supplemented and/or modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) 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” or “our Company”	Alpha Era International Holdings Limited (合寶豐年控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 3 November 2015
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules and, in the context of our Company, means the controlling shareholders of our Company, namely Nonton and Mr. Lee
“Corporate Governance Code”	the Corporate Governance Code and Corporate Governance Report in Appendix 15 to the GEM Listing Rules
“Deed of Indemnity”	the deed of indemnity dated 20 June 2017 and entered into by Mr. Lee and Nonton in favour of our Company (for our Company and as trustee for our subsidiaries), the details of which are set out in the section headed “Statutory and General Information – F. Other information – 1. Tax and other indemnities” in Appendix IV to this prospectus
“Deed of Non-competition”	the deed of non-competition dated 20 June 2017 and entered into by Mr. Lee and Nonton in favour of our Company (for our Company and as trustee for our subsidiaries), particulars of which are set out in the section headed “Relationship with our Controlling Shareholders – Non-competition undertakings” in this prospectus

DEFINITIONS

“Director(s)”	the director(s) of our Company
“EU”	the European Union
“Euro”	Euro, the lawful currency of EU
“Euromonitor International”	Euromonitor International Limited, an independent market researcher commissioned by our Company for preparing the Euromonitor Report
“Euromonitor Report”	the market research report prepared by Euromonitor International on inflatable playground products in China as commissioned by us
“Frontpage Capital” or “Sole Sponsor”	Frontpage Capital Limited, a licensed corporation for carrying on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, and the Sole Sponsor and a Joint Lead Manager for the Public Offer, and an Independent Third Party
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Group”, “our Group”, “we” or “us”	our Company and its subsidiaries or, where the context requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time
“HK\$” or “Hong Kong Dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRSs”	the Hong Kong Financial Reporting Standards (including Hong Kong Accounting Standards, amendments and interpretations) issued by the Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited

DEFINITIONS

“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	an individual or a company which is independent from and not connected with (within the meaning of the GEM Listing Rules) any directors, chief executive, substantial shareholders of our Company, its subsidiaries or any of their respective associates
“Joint Lead Managers”	Frontpage Capital and Ping An Securities
“Latest Practicable Date”	20 June 2017, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained herein
“Listing”	the listing of the Shares on GEM
“Listing Date”	the date on which dealings in the Shares on GEM first commence
“Listing Division”	the Listing Division of the Stock Exchange
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock market operated by the Stock Exchange, which excludes GEM and the options market
“Memorandum”	the memorandum of association of our Company
“Mr. Huang”	Mr. Huang Xiaodong (黄小冬), an executive Director and the Chairman
“Mr. Kevin Lee”	Mr. Lee Kin Kee (李建基), a non-executive Director
“Mr. Lee”	Mr. Lee King Sun (李景新), a Controlling Shareholder
“Mr. Xiao”	Mr. Xiao Jiansheng (肖健生), an executive Director and the Chief Executive Officer
“New Shares”	120,000,000 new Shares offered by our Company for subscription at the Offer Price under the Public Offer
“Nonton”	Nonton Limited, a company incorporated in BVI with limited liability on 22 November 1994 and wholly-owned legally and beneficially by Mr. Lee
“Nomination Committee”	the nomination committee of our Board

DEFINITIONS

“Ocean Union”	Ocean Union International Limited, a company incorporated in Hong Kong with limited liability on 8 January 2003 and wholly-owned by Nonton
“Offer Price”	the final price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%), at which Offer Shares are to be subscribed, to be determined in the manner further described in the section headed “Structure and Conditions of the Public Offer – Pricing and allocation” of this prospectus.
“Offer Shares”	the 120,000,000 new Shares and 80,000,000 Sale Shares offered by our Company for subscription at the Offer Price under the Public Offer, subject to reallocation as mentioned in the section headed “Structure and Conditions of the Public Offer” of this prospectus
“Ping An Securities”	Ping An Securities Limited, a licensed corporation for carrying on types 1, 4, 6 and 9 regulated activities under the SFO
“PRC” or “China”	the People’s Republic of China which, for the purposes of this prospectus only, excludes Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“PRC Company Law”	the Company Law of the PRC (中華人民共和國公司法), as enacted by the Standing Committee of the Eighth National People’s Congress on 29 December 1993 and effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time
“PRC Legal Advisers”	China Commercial Law Firm, the legal advisers to our Company on PRC Laws
“Predecessor Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) prior to its repeal and replacement on 3 March 2014 by the Companies Ordinance and the Company (Winding Up and Miscellaneous Provisions) Ordinance
“Pre-IPO Investment”	the purchase of 2,533 shares in Silver Bliss pursuant to the sale and purchase agreement dated 4 February 2016 entered into between Nonton and Blink Wishes

DEFINITIONS

“Price Determination Agreement”	the agreement to be entered into by the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company (for itself and on behalf of the Vendor) on the Price Determination Date to record and fix the Offer price
“Price Determination Date”	the date, expected to be on or around Thursday, 6 July 2017, on which the Price Determination Agreement is entered into
“Public Offer”	the conditional offer to the public in Hong Kong for subscription of the Public Offer Shares 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 Public Offer” of this prospectus and the related Application Forms
“Regulation S”	the Regulation S under the U.S. Securities Act
“Remuneration Committee”	the remuneration committee of our Board
“Reorganisation”	the corporate reorganisation of our Group in preparation for the Listing as described in the section headed “History, Development and Reorganisation – Reorganisation” in this prospectus
“Repurchase Mandate”	the general unconditional mandate to repurchase Shares given to our Directors by our Shareholders, further details of which are contained in the section headed “Statutory and General Information – A. Further information about our Company” in Appendix IV to this prospectus
“RMB”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“Sale Shares”	80,000,000 Shares being offered by the Vendor for sale at the Offer Price per Share under the Public Offer
“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

DEFINITIONS

“Share(s)”	ordinary share(s) with nominal value of HK\$0.01 each in the share capital of our Company
“Shareholder(s)”	holder(s) of the Share(s)
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 20 June 2017, a summary of the principal terms and conditions of which is set forth in the section headed “Statutory and General Information – E. Share option scheme” in Appendix IV to this prospectus
“Silver Bliss”	Silver Bliss Holdings Limited, a company incorporated in BVI with limited liability on 15 December 2014, which is wholly-owned by our Company
“sq.ft.”	square foot
“sq.m.”	square metre
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	a company which is for the time being and from time to time a subsidiary (within the meaning of the Companies (Winding Up and Miscellaneous Provisions Ordinance)) of our Company
“substantial shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Swiftech Company”	Swiftech Company Limited (中山新宏達日用製品有限公司), a WFOE established in the PRC with limited liability on 5 June 2003 and is an indirect wholly-owned subsidiary of our Company
“Swiftech International”	Swiftech International Limited (新宏達國際有限公司), a company incorporated in Hong Kong with limited liability on 26 March 2015 and is an indirect wholly-owned subsidiary of our Company
“Takeovers Code”	the Code on Takeovers and Mergers issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the period comprising the three financial years ended 31 December 2014, 2015 and 2016

DEFINITIONS

“Underwriters”	the underwriters of the Public Offer, whose names are set out in the section headed “Underwriting – Joint Lead Managers and Underwriters” in this prospectus
“Underwriting Agreement”	the underwriting agreement dated 28 June 2017 relating to the Public Offer and entered into by our Company, our executive Directors, our Controlling Shareholders, the Vendor, the Sole Sponsor, the Joint Lead Managers and the Underwriters, as further described in the section headed “Underwriting – Underwriting arrangements and expenses – Underwriting Agreement” of this prospectus
“UK” or “U.K.” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“US” or “U.S.” or “United States”	the United States of America
“US\$” or “US Dollars”	United States dollars, the lawful currency of the United States
“Vendor”	Nonton, details of which are set out in the section headed “Statutory and General Information – F. Other information – 12. Particulars of the Vendor” in Appendix IV to this prospectus
“WFOE”	Wholly foreign-owned enterprise
“ WHITE Application Form(s)”	the application form(s) for use by the public who require(s) such Offer Shares to be issued in the applicant’s/applicants’ own name(s)
“ YELLOW Application Form(s)”	the application form(s) for use by the public who require(s) such Offer Shares to be deposited directly into CCASS
“Zhongshan Runhe”	Zhongshan Runhe Macromolecular Materials Manufacture Limited (中山市潤和高分子材料制造有限公司), a company established in the PRC with limited liability on 22 June 2009 and is an indirect wholly-owned subsidiary of our Company
“%”	per cent.

DEFINITIONS

“bps” or “basis points”

A basis point is a unit of measure used in finance to describe the change in exchange rates and interest rates. One basis point is equivalent to 0.01% (1/100th of a percent) or 0.0001 in decimal form

Unless otherwise specified, for the purpose of this prospectus and for the purpose of illustration only, certain amounts denominated in RMB have been translated into Hong Kong dollar amounts at an exchange rate of RMB0.90 = HK\$1.00. No representation is made that any amounts in RMB were or could have been converted at such rate or at any other rates or at all.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown in totals in certain tables may not be the arithmetic aggregation of the figures preceding them.

The English translations of the names of the PRC laws, rules and regulations printed in this prospectus are not official names for, and do not form any official part of, such laws, rules and regulations. Translated English names of Chinese natural persons, legal persons, governmental authorities, institutions or other entities for which no official English translation exist are unofficial translations for identification purposes only, and in the event of any inconsistency between the Chinese names of the PRC entities mentioned in this prospectus and their English translations, the Chinese names shall prevail.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms, definitions and abbreviations used in this prospectus in connection with our Group and our business. The terms and their meanings may not correspond to standard industry meaning or usage of those terms.

“ASTM”	ASTM International, an organisation that specifies technical standards for materials, products, systems and services
“ASTM F963-11”	the Standard Consumer Safety Specification for Toy Safety, a mandatory standard, which ensures that a manufacturer complies with safety requirements for all children’s toys sold in the US
“AZO Dyes”	the group of synthetic dyestuffs based on nitrogen, the content of which is regulated by the REACH Regulation No. 1607/2009
“AS/NZS ISO 8124”	an Australian Safety of Toys standard, a standard which ensures a manufacturer complies with safety requirements for all children’s toys sold in Australia and New Zealand
“AS/NZS ISO 8124-1:2013”	part 1 of the AS/NZS ISO 8124 series, which regulates the mechanical and physical properties of all toys sold in Australia and New Zealand
“AS/NZS ISO 8124-2:2009”	part 2 of the AS/NZS ISO 8124 series, which regulates the flammability of all toys sold in Australia and New Zealand
“CAGR”	compound annual growth rate
“EN71”	series 71 of the European Standards of the European Committee for Standardisation, which specifies safety requirements of all toys sold in the EU
“EN71-1”	part 1 of the EN71 toy safety series, which regulates the mechanical and physical properties of all toys sold in the EU
“EN71-2”	part 2 of the EN71 toy safety series, which regulates the flammability of all toys sold in the EU
“EN71-8”	part 8 of the EN71 toy safety series, which specifically regulates swings, slides and similar activity toys for domestic use that are sold in the EU

GLOSSARY OF TECHNICAL TERMS

“GB”	series 6675 of the Guobiao Standards of the PRC, which specifies safety requirements of all toys sold in the PRC
“GB 6675.2-2014”	part 2 of the GB6675 series, which regulates the mechanical and physical properties of all toys sold in the PRC
“GB 6675.3-2014”	part 3 of the GB6675 series, which regulates the flammability of all toys sold in the PRC
“GB 6675.4-2014”	part 4 of the GB6675 series, which regulates the migration of certain elements of all toys sold in the PRC
“GDP”	gross domestic product
“ICTI CARE”	a process of the International Council of Toy Industries programme, an organisation monitoring the global toy industry supply chain, to promote ethical manufacturing and compliance with the ICTI Code of Business Practices
“ICTI Seal of Compliance”	a certificate issued by the ICTI CARE Foundation, confirming that an organisation has implemented and maintains a Code of Business Practices system in compliance with the ICTI Code of Business Practices
“ISO”	International Organisation for Standardisation standards, for quality management which ensure an organisation’s products conform to customer requirements and applicable statutory and regulatory standards and which set requirements for what an organisation must do to manage processes influencing product quality
“ISO9001:2000” or “ISO9001:2008”	a standard of the ISO9000 series, which specifies the requirements for a quality management system of an organisation to consistently provide products that meet customer requirements and applicable statutory and regulatory standards
“ISO14001:2004”	a standard of the ISO14000 quality management series, which specifies the requirements for an environmental management system of an organisation
“MSP”	manufacturer’s sales value

GLOSSARY OF TECHNICAL TERMS

“OHSAS”	Occupational Health and Safety Management Systems standards, which specifies requirements for a health and safety management system of an organisation
“OHSAS18001:2007”	a standard of the OHSAS18000 occupational health and safety management series, which specifies the requirements for the control of occupational health and safety risks
“ODM”	acronym for original design manufacturing, where a manufacturer designs and manufactures a product according to customer’s specifications and eventually sold under the brand name of the customer
“OEM”	acronym for original equipment manufacturing, a business that manufactures goods or equipment for branding and resale by customers
“Oxford cloth”	a type of fabric, mainly used in making shorts, suitcase and toys
“PAHs”	Polycyclic Aromatic Hydrocarbons, the content of which is regulated by the REACH Regulation No. 1607/2009
“PVC”	Polyvinyl Chloride, a widely produced plastic polymer made by vinyl chloride
“REACH Regulation No. 1607/2009”	Regulation (EC) No. 1907/2006 of the European Parliament and of the Council, which specifies limits on certain restricted chemical substances in products sold in the EU

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements including, without limitation, words and expressions such as “anticipate”, “believe”, “could”, “expect”, “going forward”, “intend”, “may”, “plan”, “seek”, “will”, “would” or similar words or statements, in particular, in the sections headed “Business” and “Financial Information” in this prospectus in relation to future events, our future financial, business or other performance and development, the future development of our industry and the future development of the general economy of our key markets.

These statements are based on various assumptions regarding our present and future business strategy and the environment in which we will operate in the future. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions including the risk factors described in this prospectus and the following:

- our business and operating strategies and the various measures to implement such strategies;
- our dividend policy;
- our operations and business prospects, including development plans for its existing and new businesses;
- the future competitive environment for the industries in which we operate;
- the regulatory environment as well as the general industry outlook for the industries in which we operate;
- future developments in the industries in which we operate;
- the effects of the global financial markets and economic crisis; and
- other factors beyond our control.

Subject to the requirements of applicable laws, rules and regulations and the GEM Listing Rules, we do 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 we expect, 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 out in this section. In this prospectus, unless otherwise stated, statements of or references to our intentions or those of any of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

RISK FACTORS

Prospective investors should consider carefully all the information set forth in this prospectus and, in particular, should consider the following risks and special considerations in connection with an investment in our Company before making any investment decision in relation to the Public Offer. The occurrence of any of the following risks may have a material adverse effect on the business, results of operations, financial conditions and future prospects of our Group. Additional risks not currently known to us or that we now deem immaterial may also harm us and affect your investment.

This prospectus contains certain forward-looking statements regarding our plans, objectives, expectations and intentions which involve risks and uncertainties. Our Group actual results could differ materially from those discussed in this prospectus. Factors that could cause or contribute to such differences include those discussed below as well as those discussed elsewhere in this prospectus. The trading price of the Offer Shares could decline due to any of these risks, and you may lose all or part of your investment.

There are certain risks involved in the operations of our Group, some of which are beyond our Group's control. These risks can be broadly categorised into: (i) risks relating to our business and operations; (ii) risks relating to our industry; (iii) risks relating to conducting business in the PRC; (iv) risks relating to the Public Offer; and (v) risks relating to the statements made in this prospectus. Prospective investors investing in the Shares should consider carefully all the information set forth in this prospectus and, in particular, this section in connection with an investment with our Group.

RISKS RELATING TO OUR BUSINESS AND OPERATIONS

We are subject to risks of fluctuations in the exchange rate between RMB and US Dollars

During the Track Record Period, approximately 92.5%, 84.0% and 67.8% of our revenue are denominated in US Dollars but the costs we incurred for the production of our products are denominated in RMB. Our profit margins may be adversely affected to the extent that we are unable to increase the US Dollars denominated selling prices of our products sold to overseas customers or shift the exchange risk to our customers to account for the appreciation of RMB against US Dollars. Further, any significant fluctuation in the exchange rates between RMB and US Dollars may result in increases or decreases in our reported costs and earnings, and may also materially affect our business and results of operations. Any future exchange rate volatility relating to RMB may also give rise to uncertainties in the values of net assets, profits and dividends. Hence, any significant fluctuations in the exchange rate between RMB and US Dollars may materially and adversely affect our financial condition and results of operations.

We recorded net foreign exchange gains of approximately RMB283,000, RMB1,474,000 and RMB1,733,000 for each of the years ended 31 December 2014, 2015 and 2016, respectively. Since we do not have any hedging policy to manage the exchange rate risk, any significant movement of RMB against US Dollars and other foreign currencies may significantly affect the revenue recorded in the combined financial statements of our Group.

RISK FACTORS

For further details, please refer to the section headed “Financial Information – Market risk – Foreign exchange risk” of this prospectus.

We have recorded negative operating cashflows in 2015

Our Group recorded net cash used in operating activities of approximately RMB1.8 million for the year ended 31 December 2015. The decrease in cash flow from operating activities as compared to the year ended 31 December 2014 is primarily due to the increase in trade and other receivables of approximately RMB14.2 million driven by the strong sales in the fourth quarter of 2015. Please refer to the section headed “Financial Information” for more details.

In the event that we are unable to generate sufficient cashflow for our operations or otherwise unable to obtain sufficient funds to finance our business, our liquidity and financial condition may be materially and adversely affected. We can give no assurance that we will have sufficient cash from other sources to fund our operations.

The potential impact of our Group’s future plans may adversely affect our financial performance

Details of our Group’s future plans are set out in the sections headed “Business – Business strategies” and “Business Objectives and Future Plans” in this prospectus. The successful implementation of our future plans, include, without limitation to, (i) utilising approximately HK\$4,500,000 on expanding and enhancing our product offerings through continuous product development efforts and continue to strengthen our brand recognition, (ii) utilising approximately HK\$4,500,000 on expanding production capacity, (iii) utilising approximately HK\$3,600,000 on attracting and retaining quality personnel; and (iv) utilising approximately HK\$3,527,000 on increasing marketing effort, expanding distribution network and exploring new business opportunities. We may incur substantial costs to actualise our future plans, including, but not limited to, increases in depreciation and amortisation expenses from the acquisition of new production facilities and machinery, increases in staff cost from the recruitment of experienced product designers, etc. For instance, we expect that our depreciation and amortisation expenses, and staff cost including directors’ emoluments will increase by approximately RMB62,000 and RMB4,425,000, respectively, for the year ending 31 December 2017. Such increases in costs, if realised, may adversely affect our financial performance in the future.

There is no assurance that our business plans will materialise in accordance with the estimated time frame and that our future plans will be accomplished at all.

RISK FACTORS

We are subject to risks associated with marketing, distribution and sales of our products internationally

For each of the years ended 31 December 2014, 2015 and 2016, approximately 85.8%, 82.2% and 65.6% of our revenue, respectively, was generated from export sales (including sales to Hong Kong and Macau). The marketing, distribution and sales of our products overseas exposes us to a number of risks which are beyond our control, including:

- global economic downturn in any other overseas markets and resulting general consumer confidence;
- fluctuations in exchange rates of foreign currencies (particularly RMB against US Dollars, Euro and Australian Dollars);
- trade barriers, such as export requirements, tariffs, taxes, trade ban, import control and other restrictions and expenses, which could increase the prices of our products and make our products less competitive in some countries;
- increased costs associated with maintaining marketing and sales activities in various countries;
- regulatory obstacles, including anti-dumping investigations or allegations that our products do not meet certain regulatory requirements; and
- inability to obtain, maintain or enforce intellectual property rights in multiple jurisdictions.

If we are unable to effectively manage these risks, our ability to conduct or expand our business abroad would be impaired, which may in turn have a material adverse effect on our business, financial condition, results of operations and prospects.

Sales of our products are subject to changes in consumer perception and preference

Our business and financial performance depends on various factors which may affect the level and pattern of consumer spending in the markets where we sell our products (including Europe, Australia and Oceania, North America, Asia, Central and South America and Africa). Such factors include consumers' preference, confidence, income and perceptions of the safety and quality of our products. In addition, media coverage regarding the safety and quality of the products we produce may negatively affect or damage our image and consumer confidence in these products. A general decline in the consumption of our products could also occur as a result of a change in consumers' preference, perception and spending habit at any time. Our future success will depend partly on our ability to anticipate or adapt to such changes and to offer new products that meet consumers' preference. Any failure to adapt our products to respond to such changes may result in a decrease in our sales. Any changes in consumers' preferences could result in lower sales of our products, put pressure on pricing or reduce our brand popularity, hence adversely affecting our business, results of operations and financial position.

RISK FACTORS

We are exposed to credit risks from customers and delay in payment from our customers may affect our cash flow position and results of operations

We are exposed to credit risks from our customers. For export sales to our overseas customers, our prices are normally paid in 2 instalments with the first of which, generally 30% of the total value of the goods, is settled upon order is made, the residual balance, generally 70% of the total value of the goods, is settled upon the bill of lading is issued. We also grant a credit period of 0 to 120 days for some of our major customers. For our domestic customers, save for orders for PVC laminated oxford and subcontracting work, which a 60 days' credit period is granted in general, we normally deliver our goods to them upon full payment. We mainly accept payments of our customers by ways of bank telegraphic transfer or letter of credit. We have experienced an increase in our trade receivables and for the two years ended 31 December 2014 and 2015, the trade receivables amounted to RMB17,014,000 and RMB32,862,000 respectively, representing 9.7% and 19.5% of our turnover. As at 31 December 2016, our trade receivables amounted to approximately RMB36,871,000. Although we are offered credit terms by some of our suppliers, we still have to pay in advance certain costs and expenses prior to the payment from our customers, and to maintain our daily operations, we need to have sufficient cashflow. In the event that our customers have insufficient liquidity and they delay their payments to us, our cashflow level may be reduced, and our operation and financial position may be adversely affected accordingly. In addition, there may be costs incurred in the collection of prolonged trade receivables and that our profit and hence our performance may be adversely affected.

We may be subject to product liability claims

We are a manufacturer of inflatable products in the PRC and our products are sold to different overseas markets, such as Europe, Australia and Oceania, North America, Asia, Central and South America and Africa. We face an inherent risk of exposure to product liability claims in the event that users of our products do not follow our installation and safety instructions or if our products do not meet certain regulatory or safety standards in the PRC or other countries where we export.

While we strive to ensure our products are safe and fit to our customers by adopting our quality control procedures, there is no assurance that our Group will not receive any complaints or claims against our Group in the future and in the event that our products are found to be unsafe and unfit for use, we may be subject to product liability claims or import restriction, which may adversely affect our Group's financial condition and results of operations.

We rely on a few key personnel and may not be able to retain their services

The success of our Group to date has been, and the future success of our Group will be, dependent on the continued services of our management and key personnel. For example, our Chairman, Mr. Huang, has more than 16 years of experience in the toy manufacturing industry and our Chief Executive Officer, Mr. Xiao, has more than 30 years of experience in the amusement products design and manufacturing industry. Each of them, together with other members of our management, are important to our Group's development.

RISK FACTORS

Our Group expects that our management team will continue to play a pivotal role in the future growth and success of our business. However, there is no assurance that our Group will be able to continue to retain the service of any or all of our management team and key personnel. If any of these personnel was unable or unwilling to continue to serve in his/her present position, and our Group is unable to find a suitable replacement in a timely manner, the loss of their services may cause disruption to our business and may have an adverse impact on our ability to manage or operate our business effectively. The results of our Group's operations may be adversely affected as a result.

We have not entered into long-term sales agreements with our customers and we can not assure that our customers will continue to purchase our products

Our Group's ability to maintain stable and good business relationships with our major customers is important to our ongoing growth and profitability. For each of the years ended 31 December 2014, 2015 and 2016, sales to our Group's top five largest customers in aggregate accounted for about 47.0%, 44.3% and 44.5%, respectively, of our total turnover. For each of the years ended 31 December 2014, 2015 and 2016, sales to our Group's largest customer in aggregate accounted for about 17.9%, 10.9% and 14.2%, respectively, of our turnover. One of our major customers, namely Swan Plastic, a Hong Kong trading company which accounted for 12.7% and 0.5% of our total sales in 2014 and 2015 respectively, has not continued to place sales orders with us since June 2015. In addition, SHD International, a Macau trading company which accounted for 10.9% of our total sales in 2015 has not continued to place purchase orders with us upon its cessation of business in November 2015. There is no assurance that our Group can successfully attract orders from new clients and our current customers will continue to purchase or maintain their purchase volumes of our Group's products in the future.

In addition, our Group has not entered into any long-term sales agreements with our customers. The demand for our Group's products by our customers may change due to a number of factors, some of which may be outside of our Group's control such as changes in their businesses, personnel and sourcing policies. In the event that a significant number of these customers cease to purchase from our Group or reduce the volume of purchase orders placed with our Group, and our Group is unable to increase our sales to other existing customers and/or identify new customers, our Group's business and results of operations may be adversely affected.

Fluctuations in the price and supply of raw materials may bring negative impact to the performance of our Group

We procure various raw materials, including air blowers, PVC laminated oxford, polyester cloth, PVC coating materials, for our Group's businesses. The cost of raw materials in aggregate, represents a substantial portion of our operating expenses. For each of the years ended 31 December 2014, 2015 and 2016, the total cost for raw materials accounted for about 63.7%, 62.3% and 63.9% of our Group's total cost of sales, respectively. The cost of raw materials used for most of our Group's products generally follows price trends of, and varies with, the market conditions and certain other factors. For example, the prices in international crude oil and yarn can affect the price of polyester, which is one of our main raw materials. The international crude oil price also affects the

RISK FACTORS

prices of PVC related raw materials. Any changes in the prices of these base materials which make up our raw materials may affect the overall prices of our raw materials and hence, our cost of production.

Our Group's raw material supplies are also subject to a variety of factors that are beyond its control, including market shortages, suppliers' business interruptions, government control and regulations as well as overall economic conditions. There is no assurance that these suppliers will continue to supply raw materials to our Group in the future. In the event any of our Group's major suppliers decide not to supply raw materials to our Group, and our Group is unable to find alternative suppliers of the raw materials of similar quantity and/or quality at comparable prices, this will lead to a disruption in the supply of such raw materials, and in turn may adversely impact our Group's results of operations and prospects.

In the future, there may be periods of time when our Group is unable to pass on additional raw material costs to customers quickly enough to avoid adverse impacts on our Group's profit margins. Our Group's business, prospects, financial condition and results of operations could be materially affected by increases and volatility of these costs and any shortage in supply of raw materials. Cost increases may also increase working capital needs, which could reduce our Group's liquidity and cash flow. In the event that raw material costs increase rapidly and are passed along to customers as product price increases, the credit risks associated with certain customers may be compounded and the demand in our Group's products may decrease.

We face keen competition from other inflatable playground manufacturers

Competition in the inflatable playground manufacturing industry in the PRC is very intense. According to Euromonitor Report, there are more than five hundred inflatable playground manufacturers in the PRC. Some of our competitors may have a longer operating history than we do and may have better reputation, greater financial resources, better marketing strategies or research and development capabilities than us. We cannot assure you that our current or potential competitors will not provide products comparable or superior to those we provide or adapt more quickly than we do to evolving industry trends or changing market preferences. If we are unable to compete effectively with our competitors, our business, results of operations and financial position will be materially and adversely affected.

We are dependent on a skilled workforce in the PRC to run our production facilities and our Group may experience a shortage of labour or its labour costs may increase

Labour costs have generally increased in the PRC in the recent years. In addition, our operations depend on the experience and skills of our PRC employees, the training of whom may require considerable resources. However, there can be no assurance that our Group will not experience any shortage of labour or that the cost of labour in the PRC will not increase in the future. If our Group experiences a shortage of labour, our Group may not be able to maintain its production volume. If labour costs continue to increase in the PRC, our Group's production costs will increase and it may not be able to pass these increases to our Group's

RISK FACTORS

customers due to competitive pricing pressures. Accordingly, if our Group experiences a shortage of labour or its labour costs increase, its business, prospects, financial condition and results of operations may be adversely affected.

The insurance policies we maintained may not be sufficient

As the insurance industry in China is still in an early stage of development, as at the date of this prospectus, insurance companies in China offer limited business insurance products. During the Track Record Period, we maintained insurance policies primarily covering damages to certain fixed assets, such as our production plants and equipment as well as raw materials and finished products in storage caused by natural disasters such as droughts, floods, earthquakes, hailstorms, windstorms and snowstorms. For each of the years ended 31 December 2014, 2015 and 2016, we incurred expenses of approximately RMB89,000, RMB59,000 and RMB57,000 for such insurance policies, respectively. As at the Latest Practicable Date we have also maintained product liability insurance coverage with respect to our sales and third parties liability. For each of the years ended 31 December 2014, 2015 and 2016, we incurred expenses of approximately RMB434,000, RMB386,000 and RMB418,000 for our products liabilities policies, respectively.

In the event that we suffer a loss to any of our property in an amount that exceeds our insurance coverage, we may not be able to recover such amount exceeding our insurance coverage. As a result, we may have to pay out of our own resources for any uninsured financial or other losses, damages and liabilities, litigation or business disruption. The occurrence of certain incidents, including droughts, floods, earthquakes, hailstorms, windstorms and snowstorms and the consequences, damages and disruptions resulting from such events may not be fully covered by our insurance policy. If our business operations were disrupted or interrupted for a substantial period of time, we could incur costs and losses that could materially and adversely affect our business, financial condition and operating results.

We may be requested to make up any unpaid social insurance fund and housing provident fund contributions

Pursuant to the relevant PRC laws and regulations, employers in the PRC are required to make social insurance contributions (including pension insurance, unemployment insurance, maternity insurance, work injury insurance and medical insurance) and housing provident fund contributions for the benefit of their employees, and entities which fail to make contributions may be ordered to settle the unpaid contribution and subject to penalty within a stipulated time limit. During the Track Record Period, we did not make the necessary contributions to social insurance and housing provident fund for all of our employees.

For our unpaid contribution to the social insurance funds accrued after 1 July 2011, relevant authorities may require us to pay the outstanding amount for the preceding two years within the prescribed time limit with an additional late payment penalty at the daily rate of 0.05% from the due date. If we fail to make the overdue contribution within such time limit, the relevant authorities may also impose a fine on us equal to an amount between 100% and 300% of the total amount of the overdue contribution. According to the relevant

RISK FACTORS

PRC laws and regulations, the relevant housing provident fund authorities may order our Group to pay the outstanding amount of the housing provident fund within the prescribed time period, and if we still fail to do so, the relevant housing provident fund authorities may apply to the court for the enforcement of the unpaid amount. As at 31 December 2016, the total outstanding social insurance premium and estimated overdue penalty, and outstanding housing provident fund that our Group may be ordered to pay by the government authorities amounted to approximately RMB1,914,000.

As at the Latest Practicable Date, we had not received any notification from the relevant authorities alleging that we had not fully contributed to the social insurance fund or housing provident fund and demanding payment of the same before a stipulated deadline. Upon receipt of the request from the relevant authorities, if any, we intend to pay the outstanding contributions and/or any late payment and/or penalty imposed by the relevant authorities accordingly. There is no assurance that our Group will not be subject to fines or penalties in the future, and if such happens, our Group's financial position may be adversely affected.

Uncertain protection and possible infringement of our Group's intellectual property rights and being subject to replication or counterfeit of our products and brand names

Our Group has registered various trademarks, patents and copyrights under our own name or applied for registration of a number of trademarks in various jurisdictions, which are important to our Group's business, further details of which are set out in the section headed "Statutory and General Information – B. Further information about the business – 2. Intellectual property rights of our Group" in Appendix IV to this prospectus.

However, it may be possible for other third parties to copy or otherwise obtain and use our Group's intellectual property rights without authorisation and in such event, our reputation and brand image, and hence our performance may be adversely affected. In addition, there are countries where protection of patents, trademarks and other intellectual property rights may not be effective or may be limited.

We lease certain offices and factory premises and we cannot guarantee that the leases can be renewed

As at the Latest Practicable Date, we lease our production facilities comprising three production workshops, ancillary offices, ancillary facilities, warehouse, and staff dormitory located in Zhongshan City, Guangdong Province. We entered into two tenancy agreements in respect of the production facilities in 2014 with the term of the tenancy expiring in 2019. In addition, we entered into a tenancy agreement in respect of an office in Hong Kong in 2015 with the term expiring in October 2017 and will negotiate with the landlord for renewal of the lease prior to the expiry of the current lease term.

There is no assurance that the leases of our production facilities and offices can be renewed upon expiry or can be renewed at terms and conditions which are commercially acceptable. In the event if we are unable to renew the leases of our production facilities and offices, we may need to relocate our production facilities and offices and based on currently available information, we may incur RMB4,350,000 for the relocation and our Directors

RISK FACTORS

expect it would take around two to three months to complete the whole relocation process. In such event, our production and daily operations may be disrupted during the relocation process. These can bring adverse effects to our business, financial condition, results of operations and growth prospects.

RISKS RELATING TO OUR INDUSTRY

We cannot guarantee that the licences, certificates and permits required for the production and distribution of our Group's products can be renewed

During the Track Record Period and as at the Latest Practicable Date, our Group has obtained all necessary licences, certificates and permits for the production and sales of our Group's present products. However, there is no assurance that our Group will be able to renew any of the existing licences, certificates and permits required in connection with our Group's production and sales of its products upon their expiration. In addition, eligibility criteria for these licences, certificates and permits may change from time to time and additional licences, certificates and permits may be required and more stringent compliance standard may have to be observed. Introduction of any new laws and regulations or changes in the interpretation of any existing law and regulations may escalate the compliance cost for our Group, or prohibit our Group from, or result in our Group having to incur more costs to continue with, the operation of its business. Upon occurrence of such events, our Group's operations may have to be restricted and our Group's profitability would be adversely affected.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

We are subject to environmental protection regulations and requirements

Our Group is required to comply with the environmental protection laws and regulations promulgated by the national and local governments of the PRC. During the Track Record Period, our Group has not been subject to any material claim for breach of environmental protection regulations. Should our Group's production facilities fail to meet applicable environmental protection requirements, our Group may be required to take remedial measures which may in turn have an adverse effect on the operations of our Group. In addition, there is no assurance that the environmental protection law will not be changed in the future. Should there be any change in the environmental protection requirements, our Group may incur additional cost in complying with the new law and regulations, which in turn may adversely affect the profitability of our Group.

We are subject to changes in the economic, political and social conditions in the PRC and policies adopted by the PRC government

The PRC's economy differs from the economies of most developed countries in many respects, including structure, government involvement, level of development, growth rate, control of foreign exchange, capital reinvestment, allocation of resources, rate of inflation and balance of payments position. The economy of the PRC has been transitioning from a planned economy to a more market-oriented economy. In recent years, the PRC Government has implemented measures emphasising market forces for economic reform, the reduction of

RISK FACTORS

state ownership of productive assets and the establishment of sound corporate governance in business enterprises. However, a large portion of productive assets in the PRC are still owned by the PRC Government. The PRC Government continues to play a significant role in regulating industrial development, the allocation of resources, production, pricing and management, and there can be no assurance that the PRC Government will continue to pursue a policy of economic reform.

Our Group's operations and financial results could also be adversely affected by changes in political, economic and social conditions or the relevant policies of the PRC Government, such as changes in laws and regulations (or the interpretation thereof). Our Group's operations and financial results could also be adversely affected by changes in measures which might be introduced to control inflation, changes in the rate or method of taxation, the imposition of additional restrictions on currency conversion and the imposition of additional import restrictions.

Our Group is not in a position to predict whether any abovementioned potential changes in China's political, economic and social conditions, as well as its laws, regulations and policies will have any material adverse effect on its current or future business, financial condition and results of operations.

The PRC legal system is not fully developed and has inherent uncertainties which could limit the legal protections available to our Company

Although our Company is an exempted company incorporated with limited liability under the laws of the Cayman Islands, all of our Group's production are conducted through our Company's subsidiaries which are organised under PRC laws in China. The PRC legal system is based on written statutes. Since the late 1970s, the PRC Government has promulgated laws and regulations dealing with economic matters, such as the issuance and trading of securities, shareholder rights, foreign investment, corporate organisation and governance, commerce, taxation and trade. However, many of these laws and regulations, which are relatively new and will continue to evolve, are subject to different interpretations and may be inconsistently enforced. In addition, there is only a limited volume of published court decisions which may be cited for reference and in any case, such cases have limited precedential value as they are not binding on subsequent cases. These uncertainties relating to the interpretation of PRC laws and regulations and a system of jurisprudence that gives only limited precedential value to prior court decisions can affect the legal remedies and protections that are available to you and to our Company and can adversely affect the value of your investment.

PRC Government controls over currency conversion may affect the value of your investment and limit our Group's ability to use its cash effectively

The PRC Government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of foreign currencies out of the PRC. Under existing PRC foreign exchange regulations, payments of current account items, including profit distribution, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. The PRC Government may also at its discretion restrict access to

RISK FACTORS

foreign currencies for current account transactions in the future. Our Company relies on its PRC subsidiaries to pay dividends to our Company. If the PRC foreign exchange control system prevents our Group from obtaining sufficient foreign currency, including Hong Kong dollars, to satisfy our requirements, our Group may not be able to pay dividends in Hong Kong dollars to the Shareholders.

Dividends payable from our Company's PRC subsidiaries to it and dividends payable by our Company to its foreign investors and gain on the sale of the Shares may become subject to withholding taxes under the PRC tax laws

Due to the Arrangement between China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income, signed on 21 August 2006 (the “**Hong Kong Tax Treaty**”), a company incorporated in Hong Kong will, subject to the PRC tax authority examination and approval, be subject to withholding income tax at a rate of 5.0% on dividends it receives from its PRC subsidiaries if it holds a 25.0% or more interest in that particular PRC subsidiary, or 10.0% if it holds less than a 25.0% interest in that subsidiary. In addition, the State Administration of Taxation promulgated a tax notice on 27 October 2009 (“**Circular 601**”), which provides that tax treaty benefits will be denied to “conduit” or shell companies without business substance, and a beneficial ownership analysis will be used based on a “substance-over-the-form” principle to determine whether or not to grant tax treaty benefits. It is unclear at this early stage whether Circular 601 applies to dividends from our PRC subsidiary paid to us through our Hong Kong subsidiary. It is possible however, that under Circular 601, the Hong Kong subsidiary would not be considered as the “beneficial owner” of any such dividends, and that such dividends would as a result be subject to income tax withholding at the rate of 10.0% rather than the favourable 5.0% rate applicable under the Hong Kong Tax Treaty.

In addition, due to ambiguities in the Enterprise Income Tax Law (《企業所得稅法》) (the “**EIT Law**”) and its implementation rules, a withholding tax at the rate of 10.0% may also be applicable to dividends payable to investors (excluding individual natural persons) that are non-resident enterprises to the extent such dividends are sourced within China. Similarly, any gain realised on the transfer of our Shares by such investors is also subject to a withholding tax at the rate of 10.0% if such gain is regarded as income derived from sources within China. If we are considered a resident enterprise in China, it is unclear whether the dividends we pay with respect to the Shares would be treated as income derived from sources within China and be subject to PRC income tax. If we are required under the EIT Law to withhold PRC income tax on our dividends payable to our foreign Shareholders, or if you are required to pay PRC income tax on the transfer of the Shares, the value of your investment in our Shares may be materially and adversely affected.

RISK FACTORS

RISKS RELATING TO THE PUBLIC OFFER

An active trading market of the Shares may not develop

Prior to the Public Offer, there has been no public market for any of the Shares. The initial Offer Price range for the Offer Shares was the result of negotiations among our Company (for itself and on behalf of the Vendor) and the Joint Lead Managers (for themselves and on behalf of the Underwriters). The Offer Price may differ significantly from the market price for the Shares following the Public Offer. However, even if approved, being listed on GEM does not guarantee that an active trading market for the Shares will develop following the Public Offer or that the Shares will always be listed and traded on GEM. Our Group cannot assure that an active trading market will develop or be maintained following completion of the Public Offer, or that the market price of the Shares will not fall below the Offer Price.

There has been no prior public market for the Shares, and the liquidity, market price and trading volume of the Shares may be volatile

Upon Listing, the trading volume and market price of the Shares may be affected or influenced by a number of factors from time to time, including but not limited to, the revenue, earnings and cash flows of our Group and announcements of new services and/or investments of our Group, strategic alliances and/or acquisitions, fluctuations in market prices for our Group's services or fluctuations in market prices of comparable companies, changes of senior management of our Group, and general economic conditions. Any such developments may result in large and sudden changes in the volume and price at which the Shares will trade. There is no assurance that such developments will or will not occur and it is difficult to quantify the impact on our Group and on the trading volume and market price of the Shares. In addition, shares of other companies listed on GEM have experienced substantial price volatility in the past. It is likely that from time to time, the Shares will be subject to changes in price that may not be directly related to our Group's financial or business performance.

Purchasers of the Offer Shares will experience an immediate dilution and may experience further dilution if our Company issues additional Shares or other securities in the future

Based on the Offer Price range, the Offer Price is expected to be higher than the net tangible asset value per Share immediately prior to the Public Offer. Therefore, the purchasers of the Offer Shares will experience an immediate dilution in unaudited pro forma adjusted combined net tangible asset value to approximately HK\$0.08 per Share and approximately HK\$0.10 per Share based on the Offer Price of HK\$0.20 per Offer Share and HK\$0.35 per Offer Share respectively. Additional funds may be required in the future to finance the expansion or new developments of the business and operations of our Group or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro rata basis to existing Shareholders, the percentage ownership of the Shareholders in our Company may be diluted or such new securities may confer rights and privileges that take priority over those conferred by the Offer Shares.

RISK FACTORS

Future sales by existing Shareholders of a substantial number of the Shares in the public market could materially and adversely affect the prevailing market price of the Shares

The Shares held by the Controlling Shareholders are subject to lock-up beginning on the date on which trading in the Shares commences on GEM. There is no assurance that the Controlling Shareholders will not dispose of the Shares held by them. Our Group cannot predict the effect, if any, of any future sales of the Shares by any substantial shareholder of our Company or Controlling Shareholder, or the availability of Shares for sale by any substantial Shareholder or Controlling Shareholder may have on the market price of the Shares. Sales of a substantial amount of Shares by any substantial Shareholder of our Company or Controlling Shareholder or the issuance of a substantial amount of new Shares by our Company, or the market perception that such sales or issuance may occur, could materially and adversely affect the prevailing market price of the Shares.

RISKS RELATING TO THE STATEMENTS MADE IN THIS PROSPECTUS

Statistics and facts in this prospectus have not been independently verified

This prospectus includes certain statistics and facts that have been extracted from Government official sources and publications or other sources. Our Company believes the sources of these statistics and facts are appropriate for such statistics and facts and has taken reasonable care in extracting and reproducing such statistics and facts. Our Company has no reason to believe that such statistics and facts are false or misleading or that any fact has been omitted that would render such statistics and facts false or misleading. These statistics and facts from these sources have not been independently verified by our Company, the Vendor, the Sole Sponsor, the Joint Lead Managers, the Underwriters, any of their respective directors or any other parties involved in the Public Offer and therefore, our Company makes no representation as to the accuracy or completeness of these statistics and facts, as such these statistics and facts should not be unduly relied upon.

Forward-looking statements contained in this prospectus may prove inaccurate and therefore investors should not place undue reliance on such information

This prospectus contains certain forward-looking statements relating to the plans, objectives, expectations and intentions of our Directors and our Group. Such forward-looking statements are based on numerous assumptions as to the present and future business strategies of our Group and the development of the environment in which our Group operates. These statements involve known and unknown risks, uncertainties and other factors which may cause the actual financial results, performance or achievements of our Group to be materially different from the anticipated financial results, performance or achievements of our Group expressed or implied by these statements. The actual financial results, performance or achievements of our Group may differ materially from those discussed in this prospectus.

RISK FACTORS

Investors should not rely on any information contained in the press articles or other media regarding us and the Public Offer

Prior to the publication of this prospectus, there might have been press articles and media coverage regarding us and the Public Offer which might include certain financial information, financial projections, and other information about us which do not appear in this prospectus. Such information might not be sourced from or authorised by us, hence, we do not accept any responsibility for the accuracy or completeness of such information. We cannot guarantee and make no representation as to the appropriateness, accuracy, completeness or reliability of such information. Potential investors are therefore cautioned to make their investment decisions based solely on the information contained in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE PUBLIC OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) 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 to the public with regard to our Group. Our 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, there are no other matters the omission of which would make any statement herein or this prospectus misleading, and all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

INFORMATION ON THE PUBLIC OFFER

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein.

No person is authorised to give any information in connection with the Public Offer or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by us, the Vendor, the Sole Sponsor, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Public Offer.

Details of the structure of the Public Offer, including its conditions, are set out in the section headed "Structure and Conditions of the Public Offer" in this prospectus, and the procedures for applying for the Offer Shares are set out in the section headed "How to Apply for the Offer Shares" in this prospectus and in the relevant Application Forms.

Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, constitute a representation that there has been no change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

UNDERWRITING

This prospectus is published solely in connection with the Public Offer which is sponsored by the Sole Sponsor. The Public Offer is fully underwritten by the Underwriters on a conditional basis, under the terms and conditions of the Underwriting Agreement.

INFORMATION ABOUT THIS PROSPECTUS AND THE PUBLIC OFFER

If, for any reason, the Offer Price is not agreed between our Company (for itself and on behalf of the Vendor) and the Joint Lead Managers (for themselves and on behalf of the Underwriters) by the Price Determination Date, the Public Offer will not proceed. Further information relating to the Underwriters and underwriting arrangement are contained in the section headed “Underwriting” in this prospectus.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation, nor is it circulated to invite to solicit offers, in any jurisdiction other than Hong Kong or in any circumstances in which such offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. Persons who possess this prospectus are deemed to have confirmed with our Company, the Vendor, the Sole Sponsor, the Joint Lead Managers and the Underwriters that such restrictions have been observed.

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the related Application Forms. No person is authorised to give any information in connection with the Public Offer or to make any representation not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, staff or advisers or any other person involved in the Public Offer.

Prospective applicants 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. Prospective applicants for the Offer Shares should also inform themselves as to the relevant legal requirements and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

Each person acquiring the Offer Shares will be required to confirm, or be deemed by his/her acquisition of the Offer Shares to have confirmed that he/she is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus and that he/she is not acquiring, and has not been offered and sold any Offer Shares in circumstances that contravene any such restrictions.

INFORMATION ABOUT THIS PROSPECTUS AND THE PUBLIC OFFER

The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exception therefrom. In particular, the Offer Shares have not been publicly offered or sold, directly or indirectly, in the United States.

APPLICATION FOR LISTING ON GEM

Application has been made to the Listing Division of 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. No part of the share or loan capital of our Company is listed or dealt in on any other stock exchange and no such listing or permission of dealing is being or is proposed to be sought.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) 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 Public Offer or such longer period not exceeding six weeks as may, within the said three weeks, be notified to our Company for permission by or on behalf of the Listing Division of the Stock Exchange, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void. The Shares are freely transferable. Only securities registered on the branch register of members of our Company kept in Hong Kong may be traded on GEM unless the Stock Exchange otherwise agrees.

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

No part of the Shares or the loan capital of our Company is listed, traded or dealt in on any other stock exchange. At present, our 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.

REGISTER OF MEMBERS AND STAMP DUTY

All of the Offer Shares will be registered on the Hong Kong Branch Share Register of members to be maintained by Tricor Investor Services Limited. Dealings in the Offer Shares registered on our Company’s branch register of members maintained in Hong Kong will be subject to Hong Kong stamp duty. Dealings in the Shares registered on the principal register of members of our Company maintained by Estera Trust (Cayman) Limited in the Cayman Islands will not be subject to the Cayman Islands stamp duty.

INFORMATION ABOUT THIS PROSPECTUS AND THE PUBLIC OFFER

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM are expected to commence at 9:00 a.m. on Friday, 7 July 2017. Shares will be traded in board lots of 10,000 each. The stock code for the Shares is 8406. Our Company will not issue any temporary documents of title. Dealings in the Shares on GEM will be effected by participants of GEM whose bid and offer quotations will be available on the GEM's teletext page information system. Delivery and payment for Shares dealt on GEM will be effected on the second Business Day following the transaction date. Only certificates for Shares registered on the branch share register of our Company will be valid for delivery in respect of transactions effected on GEM. If you are unsure about the procedures for dealings and settlement arrangement on GEM on which the Shares are listed and how such arrangements will affect your rights and interests, you should consult your stockbroker or other professional advisers.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on GEM and 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 such other date 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.

Investors should seek the advice from their stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect their rights, interest and liabilities.

All necessary arrangements have been made to enable for the Shares into be admitted to CCASS.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Public Offer are recommended to consult their professional advisers as to the taxation implications of subscribing for, purchasing, holding or disposal of, and/or dealing in the Shares or exercising rights attached to them. It is emphasised that none of our Group, the Vendor, the Sole Sponsor, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers, employees, agents, advisers, representatives or any other person or party involved in the Public Offer accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposition of, dealing in, the Shares or exercising any rights attached to them.

INFORMATION ABOUT THIS PROSPECTUS AND THE PUBLIC OFFER

PROCEDURES FOR APPLICATION FOR PUBLIC OFFER SHARES

The procedures for applying for the Public Offer Shares are set out in the section headed “How to Apply for the Offer Shares” in this prospectus and the relevant Application Forms.

VENDOR

The Public Offer consists of 200,000,000 Offer Shares, of which 80,000,000 Sale Shares shall be offered for sale by the Vendor. We estimate that the net proceeds to the Vendor from the sale of the Sale Shares (after deduction of expenses in connection with the Listing borne by them of approximately HK\$10,078,000, which is the proportional underwriting commission payable to the Underwriters for such sale of the Sale Shares and assuming an Offer Price of HK\$0.275, being the mid-point of the Offer Price range) will be approximately HK\$11,922,000. Our Company will not receive any of the proceeds from the sale of the Sale Shares.

Details of the Vendor are set out in the section headed “Statutory and General Information – F. Other information – 12. Particulars of the Vendor” in Appendix IV to this prospectus.

STRUCTURE AND CONDITIONS OF THE PUBLIC OFFER

Details of the structure of the Public Offer, including its conditions are set out in the section headed “Structure and Conditions of the Public Offer” in this prospectus.

ROUNDING

Certain amount and percentage figures included in this prospectus have been subject to rounding adjustments or have been rounded to one or two decimal places. Any discrepancies in any table, chart or elsewhere in this prospectus between totals and sums of individual amounts listed therein are due to rounding.

WEBSITE

The contents of any website mentioned in this prospectus do not form part of this prospectus.

REASONS FOR THE PUBLIC OFFER

Our Directors believe that the Listing will enhance our profile and recognition. In addition, our Board is also of the view the Listing and the Public Offer will provide our Company with additional avenues to raise capital for our future business expansion and long-term development, and expand and diversify our capital base and Shareholders base. The net proceeds from the Public Offer of approximately HK\$17,883,000 will strengthen our financial position.

INFORMATION ABOUT THIS PROSPECTUS AND THE PUBLIC OFFER

LANGUAGE

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

DIRECTORS AND PARTIES INVOLVED IN THE PUBLIC OFFER

DIRECTORS

Name	Residential Address	Nationality
------	---------------------	-------------

Executive Directors

Mr. Huang Xiaodong (黃小冬) (Chairman)	Rua De Hong Chau 76-82 Block 3, Floor 19 Flat X Estate Hoi Yee Fa Yuen Taipa Macau	Chinese
--	---	---------

Mr. Xiao Jiansheng (肖健生) (Chief Executive Officer)	E2-3 A08 zone Kaiyin New Town Huoju District Zhongshan City The PRC	Chinese
---	---	---------

Non-executive Director

Mr. Lee Kin Kee (李建基) (Mr. Kevin Lee)	Flat A, 12/F., Block 7 Residence Oasis, Hang Hau Tseung Kwan O New Territories Hong Kong	Chinese
--	--	---------

Independent non-executive Directors

Mr. Mao Guohua (毛國華)	Flat A, Floor 3 Jiahai Court, Tianhai Town West District, Zhongshan City The PRC	Chinese
----------------------	---	---------

Mr. Gan Mingqing (甘敏青)	16 Yongde Street, 2 Fuli Road Shiqi District, Zhongshan City The PRC	Chinese
------------------------	--	---------

Mr. Chu Wai Wa Fangus (朱偉華)	Room C, 22/F Bon-Point No. 11 Bonham Road Hong Kong	Chinese
--------------------------------	--	---------

For further information on the profile and background of our Directors, please refer to the section headed “Directors, Senior Management and Employees” in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE PUBLIC OFFER

PARTIES INVOLVED IN THE PUBLIC OFFER

Sole Sponsor

Frontpage Capital Limited
26th Floor
Siu On Centre
188 Lockhart Road
Wan Chai
Hong Kong
(A licensed corporation for carrying on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO)

Joint Lead Managers and Underwriters

Frontpage Capital Limited
26th Floor
Siu On Centre
188 Lockhart Road
Wan Chai
Hong Kong
(A licensed corporation for carrying on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO)

Ping An Securities Limited
Unit 02, 2/F
China Merchants Buildings
152-155 Connaught Road
Central
Hong Kong
(A licensed corporation for carrying on type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO)

Legal advisers to our Company

As to Hong Kong law:
CFN Lawyers in association with Broad and Bright
Room 4124, 41/F
Sun Hung Kai Centre
30 Harbour Road
Wan Chai
Hong Kong
(Solicitors of Hong Kong SAR)

DIRECTORS AND PARTIES INVOLVED IN THE PUBLIC OFFER

As to PRC law:

China Commercial Law Firm
22-23/F
HKCTS Tower
No.4011 Shennan Road
Shenzhen
PRC
(*PRC attorneys-at-law*)

As to Cayman Islands law:

Appleby
2206-19 Jardine House
1 Connaught Place
Central
Hong Kong
(*Cayman Islands attorneys-at-law*)

**Legal advisers to the Sole
Sponsor and the Underwriters**

As to Hong Kong law:

YTL & Co.
Suite 1905, Tower 2
Lippo Centre
89 Queensway
Hong Kong
(*Solicitors of Hong Kong SAR*)

As to PRC law:

Yingke Law Firm
3/F, Office Tower B
Rong Chao Centre
No. 6003, Yitian Road
Futian District
Shenzhen
The PRC
(*PRC attorneys-at-law*)

**Auditors and reporting
accountants**

HLB Hodgson Impey Cheng Limited
Certified Public Accountants
31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

Receiving Bank

Bank of China (Hong Kong) Limited
1 Garden Road
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE PUBLIC OFFER

Vendor

Nonton Limited
P.O. Box 957
Offshore Incorporation Centre
Road Town, Tortola
British Virgin Islands

CORPORATE INFORMATION

Registered office in the Cayman Islands	Clifton House 75 Fort Street P.O. Box 1350 Grand Cayman KY1-1108 Cayman Islands
Head office	Dongcheng Industrial Zone Xinping Road Minzhong Town Zhongshan City Gongdong Province The PRC
Principal place of business in Hong Kong registered under Part 16 of the Companies Ordinance	Units 1903-04 Tamson Plaza 161 Wai Yip Street Kwun Tong Kowloon Hong Kong
Company secretary	Mr. Wan Hon Keung (溫漢強), <i>HKICPA</i>
Authorised representatives (for the purpose of the GEM Listing Rules)	<div>Mr. Huang Xiaodong (黃小冬) Rua De Hong Chau 76-82 Block 3, Floor 19 Flat X Estate Hoi Yee Fa Yuen Taipa Macau</div> <div>Mr. Wan Hon Keung (溫漢強) Flat F, 25/F Prosperland House (Block 1) Affluence Garden 33 Tsing Chung Koon Road Tuen Mun New Territories Hong Kong</div>
Compliance officer	Mr. Xiao Jiansheng (肖健生) E2-3 A08 zone Kaiyin New Town Huoju District Zhongshan City The PRC

CORPORATE INFORMATION

Audit committee	Mr. Chu Wai Wa Fangus (朱偉華)(<i>Chairman</i>) Mr. Gan Mingqing (甘敏青) Mr. Mao Guohua (毛國華)
Remuneration committee	Mr. Gan Mingqing (甘敏青)(<i>Chairman</i>) Mr. Chu Wai Wa Fangus (朱偉華) Mr. Mao Guohua (毛國華) Mr. Xiao Jiansheng (肖健生)
Nomination committee	Mr. Mao Guohua (毛國華)(<i>Chairman</i>) Mr. Xiao Jiansheng (肖健生) Mr. Chu Wai Wa Fangus (朱偉華) Mr. Gan Mingqing (甘敏青)
Compliance adviser	Frontpage Capital Limited 26th Floor Siu On Centre 188 Lockhart Road Wan Chai Hong Kong <i>(A licensed corporation for carrying on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO)</i>
Principal share registrar and transfer office in the Cayman Islands	Estera Trust (Cayman) Limited Clifton House 75 Fort Street P.O. Box 1350 Grand Cayman KY1-1108 Cayman Islands
Hong Kong branch share registrar and transfer office	Tricor Investor Services Limited Level 22 Hopewell Centre 183 Queen's Road East Hong Kong
Principal bankers	Industrial & Commercial Bank of China Minzhong Branch of Zhongshan City Guangdong Province 159 Liubailiu Road Minzhong Town Zhongshan City Guangdong Province China

CORPORATE INFORMATION

Industrial & Commercial Bank of China
Huangpu Branch of Zhongshan City
Guangdong Province
51 Xingpu Dadao West
Huangpu Town
Zhongshan City
Guangdong Province
China

Company's website

www.alpha-era.co (the information contained in this website does not form part of this prospectus)

INDUSTRY OVERVIEW

The information that appears in this section has been prepared by Euromonitor International Limited and reflects estimates of market conditions based publicly available sources and trade opinion surveys, and is prepared primarily as a market research tool. References to Euromonitor International Limited should not be considered as the opinion of Euromonitor International Limited as to the value of any security or the advisability of investing in our Company. Our Directors believe that the sources of information contained in this section are appropriate sources for such information and have taken reasonable care in reproducing such information. Our 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 Euromonitor International Limited and set out in this section has not been independently verified by our Group, the Sole Sponsor, the Joint Lead Managers, the Underwriters or any other party involved in the Public Offer and neither of them gives any representations as to its accuracy and the information should not be relied upon in making, or refraining from making, any investment decision.

SOURCE OF INFORMATION

In connection with the Listing, we have commissioned Euromonitor International, an independent third party, to conduct a study of the inflatable playground products manufacturing market in China at a fee of US\$92,000. Established in 1972, Euromonitor International is a global research organisation with over 1,000 full-time staff and field-based analysts in over 80 countries worldwide, providing trade and strategy research and detailed local market analysis, and has accumulated over 15 years of industry experience in China. Except for the Euromonitor Report, we have not commissioned any other customised research report in connection with the Listing or this prospectus.

The objective of the research is to provide an independent assessment of the inflatable playground products manufacturing industry in China and to attain an objective and robust overview of the markets.

RESEARCH METHODOLOGY

Euromonitor International's research methodology offered a combination of primary and secondary research to build a market consensus view of size, shape and trends across each category. Primary research consists of qualitative based trade interviews with multiple organisations to augment the estimated market size, growth trend and competitive landscape, whereas secondary research began with an assessment of publicly available secondary information through various sources including but not limited to governmental statistics, reports and/or databases, specialist trade press, company financial or annual reports, independent analyst reports and Euromonitor International's existing industry data base.

Euromonitor International based the Euromonitor Report on the following assumptions:

- The Chinese economy is expected to maintain steady growth over the forecast period;

INDUSTRY OVERVIEW

- The Chinese social, economic, and political environment is expected to remain stable in the forecast period;
- There will be no external shock, such as financial crisis or raw material shortage that affects the demand and supply of inflatable playground manufacturing industry in China during the forecast period;
- Key market drivers such as accelerating children's population, increasing disposable income, increasing demand of inflatable playground products from overseas markets, improving manufacturing and export regulations are expected to boost the development of the inflatable playground manufacturing industry in China;

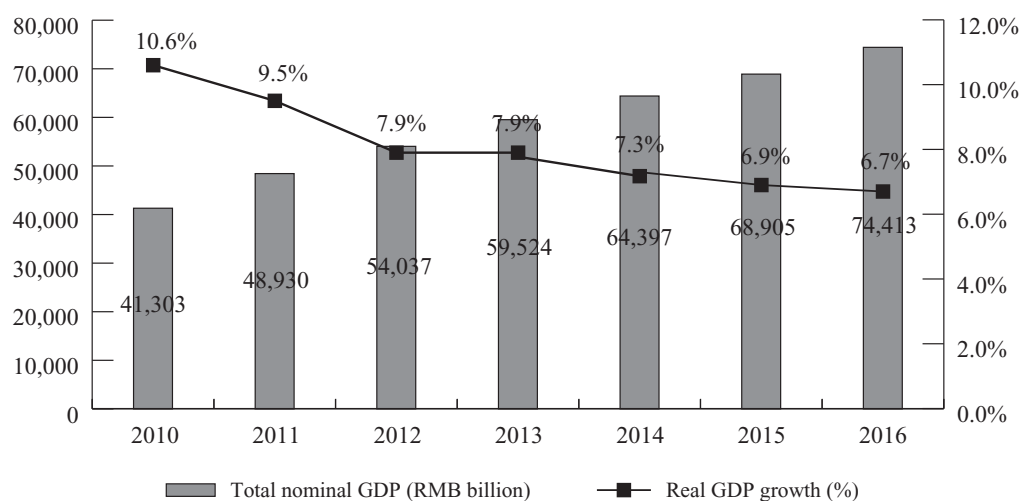
The research results may be affected by the accuracy of these assumptions and the choice of these parameters. The market research was completed in May 2017 and all statistics in the Euromonitor report are based on information available at the time of reporting. Euromonitor's forecast data comes from analysis of historic development of the market, the economic environment and underlying market drivers, and is cross-checked against established industry data and trade interviews with industry experts.

MACROECONOMIC ENVIRONMENT IN CHINA

China's economy remains stable although the growth rate is slowing down

According to data from the National Bureau of Statistics of China, the GDP growth rate slowed down from 10.6% in 2010 to 6.7% in 2016. Even so, China's GDP totalled approximately RMB74.4 trillion in 2016. In line with the healthy GDP growth, per capita GDP has grown robustly from 2010 to 2016, with a CAGR of 9.8% to reach about RMB53,980 in 2016, leading to increasingly stronger purchasing power among average consumers.

Nominal GDP and real GDP growth in China, historic 2010-2016



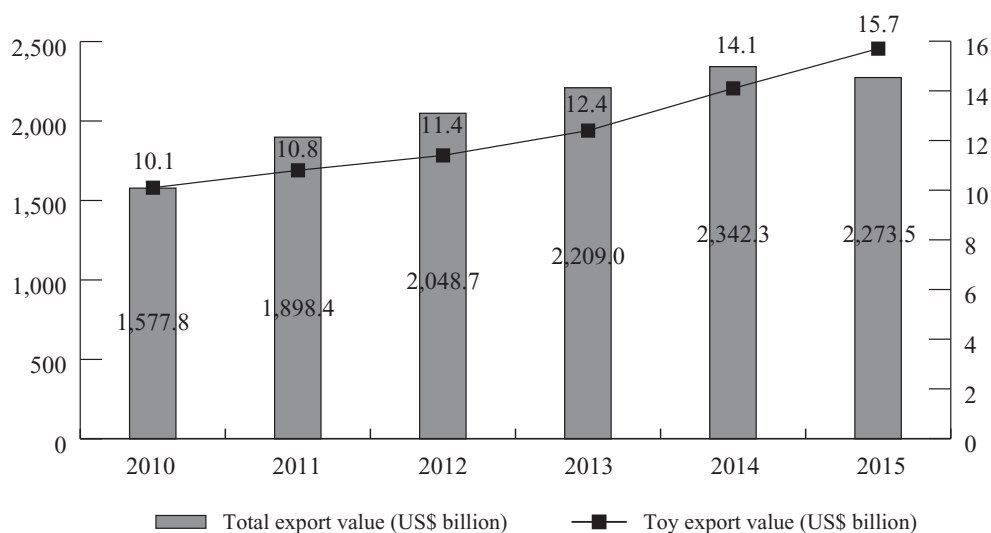
Source: National Bureau of Statistics of China

INDUSTRY OVERVIEW

China's total export market experienced slower growth under the global economic recession

Contributing to both contracted demand from the international economy and the focus shift of China's government from export to domestic consumption, the year over year growth rate of total export value has shrunk from 20.3% in 2011 to -2.9% in 2015. Meanwhile, the growth rate of the export value of toys has subsequently decreased from 6.9% in 2011 to 5.5% in 2012, and the growth rate of the export value of toys increased to 11.3% in 2015 from 8.8% in 2013. The export market for the toy industry has shown a decent resilience to the weak performance of the global economy. In general, the total export value in mainland China increased from US\$1,578 billion in 2010 to US\$2,273.5 billion in 2015, representing a CAGR of 6.3% from 2010 to 2015. The export value of toys increased from US\$10,076 million in 2010 to US\$15,664 million in 2015, representing a CAGR of 7.6% from 2010 to 2015.

Total export value and export value of toys in China, historic 2010-2015



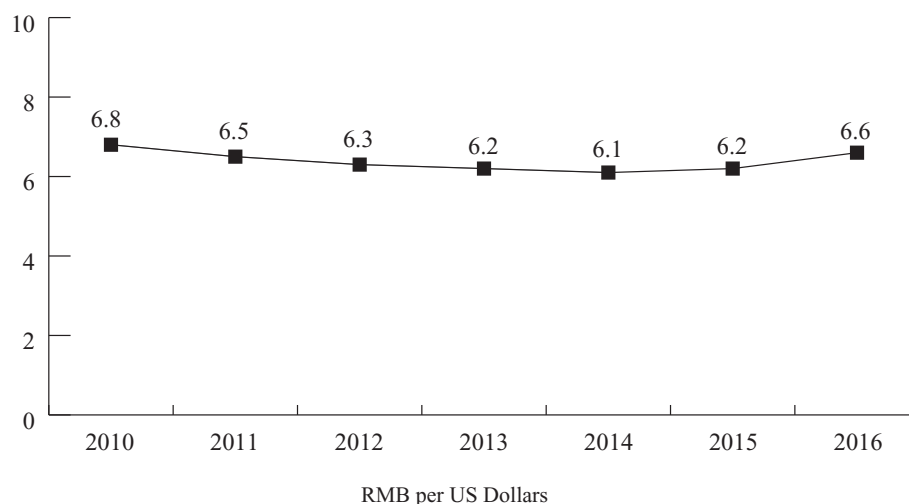
Source: National Bureau of Statistics of China (as at the Latest Practical Date)

RMB to US Dollars exchange rate experienced slow-down in the reviewed period

RMB became relatively strong in the historic period (2012-2015). RMB per US Dollars declined from 6.8 in 2010 to 6.2 in 2015. Due to the continuous global economic downturn, RMB saw gradually appreciation against US Dollars in 2015.

INDUSTRY OVERVIEW

Exchange Rates of RMB against US Dollars, Historic (2010-2016)



Source: Euromonitor International from national statistics

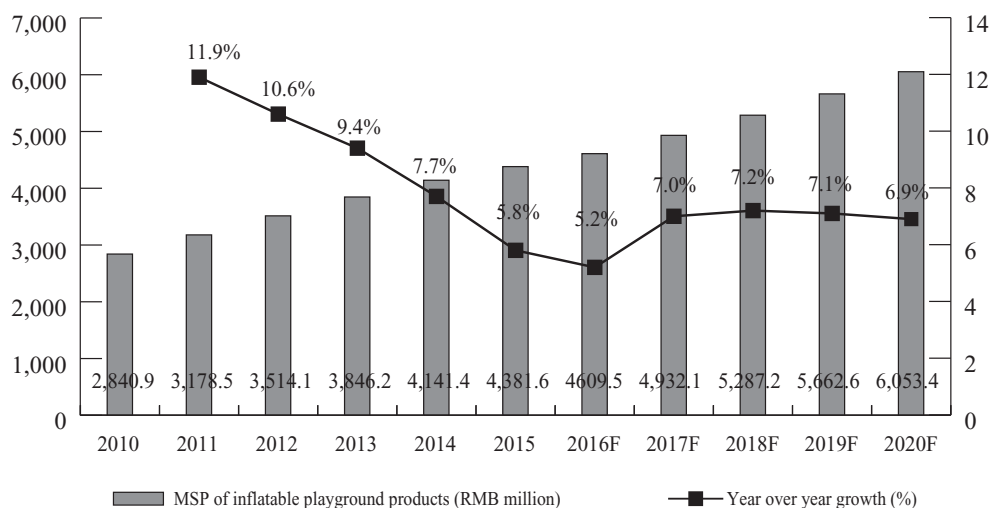
MARKET OVERVIEW OF THE INFLATABLE PLAYGROUND PRODUCTS MANUFACTURING INDUSTRY IN CHINA

China started the development of inflatable playground products mainly from 2000. Inflatable playground products typically cover inflatable castles, water slides, and similar structures, which are temporary inflatable buildings and structures. In general, inflatable playground products can be used in amusement parks, public areas and backyard around residential districts, and places for holding special events in order to attract children and their parents. Currently, the manufacturers of inflatable playground products are mainly from the provinces of Henan, Jiangsu, and Guangdong. Manufacturers of inflatable playground products usually do not have too much inventory. It is not common to find inflatable playground products sold in the retail channels, such as hypermarkets and supermarkets, which are not spatially and economically practical for the product to be fully displayed. However, an increasing number of manufacturers choose to display their products on internet retailers like Alibaba in order to be more active in finding potential customers. In recent years, the production costs of inflatable playground products have slightly increased mainly due to the increase in labour costs in China. However, the selling price of inflatable playground products has not changed a great deal mainly because customers are relatively sensitive to product price and are prepared for looking for alternative products.

During the reviewed period (2010-2015), MSP had increased from RMB2,840.9 million in 2010 to RMB4,381.6 million in 2015, witnessing a CAGR of 9.1%. Having considered driving factors such as new potential markets brings new growth opportunity, mature manufacturing techniques help to attract more customers, the growing popularity among ordinary consumers as well as the gradual recovery of export market, the MSP is expected to increase from RMB4,609.5 million in 2016 to RMB6,053.4 million in 2020, witnessing a CAGR of 7.0%.

INDUSTRY OVERVIEW

Market size for overall inflatable playground products in China, by manufacturer sales value, 2010-2015 and forecast 2016-2020

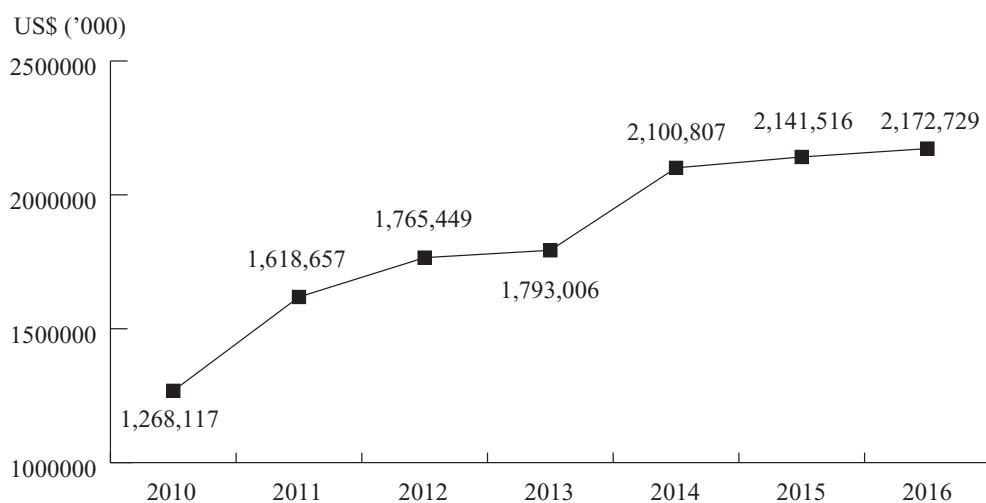


Source: Euromonitor estimates from trade interviews and desk research

THE EXPORT MARKET FOR INFLATABLE PLAYGROUND PRODUCTS FROM CHINA

China export of inflatable playground products has been recorded under certain HS codes, which include articles and equipment for sports and outdoor games and swimming and paddling pools, roundabouts, swings, shooting galleries and other fairground amusement. The performance of inflatable playground products export is closely related to product export under these HS codes (**“Sports and outdoor games articles and fairground amusement”**).

Export value size for Sports and outdoor games articles and fairground amusement, historic 2010-2016



Source: China Customs

INDUSTRY OVERVIEW

Developed countries from North America and Europe are the main destination country markets of export value of Sports and outdoor games articles and fairground amusement. In 2014, the top five destination country markets of export value of Sports and outdoor games articles and fairground amusement were the U.S., Germany, Canada, France, and the UK, respectively, while in 2015, the top five destination country markets of export value of Sports and outdoor games articles and fairground amusement were USA, Germany, the UK, Canada and Netherlands.

According to China Customs, the export value size for Sports and outdoor games articles and fairground amusement from China to the world was about USD2,172,729,110 in 2016, which still saw a 1.5% growth from 2015 despite RMB has depreciated against US Dollars of approximately 6.5% in 2016 from 2015. Regardless the global-wise sluggish economic growth and foreign trade, the export for inflatable playground products remains stable growth, especially the healthy exports to European Union market, where still sees growing market demand for inflatable playground products.

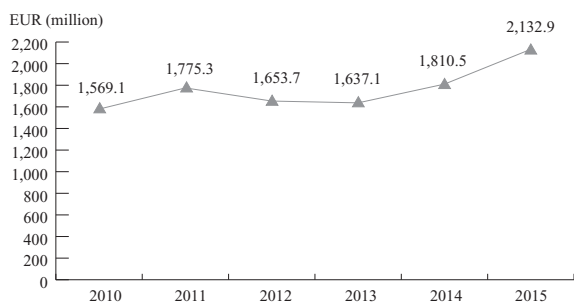
THE IMPORT MARKET FOR INFLATABLE PLAYGROUND PRODUCTS IN THE EU, THE U.S., AUSTRALIA AND HONG KONG AND MACAU

During the Track Record Period, EU, Australia, U.S., and Hong Kong and Macau are the principal markets of our inflatable playground products. EU, Australia, U.S. and Hong Kong and Macau import of inflatable playground products has been also recorded under the same HS code with that of China's export

THE EU

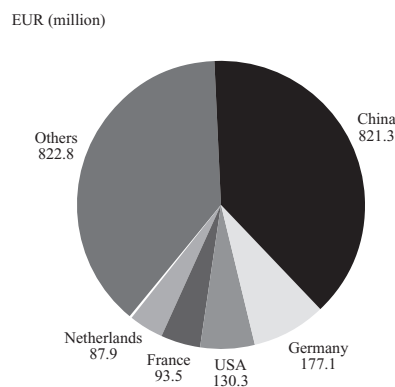
Import value of Sports and outdoor games articles and fairground amusement reached EUR2,132.9 million in 2015, increased from EUR1,569.1 million in 2010, with a CAGR of 6.3%. After a downturn in 2012 and 2013 resulting from the further influence of the European debt crisis, the import market began to recover in 2014 due to the economic recovery. As the top country of origin by import value in 2015, China exports valued at EUR821.3 million.

Import value size for Sports and outdoor games articles and fairground amusement for the EU, historic 2010-2015



Source: Trademap

Top 5 countries of origin for Sports and outdoor games articles and fairground amusement for the EU in 2015 (in Euro)



Source: Trademap

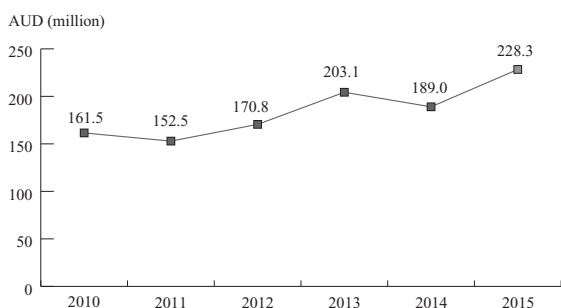
INDUSTRY OVERVIEW

AUSTRALIA

Import value of Sports and outdoor games articles and fairground amusement reached AUD228.3 million in 2015, increased from AUD161.5 million in 2010, with a CAGR of 7.2%.

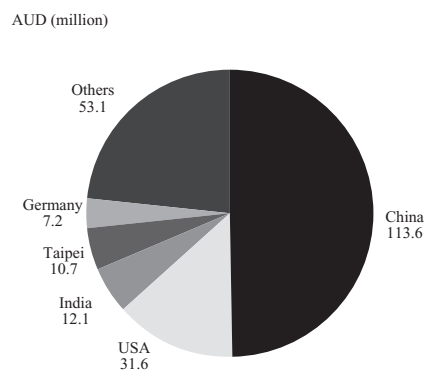
As a member of numerous organisations such as APEC, the G20, WTO and OECD, Australia has multiple free trade agreements with numerous countries such as the U.S., Singapore, Chile and Thailand. China was added into the free trade agreement list with Australia in 2016. The Australian government tries to remove the trade barriers with their partners of import and export.

Import value size for Sports and outdoor games articles and fairground amusement for Australia, historic 2010-2015



Source: Trademap

Top 5 countries of origin for Sports and outdoor games articles and fairground amusement for Australia in 2015 (in AUD)



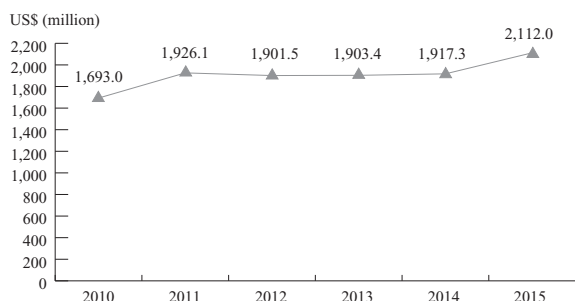
Source: Trademap

THE U.S.

Import value of Sports and outdoor games articles and fairground amusement reached US\$2,112.0 million in 2015 from US\$1,693.0 million in 2010, with a CAGR of 4.5%. By 2012, the import value reached its highest value of US\$1,901.5 million before experienced a slightly negative growth due to the stumbling growth of domestic demand. However, the import value reached a new high of US\$2,112.0 million by 2015 due to the recovering of US economy and a slight pick-up of domestic demand. This is partially owed to persistent weakness in disposable income growth in the U.S. Besides, several U.S. toy manufacturers have shifted production back to their home market partly due to the rising production costs in some of the top origin countries for import.

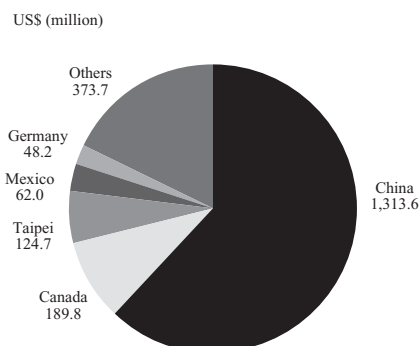
INDUSTRY OVERVIEW

Import value size for Sports and outdoor games articles and fairground amusement for the U.S., historic 2010-2015



Source: Trademap

Top 5 countries of origin for Sports and outdoor games articles and fairground amusement for the U.S. in 2015 (in US\$)

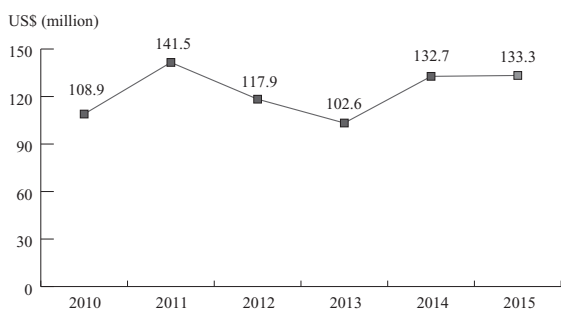


Source: Trademap

HONG KONG AND MACAU

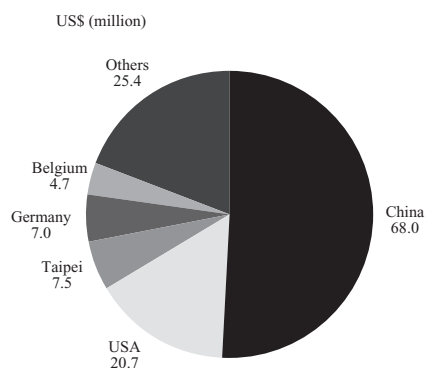
Import value of Sports and outdoor games articles and fairground amusement reached US\$133.3 million in 2015, increased from US\$108.9 million in 2010, with a CAGR of 4.1%. By 2011, the import value of Sports and outdoor games articles and fairground amusement reached its highest value of USD141.5 million. From then, the import value began to experience a slight downturn due to the further influence of the global economy, but the import market began to recover in 2014.

Import value size for Sports and outdoor games articles and fairground amusement for Hong Kong and Macau, historic 2010-2015



Source: Trademap

Top 5 countries of origin for Sports and outdoor games articles and fairground amusement for Hong Kong and Macau in 2015 (in US\$)



Source: Trademap

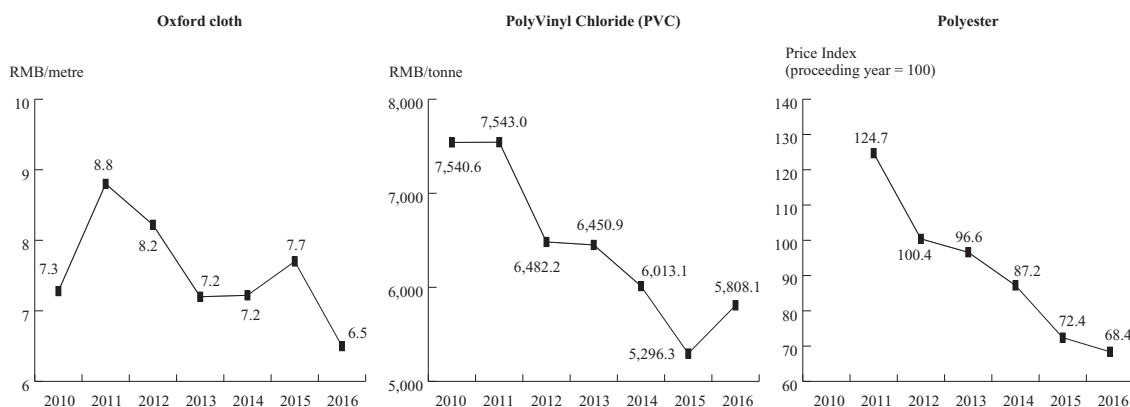
RAW MATERIALS

In general, price of major raw materials for inflatable playground products had experienced a downturn. The fall of PVC prices was due to excessive inventory and the declining demand as the growth of construction industry has slowed down in the past few years. For polyester, it faced downward pricing pressure from upstream cheaper crude oil and from yarn companies downstream demanding the decrease of polyester price. As polyester is derived from crude oil, the price fluctuations of international crude oil will

INDUSTRY OVERVIEW

impact the price of polyester. Also, with the slow-down growth of China's knitwear industry, the price index for polyester saw a declining trend correspondingly. The price of oxford cloth is mainly driven by the development of the knitwear manufacturing industries. However, facing huge competition from the low labour cost countries, such as Vietnam or Cambodia, the domestic knitwear industry experienced continuous single digit growth which as a consequence has affected the growth trend of the price of oxford cloth.

Price fluctuations of selected raw materials, historic 2010-2016



Source: Euromonitor International from desk research.

MARKET DRIVERS

New potential markets bring new growth opportunity for the inflatable playground products industry

Untapped markets for inflatable playground products exist in both domestic and foreign regions, which are expected to bring new growth impetus to the inflatable playground industry. Some manufacturers of inflatable playground products have already tried to extend their markets to unexplored areas in Asia, Africa, Oceania, etc., and they are able to customise inflatable playground products in order to better meet the different requirements according to different living environments and consumption habits. As for the domestic regions, inflatable products manufacturers have already tried to reach more rural and suburban residents by expanding into Internet retailing. These new potential markets are expected to produce rising demand in the near future.

Mature manufacturing techniques help the manufacturers attract both foreign and domestic customers

After a decade of development, the inflatable playground products market players in the PRC, have acquired mature manufacturing techniques and effective business models, which are able to help conquer various technical difficulties and meet the safety requirements from different countries. Leading manufacturers in this industry have effectively adopted advanced blower machines, which are electric or air pump blowers. Also, the surfaces of inflatables are typically composed of durable and strong materials, like PVC or polyester and oxford. Furthermore, some leading manufacturers own the capability to

INDUSTRY OVERVIEW

design diversified models or samples of inflatables. With mature manufacturing techniques, Chinese manufacturers can meet the increasing manufacturing requirements from both foreign and domestic customers, which will eventually help the inflatable playground manufacturing industry to achieve a stable growth.

Inflatable playground products will gain popularity with the increasing demand for toys, which allows for multiple participants

The inflatable playground product is easily accepted by children of different ages under 14. Additionally, the inflatable playground product is beneficial in encouraging young children to be active in both sports and build friendships due to its design features, which could allow multiple children to play together. Also, on 27 December 2015, in an effort to boost birth rate, the National People's Congress Standing Committee passed the amendment to the Law of the PRC on Population and Family Planning, which puts into effect the two-child policy nationwide as of 1 January 2016. As a result, with more children in the family, parents will seek suitable toys that can be played by multiple kids at the same time. Inflatable playground products provide children with an opportunity to play together which will further receive popularity among Chinese families.

ENTRY BARRIERS

High standards for export become a major barrier for new entrants

The export market is an indispensable market for inflatable playground products manufacturers. It is not easy for new entrants to quickly obtain all the certificates needed to meet the requirements of PRC export and foreign countries' import. They need to consume a lot of manpower and material resources to regulate the production process based on the detailed requirements relevant to inflatable playground products from miscellaneous regulations.

New entrants need time and effort to build brand image and develop adequate production capability

For those inflatable playground products manufacturers whose business are targeted for export market, they are required to develop adequate production lines to meet the regular orders from overseas clients. It is not easy for new entrants to obtain well-developed production lines in a short time. Meanwhile, most mature inflatable playground products manufactures have started to create their own brands rather than purely OEM, which help manufacturers to receive more popularity among consumers and increase their brand awareness. However, new entrants may find it difficult to build strong brand image to win the market when first enter the market.

INDUSTRY OVERVIEW

POTENTIAL THREATS

The rise of safety standards and technical requirements for inflatable playgrounds might complicate the procedure and increase the cost

During the past few years, both China and foreign standardisation authorities have upgraded their safety standards and technical requirements in order to improve the toy quality and make the market more regulated. All these newly updated standards might complicate the procedure and increase the cost of production and examination. Manufacturers need to strictly abide by the requirements if they want to enter the markets of all of these regions. Manufacturers of inflatable playgrounds might increase their expense to avoid the prohibited defects and to purchase safe and high-quality materials.

Presence of small and poorly behaved manufacturers hinder the market development in an inefficient and impartial way

There are many small and medium sized manufacturers in the inflatable playground industry. Many of these manufacturers, especially some small workshops, prefer to copy popular styles designed by other leading manufacturers without any fee. These irregular behaviours will negatively impact manufacturing in the inflatable industry, and the market will grow slowly in an inefficient way.

Increase of staff cost in the PRC might increase the cost of inflatable manufacturers

In recent years, the production costs of inflatable playground products have slightly increased mainly due to the increase in labour costs in the PRC. If labour costs continue to increase in the PRC, production costs of inflatable playground manufacturers might increase and it might affect the competitiveness of the inflatable playground manufacturers in the PRC.

COMPETITIVE LANDSCAPE

The overall inflatable playground manufacturers market in the PRC is comparatively fragmented. It is estimated that there are more than five hundreds of inflatable playground manufacturers in China, with the largest inflatable playground manufacturer owning not exceeding 10% of market share in terms of turnover in China. Our Group's output value of inflatable playground products in 2015 was approximately RMB149.7 million, representing approximately 3% of the market's total. Since most of inflatable playground products manufacturers have adequate production lines in their factories and are experienced in inflatable playground manufacturing, they also receive original equipment manufacturing orders from time to time. In addition, leading inflatable playground manufacturers also make efforts to market their products, such as participating in various marketing events and promoting their brands, and diversify their product offerings, such as inserting various new features in their products and new designs, upgrading existing production lines to achieve economic of scale and automation and to meet the increasing demand of consumers in China and overseas. Moreover, some players, such as Swiftech Company, have already switched from purely original equipment manufacturing to ODM and OBM manufacturing to better improve their competitiveness in the market.

REGULATORY OVERVIEW

This section sets out summaries of certain major laws and regulations, which are relevant to our Group's business and operation.

PRC LAWS AND REGULATIONS

Company Establishment and Foreign Investment

Company law and the wholly foreign-owned enterprise law

The establishment, operation and management of corporate entities in the PRC are governed by the Company Law of the PRC (《中華人民共和國公司法》) (the “**PRC Company Law**”), which was promulgated by the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) on 29 December 1993 and came into effect on 1 July 1994. The PRC Company Law was subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013.

According to the PRC Company Law, companies established in the PRC are either limited liability companies or joint stock limited companies. The PRC Company Law applies to both PRC domestic companies and foreign-invested companies.

The establishment procedures, approval procedures, registered capital requirements, foreign exchange matters, accounting practise, taxation and labour matters of a wholly foreign-owned enterprise are regulated by the Wholly Foreign-owned Enterprise Law of the PRC (《中華人民共和國外資企業法》) (the “**WFOE Law**”) promulgated on 12 April 1986 and amended on 31 October 2000, and the Rules for the Implementation of the WFOE Law (《中華人民共和國外資企業法實施細則》) promulgated on 12 December 1990 and amended on 12 April 2001 and 19 February 2014.

The provisions on guiding foreign investment direction and the catalogue for the guidance of foreign investment industries

In 1995, the State Planning Commission (國家計劃委員會), the State Economic and Trade Commission (國家經濟貿易委員會) and the Ministry of Foreign Trade and Economic Cooperation (對外貿易經濟合作部) jointly promulgated the Interim Provisions on Guiding Foreign Investment Direction (《指導外商投資方向暫行規定》) (the “**Interim Foreign Investment Provisions**”) and the Catalogue for the Guidance of Foreign Invested Industries (《外商投資產業指導目錄》) (the “**Foreign Investment Catalogue**”), classifying all foreign investment projects into four categories: encouraged projects, permitted projects, restricted projects and prohibited projects. On 11 February 2002, the State Council promulgated the Provisions on Guiding Foreign Investment Direction (《指導外商投資方向規定》) (the “**Foreign Investment Provisions**”), re-stating the four categories of foreign investment projects. The Foreign Investment Provisions came into force on 1 April 2002 and the Interim Foreign Investment Provisions were simultaneously repealed. The Foreign Investment Catalogue has been revised in 1997, 2002, 2004, 2007, 2011 and 2015 respectively since it was first promulgated. The version of the Foreign Investment Catalogue currently in effect was jointly promulgated by the National Development and Reform Commission (國家發展和改革委員會)

REGULATORY OVERVIEW

and the Ministry of Commerce (商務部) on 10 March 2015 and came into effect on 10 April 2015, pursuant to which outdoor inflatable playgrounds production and sales falls into permitted projects.

Foreign Trade

The Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》) (the “**PRC Foreign Trade Law**”), which was adopted by the Standing Committee of the National People’s Congress (the “**Standing Committee**”) on 12 May 1994 and amended by the Standing Committee on 6 April 2004, provides that any foreign trade business operator engaged in goods or technology import and export shall go through the record-filing registration formalities with the competent department of foreign trade under the State Council or its entrusted institutions. Where any foreign trade business operator fails to go through the record-filing registration formalities according to relevant provisions, the customs authority may refuse to handle the formalities for declaration and clearance of relevant goods imported and exported by these operators.

The Regulation of the PRC on the Administration of the Import and Export of Goods (《中華人民共和國貨物進出口管理條例》), which was promulgated by the State Council and came into effect on 1 January 2002, together with the PRC Foreign Trade Law, standardises the administration of the import and export of goods. The PRC government adopts an automatic import and export licensing administration system for some freely imported and exported goods and technologies, and has a catalogue of such goods and technologies. From time to time, the PRC government promulgates the Foreign Investment Catalogue of restricted and prohibited goods and technologies. For goods and technologies subject to import or export restrictions, the PRC government maintains quota management or licensing systems. Restricted goods or technologies may only be imported or exported with the approval of the relevant foreign trade department. Prohibited goods or technologies may not be imported or exported at all.

Custom Law

The Customs Law of the PRC (《中華人民共和國海關法》) (the “**PRC Customs Law**”) was adopted by the Standing Committee on 22 January 1987 and was amended on 8 July 2000 and 29 June 2013. The PRC Customs Law provides that import goods, throughout the period from the time of arrival in the territory to the time of customs clearance; export goods, throughout the period from the time of declaration to the customs to the time of departure from the territory; and transit, transshipment and through goods (inward and outward articles), throughout the period from the time of arrival in the territory to the time of departure from the territory shall be subject to customs control. Duties shall be imposed and paid by the consignee for import goods, the consigner for export goods and the owner of inward and outward articles. Enterprises engaged in the processing trade are required to register with the customs with the relevant documents of approval and contracts for processing trade. The finished products of a processing trade shall be re-exported within the stipulated time limit.

REGULATORY OVERVIEW

Measures of the customs of the PRC for the control over goods for processing trade

Pursuant to the provisions of the Measures for Regulating Processing Trade Goods by Customs of the PRC (《中華人民共和國海關加工貿易貨物監管辦法》) promulgated by the General Administration of Customs on 12 March 2014, an operating enterprise shall process and re-export the imported materials within the prescribed time limit and shall report to the customs for verification and writing off within 30 days from the day of export of the last batch of finished products under the manual of processing trade or the day of expiration of the manual of processing trade. Where the contract concluded by an operating enterprise with a foreign party is terminated before expiration, the enterprise shall report to the customs for verification and writing-off within 30 days from the day of termination of the contract.

Product Quality

The Product Quality Law of the PRC (《中華人民共和國產品質量法》), which was promulgated by the Standing Committee of the National People's Congress on 22 February 1993 and amended on 8 July 2000 and 27 August 2009, applies to all production and marketing activities within the territory of the PRC. Producers and sellers are responsible for the product quality according to the provisions of this law.

Responsibilities and obligations of producers for the products include: (i) be responsible for the quality of the products they produce; (ii) marks on the products or on the packages thereof shall be true to the fact; (iii) not to produce products expressly phased out by state laws or decrees; (iv) not to forge the place of origin, or forge or illegally use the name and address of another producer; (v) not to forge or illegally use product quality marks, such as authentication marks; (vi) not to mix impurities or imitations into the products, or substitute a fake product for a genuine one, a defective product for a high-quality one, or pass off a substandard product as a qualified one in the production; and (vii) to ensure that, for products that are fragile, inflammable, explosive, toxic, corrosive or radioactive, products that should be kept upright during storage and transportation, or other products with special requirements, the packaging thereof must meet the corresponding requirements, and carry warning marks or warning notes to highlight the way of handling that calls for attention.

A producer in breach of the above responsibilities and obligations shall be liable for civil compensation. The authorities shall order the suspension of production, confiscate the products illegally produced, impose a fine and confiscate the unlawful proceeds (if any) therefrom. Where the case is serious, business licences shall be revoked. Where a criminal offence is constituted, the offenders will be pursued for criminal liabilities.

Consumer Protection

The Consumer Protection Law of the PRC (《中華人民共和國消費者權益保護法》) (the “**PRC Consumer Protection Law**”), which was promulgated on 31 October 1993 and implemented on 1 January 1994, sets out standards of behaviour for business operators in their dealings with consumers, including, among others: (i) compliance of goods and services with the PRC Consumer Protection Law and other relevant laws and regulations,

REGULATORY OVERVIEW

such as requirements regarding personal safety and protection of property; (ii) accurate information and advertising concerning goods and services and the quality and use of such goods and services; (iii) issuance of receipts to consumers in accordance with relevant national regulations, business practices or upon customer request; (iv) ensuring the actual quality and functionality of goods or services are consistent with advertising materials, product descriptions or samples; (v) assumption of the responsibilities related to repairing, replacing, returning or other liability in accordance with national regulations or any agreements with the consumer; and (vi) not stipulating unreasonable or unfair terms for consumers and not excluding themselves from civil liability to undermine the legal rights and interests of consumers.

Any seller who violates the PRC Consumer Protection Law may be subject to fines, suspension of its business operation or revocation of its business license, and may also be subject to criminal liabilities. According to the PRC Consumer Protection Law, a consumer whose legal rights and interests are harmed during the purchase or use of goods may claim compensation from the seller. Where the liability lies with the manufacturer or supplier, the seller, after settling compensation with the consumer, has the right to recover such compensation from the manufacturer.

Environmental Protection

The PRC laws and regulations on environmental protection mainly include the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), which was promulgated on 26 December 1989 and amended on 24 April 2014, the Regulations on Management of Environmental Protection for Construction Projects (《建設項目環境保護管理條例》), which was promulgated on 29 November 1998, the Law of the PRC on Environmental Impact Appraisal (《中華人民共和國環境影響評價法》), which was promulgated on 28 October 2002, 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 promulgated on 11 May 1984 and amended on 15 May 1996 and 28 February 2008, the Law of the PRC on the Prevention and Control of Air Pollution (《中華人民共和國大氣污染防治法》), which was promulgated on 5 September 1987 and amended on 29 August 1995, 29 April 2000 and 29 August 2015, the Law of the PRC on Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》), which was promulgated on 30 October 1995 and amended on 29 December 2004, 29 June 2013 and 24 April 2015, the Law of the PRC on the Prevention and Control of Environmental Noise Pollution (《中華人民共和國環境噪聲污染防治法》), which was promulgated on 29 October 1996 and the Measures for the Administration of Examination and Approval of Environmental Protection Facilities of Construction Projects (《建設項目竣工環境保護驗收管理辦法》), which was promulgated on 27 December 2001.

Pursuant to the above laws and regulations, enterprises that discharge waste gases, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation in the course of production, construction or other activities shall adopt effective measures to prevent and control the pollution and harms caused to the environment, comply with applicable national and local standards, as well as report to and register with the applicable environmental protection authorities. Construction projects that cause pollution to the environment must observe the state provisions concerning environmental protection for such construction projects. The environmental impact

REGULATORY OVERVIEW

assessment documents of the construction projects shall be filed with, and approved by, the local environmental protection bureau, prior to commencement of any construction work. Installations for the prevention and control of pollution at a construction project must be designed, built and commissioned together with the principal part of the project. The construction unit shall, upon the completion of the construction project, file an application with the competent department of environmental impact assessment documents for acceptance checks to be conducted so as to ensure that the construction of matching environmental protection facilities required for the said construction project has been properly completed.

Labour Laws

The labour contract law

The Labour Contract Law of the PRC (《中華人民共和國勞動合同法》) (the “**PRC Labour Contract Law**”) was promulgated by the Standing Committee of the National People’s Congress on 29 June 2007 and came into effect on 1 January 2008 and amended on 28 December 2012. The PRC Labour Contract Law is enacted to define the rights and obligations of parties to a labour contract, including matters with respect to the establishment, performance and termination of a labour contract.

Under the PRC Labour Contract Law: (i) a written labour contract shall be concluded when a labour relationship is to be established between an employer and an employee; (ii) an employer must pay an employee two times his salary for each month in circumstance where it fails to enter into a written labour contract with the employee for more than a month but less than a year; where such period exceeds one year, the parties are deemed to have entered into an unfixed-term labour contract; (iii) an employer shall pay an employee the full amount of salary in a timely manner in accordance with the provisions stipulated in the labour contract; (iv) an employer who fails to pay an employee’s salary on time and in full as stipulated in the labour contract must, in addition to his full salary, pay additional compensation to the employee at a rate of not less than 50% but not more than 100% of the amount payable; (v) the amount of compensation an employer may seek from an employee for breach of the agreed service term may not exceed the training expenses paid by the employer; (vi) an employee may have his labour contract terminated if the employer fails to pay social insurance premiums for the employee in accordance with law; and (vii) an employer who collects money or property from employees in the name of guarantee or in other names may be fined a maximum of RMB2,000 for each employee.

Law on employment promotion

The Law of the PRC on Employment Promotion (《中華人民共和國就業促進法》) (the “**PRC Law on Employment Promotion**”) was promulgated by the Standing Committee on 30 August 2007 and came into effect on 1 January 2008 and amended on 24 April 2015. The PRC Law on Employment Promotion contains provisions on policy support, fair employment, employment service and management, and vocational education and training. More particularly, the PRC Law on Employment Promotion: (i) states explicitly that employment discrimination should be eliminated, and the employees discriminated by acts in violation of the provisions may file a lawsuit with the people’s court; (ii) provides that

REGULATORY OVERVIEW

public employment service agencies established by the PRC government at the county level or above should provide free services to employees, including consultation of employment policies and regulations, announcement of information of vocational training, and price guidance for market wages; (iii) establishes an employment and unemployment registration system, stipulating that employers should provide necessary information to facilitate the registration.

Social Insurance and Housing Provident Fund

Social insurance

According to the Interim Regulations on Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》), which was promulgated and came into effect on 22 January 1999, enterprises are required to pay basic pension insurance, basic medical insurance and unemployment insurance for their employees. An enterprise shall, within 30 days from the date of its establishment, apply for social insurance registration with the local social insurance agency based on its business licence, registration certificate or other relevant certificate. After verification, a Social Insurance Registration Certificate (社會保險登記證) will be issued to it by the social insurance agency.

Furthermore, the enterprise shall, on a monthly basis, report to the social insurance agency the amount of social insurance premiums payable and, after assessment by the social insurance agency, pay its social insurance premiums within the prescribed time limit. Furthermore, pursuant to the Regulations on Occupational Injury Insurances (《工傷保險條例》), which was amended on 20 December 2010 and came into effect on 1 January 2011, employers are required to pay occupational injury insurance premiums for their employees. Pursuant to the Provisional Measures on Maternity Insurance for Enterprise Employees (《企業職工生育保險試行辦法》), which was promulgated on 14 December 1994 and came into effect on 1 January 1995, employers are required to pay maternity insurance premiums for their employees.

The Social Insurance Law of the PRC (《中華人民共和國社會保險法》), which was promulgated on 28 October 2010 and came into effect on 1 July 2011, requires that employers within the PRC shall pay social insurance premiums, including basic pension insurance, basic medical insurance, occupational injury insurance, unemployment insurance and maternity insurance. According to this law, rural residents working in urban cities and foreigners working in the PRC shall also participate in social insurance.

Housing provident fund

According to the Regulations on Management of Housing Provident Fund (《住房公積金管理條例》), which came into effect on 3 April 1999 and was amended on 24 March 2002, enterprises in the PRC must register with the housing provident fund management centre, maintain housing provident fund accounts with designated banks for their employees, and deposit into the fund an amount not less than 5% of each employee's average monthly salary in the previous year.

REGULATORY OVERVIEW

Taxation

Enterprise income tax

The EIT Law came into effect on 1 January 2008 and imposes a uniform enterprise income tax at the rate of 25% on all domestic enterprises, including foreign-invested enterprises, unless they qualify for certain exceptions, and terminates most of the tax exemptions, reductions and preferential treatments available under previous tax laws and regulations. Under the EIT Law and the Circular of the State Council on the Implementation of Transitional Preferential Policies with Regard to Enterprise Income Tax (《國務院關於實施企業所得稅過渡優惠政策的通知》) issued by the State Council which came into force on 1 January 2008: (i) enterprises that were established before 16 March 2007 and were formerly entitled to preferential policies of lower taxation shall undergo a gradual transition to statutory tax rates within five years; and (ii) enterprises that were established before 16 March 2007 and were formerly entitled to preferential income tax reduction policies, such as “two-years exempt and three-years halved” and “five-years exempt and five-years halved”, shall continue to enjoy such preferential policies as stipulated in the former taxation laws, administrative regulations and relevant documents until the end of the terms of these policies, provided however that for enterprises not profitable enough to enjoy the aforementioned tax preferences, the preference time limits shall commence from 2008.

Pursuant to the EIT Law and its implementation rules and the Implementation Regulations for Special Tax Adjustments (Trial) (《特別納稅調整實施辦法(試行)》), transactions in respect of the purchase, sale and transfer of products between, amongst others, enterprises under direct or indirect control by the same third party are regarded as connected transactions. Connected transactions should comply with the arm's length principle; and if the failure of compliance with such principle results in reducing the income or taxable income of the enterprise or its connected persons, the tax authority has the power to make an adjustment in accordance with reasonable methods. Pursuant to such laws and regulations, any company entering into connected transactions with another company shall submit an annual connected transactions reporting form to the supervising tax authority, but enterprises which meet one of the following standards are exempt from preparing contemporaneous documents: (1) the annual amount of related party purchase/sales is lower than RMB200 million and the annual amount of other connected transactions is lower than RMB40 million; (2) connected transactions are covered under an effective advance pricing arrangement; or (3) foreign shareholding percentage is lower than 50% and the connected transactions only incur among domestic connected persons. However, according to the Notice of the State Administration of Taxation on Strengthening the Monitoring and Investigation of Transnational Affiliated Transactions (《國家稅務總局關於強化跨境關聯交易監控和調查的通知》) of the State Administration of Taxation, if a PRC enterprise, which is established by a foreign entity and undertakes the mere function of production (processing supplied or imported materials), distribution, contractual research and development or any other limited function and bears the risks relating thereto, encounters a loss, then no matter if such PRC enterprise meets the connected transaction thresholds mentioned above or not, it would need to prepare the relevant information and file the same with the relevant tax authority before 20 June of the subsequent year.

REGULATORY OVERVIEW

Value-added tax

Pursuant to the Interim Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例》), which was last amended on 13 January 2016 and came into effect on 6 February 2016, and its Implementation Regulations, which was last amended on 28 October 2011, all enterprises and individuals engaging in the sales of goods, provision of processing, repairs and replacement services, and the importation of goods within the territory of the PRC are subject to value-added tax (“VAT”). The applicable VAT rate for taxpayers providing processing, repairs and replacement services shall be 17%, and that for taxpayers exporting goods shall be 0% except as otherwise stipulated by the State Council.

Urban maintenance and construction tax and education surtax

Pursuant to the Interim Regulations of the PRC on Urban Maintenance and Construction Tax (《中華人民共和國城市維護建設稅暫行條例》), which was promulgated on 8 February 1985 and came into effect on 1 January 1985 and amended on 8 January 2011, and the Circular of the State Administration of Taxation on Issues Concerning the Collection of the Urban Maintenance and Construction Tax (《國家稅務總局關於城市維護建設稅徵收問題的通知》), which was promulgated on 12 March 1994 and came into effect on 1 January 1994, any enterprise or individual subject to consumption tax, VAT and business tax shall also be required to pay urban maintenance and construction tax. The amount of urban maintenance and construction tax shall be based on the consumption tax, VAT and business tax actually paid by the taxpayer, and shall be paid simultaneously with payment thereof. The rates of urban maintenance and construction tax shall be 7% for a taxpayer in city, 5% for a taxpayer in county or town and 1% for a taxpayer in places other than a city, county or town.

In accordance with the Interim Provisions on the Collection of Education Surtax (《徵收教育費附加的暫行規定》), which was last amended on 8 January 2011, any enterprise or individual subject to consumption tax, VAT and business tax shall also be required to pay education surtax. The rate of education surtax is 3%, based on the amount of consumption tax, VAT and business tax actually paid by each enterprise or individual, and the education surtax shall be paid simultaneously with the payment of consumption tax, VAT and business tax.

Competition law

The PRC Law Against Unfair Competition (《中華人民共和國反不正當競爭法》) (the “**PRC Competition Law**”), which was promulgated by the Standing Committee of the National People’s Congress on 2 September 1993 and came into effect on 1 December 1993, states that business operators are not permitted to engage in improper market activities or adopt unfair means to conduct transactions in the market for the purpose of undermining, excluding or eliminating competition. Such improper market activities or unfair means include the infringement of trademark rights or confidential business information, giving false publicity through advertising or other means, forgery or dissemination of false information that infringes upon the goodwill of competitors or the reputation of their products and other improper practices. Additionally, a business operator may not carry out any illegitimate activity to infringe upon the rights and interests of consumers, including

REGULATORY OVERVIEW

commercial bribery, cartels, dumping sales at below-cost prices, making tie-in sales against the wishes of buyers or attaching other unreasonable conditions with the sales of goods and offering false sales with prizes attached.

Any business operator who violates the PRC Competition Law may be subject to fines, suspension of its business operation or revocation of its business license and may also be subject to criminal liabilities.

Rules on Foreign Exchange and Dividend Distribution

Regulations on foreign exchange administration

The principal regulation governing foreign exchange in the PRC is the Regulations of the PRC on Foreign Exchange Administration (《中華人民共和國外匯管理條例》) (the “**PRC Regulations on Foreign Exchange Administration**”), which was promulgated by the State Council on 29 January 1996, came into effect on 1 April 1996 and amended on 14 January 1997 and 1 August 2008. Under these rules, RMB is freely convertible for payments of current account items including trade and service-related foreign exchange transactions and dividend payments, but not for capital account expenses, including direct investment, loan or investment in securities outside the PRC. RMB may only be converted for capital account expenses once the prior approvals of relevant foreign exchange administrative departments have been obtained. Under the PRC Regulations on Foreign Exchange Administration, foreign-invested enterprises in the PRC may purchase foreign currencies without the approvals of relevant foreign exchange administrative departments for trade and service-related foreign exchange transactions by providing commercial documents evidencing such transactions. They may also retain foreign currencies (subject to a cap approved by the relevant foreign exchange administrative departments) to satisfy foreign exchange liabilities or to pay dividends. But foreign exchange transactions involving direct investment, loans and investment in securities outside the PRC are subject to limitations and require approvals from the relevant foreign exchange administrative departments.

The Circular of Reform of the Administrative Method of the Settlement of Foreign Currency Capital by Foreign-invested Enterprises (《關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the “**SAFE Circular 19**”) was promulgated by SAFE on 30 March 2015 and came into effect on 1 June 2015. The SAFE Circular 19 provides greater flexibility to foreign-invested enterprises in converting foreign exchange in their capital account into RMB, and in particular, it provides that foreign-invested enterprises are allowed to use their converted RMB to make equity investments in the PRC after performing relevant procedures as stipulated in it. Under the SAFE Circular 19, foreign-invested enterprises may choose to convert any amount of foreign exchange in their capital account into RMB according to their actual business needs. The converted RMB will be kept in a designated account and if a foreign-invested enterprise needs to make further payment from such account, it must provide supporting documents and go through the review process with banks to do so. Foreign-invested enterprises are still required to use the converted RMB within their approved business scope.

REGULATORY OVERVIEW

The Circular of Further Improving and Adjusting Foreign Exchange Administration Policies on Foreign Direct Investment 《關於進一步改進和調整直接投資外匯管理政策的通知》 (the “**SAFE Circular 59**”) was promulgated by SAFE on 19 November 2012 and came into effect on 17 December 2012 and amended on 4 May 2015. The SAFE Circular 59 substantially amends and simplifies the current foreign exchange procedure. According to the SAFE Circular 59, the opening of various special-purpose foreign exchange accounts (e.g. pre-investment expenses account, foreign exchange capital account, asset realisation account, guarantee account) no longer requires the approval of SAFE. Furthermore, multiple foreign exchange capital accounts for the same entity may be opened in different areas, which was not possible previously. Reinvestment of lawful incomes derived by foreign investors in the PRC (e.g. profit, proceeds of equity transfer, capital reduction, liquidation and early repatriation of investment) no longer requires the approval or verification of SAFE, and purchase and remittance of foreign exchange as a result of capital reduction, liquidation, early repatriation or share transfer in a foreign-invested enterprise no longer requires SAFE’s approval.

The Circular of Issuing the Provisions on Foreign Exchange Administration over Domestic Direct Investment by Foreign Investors and the Supporting Documents (《關於印發〈外國投資者境內直接投資外匯管理規定〉及配套文件的通知》), which was promulgated by SAFE on 10 May 2013, specifies that the administration by SAFE or its local branches over direct investment by foreign investors in the PRC shall be conducted by way of registration. Institutions and individuals shall register with SAFE or its branches for direct investment in the PRC. Banks shall process foreign exchange business relating to the direct investment in the PRC based on the registration information provided by SAFE and its branches.

The Circular of Further Simplifying and Improving the Foreign Exchange Management Policies for Direct Investment (《關於進一步簡化和改進直接投資外匯管理政策的通知》) (“**SAFE Circular 13**”) was promulgated by SAFE on 13 February 2015 and came into effect on 1 June 2015. Pursuant to the SAFE Circular 13, the administrative examination and approval procedures relating to the foreign exchange registration approval under domestic direct investment and the foreign exchange registration approval under overseas direct investment (hereinafter collectively referred to as the “**direct investment-related foreign exchange registration**”) are cancelled and direct investment-related foreign exchange registration is directly reviewed and handled by banks. Further, the procedures for some direct investment-related foreign exchange businesses are simplified under the SAFE Circular 13 (e.g. the annual inspection of direct investment-related foreign exchange is cancelled and has been changed to stock-interest registration of direct investment-related foreign exchange).

Regulations on dividend distribution

The principal regulations governing distribution of dividends by wholly foreign-owned enterprises include: the PRC Company Law, the WFOE Law and the Rules for the Implementation of the WFOE Law. Under the current regulatory regime in the PRC, foreign invested enterprises in the PRC may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. After making up for any deficit in prior years pursuant to the PRC laws, a wholly foreign-owned enterprise in the PRC is required to set aside at least 10% of its after-tax profit calculated in accordance with PRC accounting standards and regulations each year as its general reserves

REGULATORY OVERVIEW

until the cumulative amount of such reserves reaches 50% of its registered capital. These reserves are not distributable as cash dividends. The board of directors of a WFOE has the discretion to allocate a portion of its after-tax profits to its staff welfare and bonus funds, which is likewise not distributable to its shareholders except in the event of a liquidation of the foreign-owned enterprise.

The Arrangement between the Mainland of PRC and Hong Kong SAR for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《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》) (the “Arrangement”) was signed by the PRC government and the government of Hong Kong SAR on 21 August 2006. According to the Arrangement, a 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident, provided that the Hong Kong resident directly holds at least 25% of the equity interest in the PRC company. A 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident if the Hong Kong resident holds less than 25% of the equity interest in the PRC company.

Pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Treaty (《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 and came into effect on 20 February 2009, all of the following requirements should be satisfied before a fiscal resident of the other party to the tax treaty may be entitled to the tax treaty treatment which is taxed at a rate specified in the tax treaty in respect of the dividends paid to it by a PRC resident company that: (i) the fiscal resident in receipt of the dividends should be a company as provided in the tax treaty; (ii) the owner’s equity interests and voting shares of the PRC resident company directly owned by the fiscal resident reaches percentage specified in the tax treaty; and (iii) the equity interests of the PRC resident company directly owned by the fiscal resident, at any time during the twelve months prior to the acquisition of the dividends, reaches the percentage specified in the tax treaty.

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 came into effect on 1 October 2009, in order for a non-resident enterprise (as defined under the PRC tax laws) in receipt of dividends from PRC resident enterprises to enjoy the tax benefits under the tax treaties, an application for approval to the competent tax authority must first be submitted. The non-resident enterprise may not enjoy the favourable tax treatments provided in the tax treaties without such approval.

HONG KONG LAWS AND REGULATIONS

Consumer Protection

The Sale of Goods Ordinance (Chapter 26 of the Laws of Hong Kong) governs, among other things, the scope of certain implied terms or conditions and warranties generally relating to the safety and suitability of goods supplied under a contract for the sale of goods in Hong Kong. Warranties relating to the safety and suitability of goods supplied include that goods for sale must be of merchantable quality and as such are, among other things, free from defects, safe and durable.

REGULATORY OVERVIEW

The Sale of Goods Ordinance applies only to sellers of goods in Hong Kong. A breach of warranty by the seller under the Sale of Goods Ordinance may entitle the buyer to reject the goods, set up against the seller a diminution or extinction of the price or maintain an action against the seller for damages.

Product Liability

The Consumer Goods Safety Ordinance (Chapter 456 of the Laws of Hong Kong) imposes a statutory duty on manufacturers, importers and suppliers of consumer goods to ensure that the consumer goods supplied comply with the general safety requirement or, where an approved standard(s) applies to consumer goods, the proved safety standard(s) or specifications prescribed by the Secretary for Commerce and Economic Development of Hong Kong.

Under the Consumer Goods Safety Ordinance, a person must not manufacture, import or supply a consumer good in Hong Kong unless the consumer good is reasonably safe having regard to all the circumstances (the “**general safety requirement of consumer goods**”) and complies with all requirements of the approved safety standard(s) or specifications established by regulation applicable to the consumer good. Consumer goods are defined as goods which are ordinarily supplied for private use or consumption.

The Commissioner of Customs and Excise is empowered to serve prohibition notices prohibiting the person supplying consumer goods from supplying those goods for a specified period not exceeding 6 months and serve recall notices requiring the immediate withdrawal of any consumer goods or products which may cause serious injury and do not comply with an approved standard or safety standard or specification established by regulation or are believed to be unsafe contrary to the general safety requirement of consumer goods.

Any person who violates the general safety requirement of consumer goods or approved standard commits an offence under the Consumer Goods Safety Ordinance and may be subject to a fine and/or imprisonment.

Product Safety

The Toys and Children’s Products Safety Ordinance (Chapter 424 of the Laws of Hong Kong) was enacted on 29 January 2015, and provides safety standards for toys and children’s products manufactured, imported or supplied in Hong Kong.

Under the Toys and Children’s Products Safety Ordinance, a person must not manufacture, import or supply a toy or children’s product in Hong Kong unless the toy or children’s product is reasonably safe having regard to all the circumstances and complies with all requirements of the toy standard(s) applicable to the toy or children’s product (the “**general safety requirement of toys and children’s products**”). Such applicable toy standards include the ISO 8124 series, the EN-71 series and the ASTM F963-11 standard. Pursuant to the Toys and Children’s Products Safety Ordinance, a toy includes a product that is designed or clearly intended for use in play by a child.

REGULATORY OVERVIEW

Any person who violates the general safety requirement of toys and children's products commits an offence under the Toys and Children's Products Safety Ordinance and may be subject to a fine and/or imprisonment.

MACAU LAWS AND REGULATIONS

Consumer Protection

The Consumer Protection Law (No. 12/88/M of the Laws of Macau) was enacted on 13 June 1988 for the protection of rights and interests of consumers in Macau.

Under the Consumer Protection Law, a consumer is anyone to whom products or services are supplied for their personal use by a natural or legal person who, on a professional basis, conducts an economic activity.

The Consumer Protection Law provides consumers: (i) the right to protection and safety relating to the use of products and services; (ii) the right to take action against anyone who sells goods and renders services which cause hazard to the economic interests/welfare of consumers; (iii) the right to safeguard from and compensation for damages caused; the right to receive fair treatment in the course of any consumer activity; and (iv) the right to participate in the implementation of policies which involve the rights or interests of consumers.

Product Safety

The Product Safety Regulation (Administrative Regulation No. 17/2008), which was published on 7 July 2008, provides general legal obligations on product safety for all products placed on the Macau market.

Under the Product Safety Regulation, only products that comply with the general safety requirement and as such are considered safe may be placed on the market. Safe products means any product which, under normal or reasonably foreseeable conditions of use, does not present any risk to the consumer, or where the only minimum risks are compatible with the product's ordinary use.

Distributors in Macau are obliged, among other things, not to knowingly distribute a product which does not comply with the general safety requirement, to provide consumers with information on the risks involved in relation to the use of the product supplied, to withdraw from the market noncompliant products, and to present a sample of the product for safety testing upon the request of the competent Macau authority.

Any natural or legal person who violates the legal obligations under the Product Safety Regulation and may be subject to a fine.

REGULATORY OVERVIEW

US LAWS AND REGULATIONS

Product Safety

The Consumer Product Safety Improvement Act (15 U.S.C. Sec. 2051-89) (the “CPSIA”)

Product safety is governed primarily by the CPSIA and other regulations concerning certain classes of products being sold to the end users in the US, of which includes children’s toys. The CPSIA prohibits any person or entity to sell, offer for sale, manufacture for sale, distribute in commerce, or import into the US any consumer product that is not in conformity with an applicable consumer product safety standard under the CPSIA or declared a banned hazardous product by a rule under the CPSIA. The CPSIA empowers the Consumer Product Safety Commission (the “CPSC”), an independent agency of the US federal government that empowered with jurisdiction over regulating the sale and manufacture of consumer products imported into and distributed in the US. The CPSC works closely with US customs agents to exercise its authority to investigate products that may violate the CPSIA, including: (i) banning products that create an unreasonable risk of injury (15 U.S.C. Sec. 2057); (ii) inspecting any factory, warehouse, or establishment in which consumer products are manufactured or held for distribution (15 U.S.C. Sec. 2065); and (iii) refusing importation of products that fail to comply with any applicable product safety rule or lack proper certification (15 U.S.C. Sec. 2066).

Products imported into the US which fail to comply with CPSIA’s requirements are subject to confiscation and the importer and/or distributor in the US is subject to civil penalties and fines, as well as possible criminal prosecution. However, the CPSC’s jurisdiction does not extend beyond the territorial limits of the US.

The CPSIA mandates that all products subject to any ban or safety standard be accompanied by a General Certificate of Conformity (“GCC”) (15 U.S.C. Sec. 2063(a)). The GCC must contain the following information: (i) date and place of manufacture; (ii) date and place of testing; (iii) a suitable identification of the manufacturer or private labeler issuing the certificate (including the name and contact information for the individual responsible for maintaining records of test results); and (iv) certification, based on a “test of each product or a reasonable testing program” (15 U.S.C. Sec. 2063(a)), of conformance with any and all applicable consumer product safety rules, along with a specification of applicable standards (15 U.S.C. Sec. 2069 (a)(1)). Where the goods are manufactured by a foreign producer, the importer and/or distributor is responsible for the issue of the GCC (16 CFR Sec. 1110.7(a)).

The Standard Consumer Safety Specification for Toy Safety (“ASTM F963-11”)

The CPSIA incorporates the ASTM F963 (Standard Consumer Safety Specification for Toy Safety), an industry standard published by the American Society for Testing and Materials as a mandatory safety standard under the purview of the CPSIA. ASTM F963 sets performance standards and testing methods for a range of potential risks in children’s toys, such as sharp edges, small parts, levels of certain phthalates and lead and other toxicity concerns, and electrical hazards. In particular, the CPSIA incorporates the safety standard F963-11 (15 U.S.C. Sec. 2058(d)), which covers requirements and contains test methods for

REGULATORY OVERVIEW

toys intended for use by children under 14 years of age. Further, all children's toys must be tested by a "third party conformity assessment body" that has been accredited by the CPSC (15 U.S.C. Sec. 2063(a)) for compliance with relevant ASTM Standards before sale.

Product Liability

Product liability in the US is regulated by common law (state judge-made law) and the Uniform Commercial Code (the "UCC"), which set out the full range of legal responsibilities of manufacturers, distributors and sellers of products sold in the US and govern private lawsuits against manufacturers, distributors and sellers involved in product accidents. The reach of US product liability law is broad, and the respective definitions of "product" and "chain of distribution" are expansive. Generally speaking, US consumers are entitled to sue any and all entities in the supply chain of a product involved in the design, manufacture and sale of a defective product, and can sue any and all such entities in the supply chain of any component of such defective product, and even various entities involved in the marketing, distribution and application of the defective product, so long as the entity can be found liable under a legal ground for recovery. The legal grounds for recovery consumers may rely upon against a manufacturer of an allegedly defective product include strict liability, negligence, breach of warranty and tortious misrepresentation, and are based on contract law and tort law.

Importation

Manufactured goods imported from the PRC are generally subject to US import duties and the general rates applicable to most countries with which the US does not have a free-trade agreement in place. The rates of duty are set out in the Harmonised Tariff Schedule of the United States ("HTS"), which classifies all imported goods into the US into classes and articles, and sets out the applicable duties for each class and article.

Sections 201 through 204 of the Trade Act of 1974 (the "**Trade Act**") provide the authority and procedures for the US President to take various actions to facilitate a domestic industry's adjustment to import competition. For example, if the International Trade Commission determines that an article is being imported in such increased quantities so as to cause substantial injury to or threaten domestic producers of similar products or products in direct competition with the imported article, the US President may make positive adjustments to import competition and provide greater economic and social benefits to the domestic industry such as increase or impose a duty, or a tariff rate quota. Section 421 allows the US President to increase duties or other import restrictions on a temporary basis necessary to prevent or remedy an import surge that causes or threatens market disruption of domestic producers of similar or directly competitive products. Section 422 addresses potential trade diversion, and provides that if any WTO member (other than the US) requests consultations with the PRC under the product-specific safeguard provisions of the Protocol of Accession of China to the WTO, the US customs shall monitor imports of those same products into the US. Both PRC-specific provisions have expired in December 2013.

REGULATORY OVERVIEW

The Tariff Act of 1930 (the “**US Anti-Dumping Law**”) determines whether articles from the PRC are being imported into the US in such increased quantities or under such conditions as to cause or threaten to cause market disruption to the domestic producers of likely or directly competitive products.

The US Anti-Dumping Law empowers the US International Trade Commission (the “**USITC**”) and US Department of Commerce with authority over investigations into allegations of dumping or subsidisation in products imported into the US. A product is considered dumped if it is being sold at less than fair value in the US market, meaning that it is being sold below the producer’s sales price in its home market or at a price which is lower than its cost of production. A product is considered subsidised if a government provides countervailing financial assistance to benefit the production, manufacture and/or export of the product.

Investigations into dumping or subsidisation by the USITC and the US Department of Commerce begin by an assessment of whether or not the dumping or subsidisation is occurring, together with a calculation of the estimated margin of dumping or amount of subsidy. The USITC then determines whether or not there has been a material injury or threat to the relevant US industry as a result of the dumping or subsidisation.

Where an investigation reveals that foreign products are being dumped into the US, the US Department of Commerce may impose appropriate countervailing anti-dumping duties and/or orders as a remedy for the dumping activities. The USITC thereafter sends its report to the US president and the US Trade Representative, whereupon the US president will make the final remedy decision. If an anti-dumping order is imposed, the US Customs and Border Protection is instructed to assess special duties on products subject to the order at the time of their import. After an order has been issued, there is an automatic “sunset” review, which is conducted to assess whether a revocation of the order would lead to the continuation or recurrence of dumping or subsidies of material injury within a reasonably foreseeable time, no later than 5 years after the order was issued.

EU LAWS AND REGULATIONS

Product Safety

*Directive 2001/95/EC of the European Parliament and of the Council on general product safety (the “**General Product Safety Directive**”)*

The General Product Safety Directive obliges producers to place only safe products on the market (Art. 3). In addition, producers must provide consumers with the necessary information in order to assess a product’s inherent threat, take the necessary measures to avoid such threats (e.g. product monitoring, warnings, recalls) and inform the competent national authorities about potential risks (Art. 5). The General Product Safety Directive applies in a complementary way to sector-specific and product-specific product safety legislation (such as the Toy Safety Directive as outlined below).

REGULATORY OVERVIEW

Our Group is considered a producer under the General Product Safety Directive under (i) the CMS business model as under Art. 2(e)(ii), since our Group's activities may affect the safety properties of our products; and (ii) the OBM business model as under Art. 2(e)(iii), since our Group presents itself as the manufacturer of a product by affixing to the product our Group's name, trade mark or other distinctive mark. A product is deemed safe once it conforms to the safety provisions provided in European legislation, or, in the absence of such rules, if it complies with the specific national laws of the Member State in which it is being marketed or sold. The competent national authorities may impose penalties for infringements of the national provisions adopted pursuant to the Directive.

CE marking

Directive 2009/48/EC of the European Parliament and of the Council on the safety of toys (the "**Toy Safety Directive**") sets out the conformity and safety assessments for toys sold in the EU and the provisions regarding their traceability and warnings for safe use. It defines a toy as any product or material designed or intended, whether or not exclusively, for use in play by children under 14 years of age (Art. 2).

The Toy Safety Directive sets out that manufacturers must demonstrate compliance of a toy with the applicable requirements of harmonisation legislation of the European Community (the "**EC**") by drawing up an EC Declaration of Conformity (Art. 15) and affix the CE marking "visibly, legibly and indelibly" to a toy, an affixed label, or to its packaging (Art. 17). In CE marking the toy, the manufacturer declares that the toy is in conformity with all applicable requirements and that the manufacturer takes full responsibility thereof.

To comply with the Toy Safety Directive, the manufacturer must: (i) identify the directive(s) and harmonised standards applicable to the Toy Safety Directive; (ii) verify the requirements of those directive(s) and harmonised standards applicable to the products; (iii) test the product and check its conformity with the requirements; (iv) draw up and keep available the required technical documentation required by the directive(s) and harmonised standards for the assessment of the product's conformity with the requirements; and (v) affix CE marking to the product and draw up an EC Declaration of Conformity.

Any toy containing electrical parts must also comply with the Low Voltage Directive. Directive 2006/95/EC of the European Parliament and of the Council on the harmonisation of the laws of member states relating to electrical equipment designed for use within certain voltage limits (the "**Low Voltage Directive**") regulates safety in the use of electrical equipment, and requires that all manufacturers of products containing electrical parts must undertake testing and assessment of the product to ensure that it conforms with Annex I of the Low Voltage Directive (Art. 2), and affix CE marking to the product and draw up an EC Declaration of Conformity (Art. 8).

Directive 2004/108/EC of the European Parliament and of the Council on the approximation of the laws of the Member States relating to electromagnetic compatibility and repealing Directive 89/336/EEC (the "**Electromagnetic Compatibility Directive**") ensures that electrical and electronic equipment does not generate, or is not affected by, electromagnetic disturbance to limit electromagnetic emissions from equipment. The

REGULATORY OVERVIEW

Directive requires that all electrical and electronic equipment placed on the EU market conforms to the requirements set out in Annex 1 of the Directive (Art. 5), and is affixed with CE marking and an EC Declaration of Conformity is drawn up (Art. 8).

Certain hazardous chemical substances in products sold in the EU are restricted under Regulation (EC) No. 1907/2006 of the European Parliament and of the Council (the “**REACH Regulation**”). The manufacture, placing on the EU market and use of chemicals in products such as phthalates, AZO Dyes, PAHs, cadmium and organotin are restricted to a concentration below 0.1%.

Product liability

Directive 85/374/EEC of 25 July 1985 of the European Council on the approximation of the laws, regulations and administrative provisions of the member states concerning liability for defective products (the “**Product Liability Directive**”) provides that a producer is liable for damage that was caused by a defect in its products (Art. 1). It applies to damages such as death or personal injuries or damage that was caused to an item of property intended for private use or consumption (Art. 9).

Under the Product Liability Directive, a product is defective if it fails to provide the safety which a person is entitled to expect, taking into account of all circumstances, including the presentation of the product, the reasonable use of the product and the time when the product was put into market circulation (Art. 6 (1)). A product shall not be considered defective for the sole reason that a better product is subsequently put into circulation (Art. 6 (2)). An injured person carries the burden of proof of actual damage, defect in the product and the causal relationship between such damage and defect, but he does not have to prove negligence or fault of the producer or importer (Art. 4).

Pursuant to Art. 3, our Group may be considered a manufacturer under the Product Liability Directive because our Group is the manufacturer of a finished product on the EU market or of a component part of a finished product on the EU market and our Group affixes our name and/or trademark to our products and thus presenting ourselves as the producer thereof.

However, according to Art. 7, the producer would not be held liable under the Product Liability Directive if it can prove that, in particular: (i) the defect did not exist at the time when the product was put into circulation by the producer or that this defect came into being after the product was put into circulation; or (ii) the state of scientific and technical knowledge at the time when the product was put into circulation was insufficient to identify the defect (at that time). However, with regard to exception (ii), the Product Liability Directive states expressly that Member States may deviate from that provision and hold the producer liable even if at the time of circulation, the state of scientific and technical knowledge was insufficient to identify the defect.

Since our Group qualifies as a producer of the product under the Product Liability Directive, our Group can be held liable for damage (for death or personal injuries or damage to an item of property intended for private use or consumption) that was caused by a defect in our products in the EU. There may also be civil claims in both contract claims (for

REGULATORY OVERVIEW

breach of an implied term of not supplying a product of adequate quality) and tort claims (such as negligence, in respect of product liability or safety and consumer protection). However, these are subject to the national laws of each Member State (or possibly, in particular for contractual claims, the applicable law as agreed upon by the parties).

The Product Liability Directive only applies to entities in the EU. Only a manufacturer located inside the EU can be prosecuted directly in the EU. In the case where the manufacturer is located outside the EU, the importer inside the EU may be prosecuted for non-conformity with the Product Liability Directive (Art. 3), whilst all entities in the supply chain of the product are obliged not to sell or supply the product if they know or suspect non-conformity, regardless of jurisdiction.

Importation

The importation of certain goods into the EU may be subject to both anti-dumping or anti-subsidy measures on the one hand and safeguard tariff measures on the other. The objectives of the former are to remedy market distortions created by unfair trading practices, whilst the objectives of the latter are to grant relief against greatly increased imports.

Council Regulation (EC) No. 1225/2009 of the European Parliament and of the Council

Pursuant to the Council Regulation (EC) No. 1225/2009 of 30 November 2009 on protection against dumped imports from countries not members of the European Community (the “**Anti-dumping Regulation**”), the European Commission is responsible for investigations into allegations of dumping within the EU.

Investigations are conducted upon receipt of a complaint from a producer(s) of the product within the EU or on the European Commission’s own initiative. The investigation must show that (i) there is dumping pursuant to article 2 of the Anti-dumping Regulation by exporting producers in the country/countries concerned; (ii) material injury has been suffered by the industry concerned within the EU; (iii) there is a causal link between the dumping and injury found; and (iv) the imposition of measures is not against the interest of the EU.

Where an investigation reveals that foreign products are being dumped into the EU, EU authorities may impose appropriate countervailing anti-dumping duties or price undertakings on imports of the products concerned. Such duties are paid by the importer in the EU and are collected by the national customs authorities of the respective Member States. A price undertaking is an undertaking by the exporting producer whereby the producer agrees to offset any unfair price advantage that the dumped goods have been found to have, including to sell at a price adequate to eliminate the injurious effects of the dumping or to cease exports at dumped prices. Such undertakings are submitted to the European Commission, and if accepted, anti-dumping duties are not imposed on the products concerned.

Safeguard measures

Pursuant to the Regulation (EC) 260/2009 of 26 February 2009 on the common rules for imports, products originating in non-EU countries shall be freely imported into the EU. However, the EU make adopt safeguard measures against imports that have greatly increased

REGULATORY OVERVIEW

and have caused or threatened to cause serious injury to the EU market. Safeguard measures may take the form of tariff measures applicable either to all imports or to those imports in excess of a pre-determined quantity.

Unlike anti-dumping and anti-subsidy measures, safeguards measures do not focus on whether the trade is fair or not, and as such the conditions for imposing them are more stringent. The EU must demonstrate that the increase in imports of the goods concerned is: (i) sharp; (ii) due to unforeseen developments; (iii) causing or threatening to cause serious injury to domestic industry (a higher level of injury than the material injury required to impose anti-dumping and anti-subsidy measures); and (iv) that the additional safeguards duties are in the interest of the EU (a requirement beyond anti-dumping obligations as prescribed by the WTO). Safeguard measures apply to all such imports from all countries, which allow the affected EU industry to make necessary adjustments and restructure itself in response to the importation concerned. The application of safeguard measures imply that goods otherwise ineligible for import may enter the EU market upon payment of the relevant duties.

Pursuant to the Regulation (EU) 2015/477 of the European Parliament and of the Council of 11 March 2015, where the European Commission considers that a combination of anti-dumping or anti-subsidy measure with safeguard measures on the same imports could lead to effects greater than that of the EU's trade defence policy and objectives, the European Commission is empowered to take action combining anti-dumping or anti-subsidy measures with safeguard measures on the same import without denying exporting producers of those imports access to the EU market.

AUSTRALIAN LAWS AND REGULATIONS

Product Safety

All consumer products marketed and sold in Australia are regulated in accordance with the Australian Consumer Law (the “**ACL**”). Consumer goods are regulated by, among others, safety warning notices, temporary or permanent product bans, mandatory safety standards and compulsory recall notices. The ACL sets out consumer rights (referred to in the ACL as “**consumer guarantees**”), which require producers to only place products on the market that are not subject to specific product bans and recall notices and that comply with the relevant safety warning notices and mandatory safety standards.

The ACL lays down the principle that the retailer is liable for, among others, compensation for damages and loss if any consumer guarantee is not met. Moreover, the retailer cannot refuse liability for the product sold by directing the consumer to the manufacturer for liability. On the other hand, a manufacturer is only liable for an amount for the reduction in the product's value (and only in rare cases, compensation for damages and loss) if, for example, the product fails to: (i) be of acceptable quality; (ii) be of matching description; (iii) match any extra promises made about, among others, performance, condition and quality; and/or (iv) have corresponding spare parts and repair facilities for a reasonable time after purchase.

REGULATORY OVERVIEW

Product liability

The ACL also establishes a product liability regime, which gives consumers a right of action for damages and loss where products have safety defects. An individual is deemed to have acquired goods as a consumer if the amount paid for the good was less than AUD40,000 or if the good was of the kind that is ordinarily acquired for personal, domestic, or household use (section 3(1)(a)). Any consumer may bring an action under the ACL for personal injury or damage to private property (including land or buildings) that has resulted from a safety defect in the product.

In actions commenced for the damage or loss from defective goods, the ACL is applicable to any and all entities in the supply chain of a product including manufacturers, importers, distributors and retailers, but the product liability provisions of the ACL generally applies to manufacturers, which is defined as a person or entity that: (i) makes or puts together the product; (ii) affixes its brand name on the product; (iii) holds itself out as the manufacturer of the product; (iv) permits another person or entity to promote the product as having been manufactured by the person or entity; or (v) where the goods are manufactured by a foreign producer that does not have an office in Australia, the importer of the goods (section 7).




Importation

Goods imported into Australia with a value of over AUD1,000 are subject to Australian import tariffs and duties and must be cleared by customs before being placed on the market. Goods must be cleared by submitting a completed Imported Declaration Form and paying duty and other taxes and charges that apply.

According to Australian customs law, the entity responsible for making an import declaration is the owner of the imported goods, which includes any person or entity who: (i) is the importer; (ii) holds itself out to be the owner of the goods; (iii) has a beneficial interest in the goods; or (iv) has control over the goods.

HISTORY, DEVELOPMENT AND REORGANISATION

THE CORPORATE HISTORY

Swiftech Company was established in June 2003 with the aim to launch and develop new and marketable inflatable playgrounds and inflatable products. Our Group launched its first inflatable playgrounds production in 2003. Under the leadership and effort of Mr. Huang and Mr. Xiao and other members of the management, our Group has developed various retail brands including “” brand, “” brand, “” brand and our inflatable products were sold in over 50 countries.

IMPORTANT BUSINESS MILESTONES

The following illustrates certain key milestone and achievements in the business development of our Group:

Year	Event
June 2003	Swiftech Company was established and commenced our production of inflatable playgrounds
February 2005	Swiftech Company was accredited with ISO9001:2000
April 2006	Our production facilities at Science and Technology Park for Private Enterprise, Shiqi District, Zhongshan City, Guangdong Province was expanded
June 2009	Zhongshan Runhe was established
November 2009	We moved our production facilities to Dongcheng Industrial Zone, Minzhong Town, Zhongshan City, Guangdong Province
February 2011	Swiftech Company was granted ICTI Seal of Compliance (2009 version)
November 2011	Zhongshan Runhe commenced our production of PVC coating and PVC laminated oxford
May 2014	Swiftech Company was accredited with ISO14001:2004
May 2014	Swiftech Company was accredited with OHSAS18001:2007
March 2015	Swiftech International was established
May 2015	Swiftech Company was granted ICTI Seal of Compliance (2013 version)
June 2015	Swiftech International commenced our trading and export business

HISTORY, DEVELOPMENT AND REORGANISATION

OUR GROUP

Our Group has a number of direct and indirect subsidiaries incorporated in the BVI, Hong Kong and the PRC. Details of the members of our Group and their respective corporate history are set out below.

OUR COMPANY

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 3 November 2015 with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. On 3 November 2015, one fully paid Share was issued and allotted to the initial subscriber to the memorandum and articles of association of our Company, which was subsequently transferred to Nonton on 3 November 2015. On 3 November 2015, Nonton subscribed for 9,999 fully paid Shares resulting in Nonton holding 10,000 fully paid Shares (representing 100% of the issued share capital of our Company at the relevant time).

On 20 June 2016, our Company further issued and allotted 507,746,000 and 172,244,000 fully paid Shares to each of Nonton and Blink Wishes in consideration for the acquisition of the entire issued share capital in Silver Bliss from Nonton and Blink Wishes. Immediately following the above allotments and share transfers, our Company was legally and beneficially owned as to 74.67% and 25.33% by Nonton and Blink Wishes, respectively.

As part of the Reorganisation, our Company became the holding company of our Group with its business being conducted through the principal operating subsidiaries of our Group, namely Swiftech Company, Zhongshan Runhe and Swiftech International.

OUR SUBSIDIARIES

Silver Bliss

Silver Bliss was incorporated in the BVI with limited liability on 15 December 2014 and is authorised to issue a maximum of 50,000 shares of one class with a par value of US\$1.00 each. On 11 March 2015, one fully paid share of Silver Bliss (representing the entire issued share capital of Silver Bliss at the relevant time) was allotted and issued to Nonton at a consideration of US\$1.00 (equivalent to the par value in respect of such share). On 4 February 2016, Nonton subscribed for 9,999 fully paid shares of Silver Bliss, resulting in Nonton holding 10,000 fully paid shares of Silver Bliss for a nominal consideration. On 4 February 2016, Blink Wishes acquired an aggregate of 2,533 fully paid shares in Silver Bliss (representing 25.33% of the issued share capital of Silver Bliss) from Nonton at a cash consideration of HK\$7,600,000. Silver Bliss is an investment holding company.

HISTORY, DEVELOPMENT AND REORGANISATION

Swiftech International

Swiftech International was incorporated in Hong Kong with limited liability on 26 March 2015 with an issued share capital of HK\$1.00. Swiftech International is wholly-owned by Silver Bliss since its establishment and it serves to provide a corporate arm to our trading and export business. Swiftech International commenced its operation in June 2015.

Swiftech Company

Swiftech Company was established in the PRC on 5 June 2003 as a sino-foreign equity joint venture with a registered capital of HK\$3 million and owned as to 85% and 15% by Ocean Union (which was wholly owned by Nonton and in turn beneficially owned by the then controlling shareholder^{Note}) and Zhongshan Dongjian Trading Company Limited (中山市東健貿易有限公司), (which was beneficially owned as to 70%, 15% and 15% by Ms. Lin Limiao (the spouse of Mr. Huang), Mr. Xiao and an Independent Third Party, respectively) respectively. Swiftech Company commenced its business in June 2003 and is principally engaged in the manufacturing of inflatable products. The registered capital of Swiftech Company attributable to Ocean Union and Zhongshan Dongjian Trading Company Limited was fully contributed by each of them by cash.

On 12 September 2008, Zhongshan Dongjian Trading Company Limited transferred all equity interest it held in Swiftech Company, being 15% equity interest in Swiftech Company, to Ocean Union at a cash consideration of HK\$450,000 and as a result, Swiftech Company became a WFOE. In 2011, Mr. Lee became the controlling shareholder of Swiftech Company by way of acquiring the entire issued share capital of Nonton (which in turn wholly-owned Ocean Union and then Swiftech Company at the material time) from the then controlling shareholder, in consideration of setting off a loan for the sum of HK\$1.6 million due to Mr. Lee by the then controlling shareholder. Mr. Lee agreed with such arrangement after considering the prospect of our Group and the quality of our management team. On 2 November 2011, the registered capital of Swiftech Company was increased from HK\$3 million to HK\$8 million and the additional capital was fully contributed by Ocean Union in cash. The registered capital of Swiftech Company was further increased to HK\$18 million and HK\$28 million on 26 September 2012 and 27 December 2013, respectively, and both of the additional capitals were fully contributed by cash. On 30 September 2015, Ocean Union transferred the entire equity interest in Swiftech Company to Swiftech International at a cash consideration of HK\$30 million.

Mr. Lee has over 30 years experiences in business management and he played executive roles in various enterprises in the manufacturing business with products including cables, electronic components and lighting products. Since 2000, Mr. Lee has invested in several businesses in Hong Kong with production base in the PRC. Mr. Lee is a pure investor and he has never been involved in the operations and the management of our Group. Mr. Lee does not want to be our Company's Director, chairman or senior management because he could not allocate enough time to participate in the management of our Group, and he does not consider that he has the necessary expertise and experience in

Note: Save as being the beneficial owner of Ocean Union from 2003 to 2011, the then controlling shareholder was an Independent Third Party.

HISTORY, DEVELOPMENT AND REORGANISATION

managing the business of manufacturing inflatable playgrounds and inflatable products. In addition, Mr. Lee does not want to be appointed as a Director as he considers that the obligations of being a director of a listed company are too demanding.

Zhongshan Runhe

Zhongshan Runhe was established in the PRC on 22 June 2009 as a company with limited liability with a registered capital of RMB3 million and owned as to 80% and 20% by Dongguan Longli Chemical Company Limited (東莞龍立化工有限公司) and Swiftech Company, respectively. Zhongshan Runhe is principally engaged in the manufacturing of PVC coating, PVC laminated oxford and plastic products. The registered capital of Zhongshan Runhe attributable to Dongguan Longli Chemical Company Limited and Swiftech Company was fully contributed by each of them in cash.

On 5 May 2011, Dongguan Longli Chemical Company Limited (東莞龍立化工有限公司) transferred all the equity interest it held in Zhongshan Runhe, being 80% equity interest in Zhongshan Runhe, to Zhongshan Heshun Commodity Company Limited (中山市和順日用品有限公司) at a cash consideration of RMB2.4 million. On 20 July 2011, Zhongshan Heshun Commodity Company Limited transferred all the equity interest it held in Zhongshan Runhe, being 80% equity interest in Zhongshan Runhe, to Swiftech Company at a cash consideration of RMB2.4 million. On 3 November 2011, the registered capital of Zhongshan Runhe was increased from RMB3 million to RMB7 million, and the additional capital was fully contributed by Swiftech Company by cash.

REORGANISATION

1. Incorporation of Silver Bliss

On 15 December 2014, Silver Bliss was incorporated in the BVI and is authorised to issue a maximum of 50,000 shares of US\$1.00 each. One fully paid ordinary share of Silver Bliss, representing the entire issued share capital of Silver Bliss at the relevant time, was allotted and issued to Nonton on 11 March 2015.

2. Disposals of Sunnytech and Humoled by Swiftech Company

On 6 March 2015, Swiftech Company, as vendor, and Zhongshan Huanleyuan Recreation Development Company Limited (中山歡樂源遊樂發展有限公司) (“**Zhongshan Huanleyuan**”) which was a related company during the Track Record Period, as purchaser, entered into a sale and purchase agreement, pursuant to which Zhongshan Huanleyuan acquired the entire equity interest in Sunnytech Company Limited (中山市新亮達日用品有限公司) (“**Sunnytech**”) from Swiftech Company at a consideration of RMB1.00 which was determined at arm’s length basis by reference to the then unaudited net liabilities of Sunnytech of approximately RMB1,484,000. The consideration was settled on 27 May 2015. Sunnytech is principally engaged in the manufacturing and sales of hard plastic moulded toys.

HISTORY, DEVELOPMENT AND REORGANISATION

On 10 March 2015, each of Mr. Liu Junkai (劉軍凱), an Independent Third Party, and Mr. Li Xilong (李希龍), a former director of Swiftech Company, acquired 50% of the equity interest in Humoled Lighting Limited (中山市新宇科光電科技有限公司) (“**Humoled**”) from Swiftech Company at a consideration of RMB1.00 respectively which was determined at arm’s length basis by reference to the then unaudited net liabilities of Humoled of approximately RMB3,686,000. The consideration was settled on 27 May 2015. Humoled is principally engaged in research and development, wholesale, and export and import of light-emitting diode lighting products.

Sunnytech and Humoled were disposed of by Swiftech Company and excluded to be part of our Group because their businesses and operations were managed by separate management personnel and not relevant to our Group’s inflatable products business.

Immediately after the completion of the above equity transfers, Sunnytech was owned as to 100% by Zhongshan Huanleyuan and Humoled was owned as to 50% and 50% by Mr. Liu Junkai and Mr. Li Xilong, respectively. As advised by our PRC Legal Advisers, the transfers of equity interests in each of Sunnytech and Humoled by Swiftech Company had been completed lawfully and effectively.

3. Incorporation of Swiftech International

On 26 March 2015, Swiftech International was incorporated in Hong Kong with an issued share capital of one fully paid ordinary share of HK\$1.00. One fully paid ordinary share of Swiftech International, representing the entire issued share capital of Swiftech International, was allotted and issued to Silver Bliss on 26 March 2015.

4. Transfer of entire equity interest in Swiftech Company to Swiftech International

On 30 June 2015, pursuant to a sale and purchase agreement entered into between Ocean Union and Swiftech International, Ocean Union transferred the entire equity interest in Swiftech Company to Swiftech International at a cash consideration of HK\$30 million. The consideration was determined on arm’s length negotiation by reference to the audited net assets value of Swiftech Company and Zhongshan Runhe as at 31 December 2014.

On 30 September 2015, the Administrative for Industry and Commerce of Zhongshan City (中山市工商行政管理局) granted a new business licence to Swiftech Company. As advised by our PRC Legal Advisers, the transfer of equity interest in Swiftech Company by Ocean Union to Swiftech International had been completed lawfully and effectively.

On 30 December 2015, Ocean Union executed a deed of loan assignment in favour of Nonton, pursuant to which Ocean Union assigned the loan of HK\$30 million due from Swiftech International (the “**Loan**”) to Nonton at nil consideration (the “**Assignment of Loan**”). As confirmed by our legal adviser as to Hong Kong law, the transactions contemplated under the Assignment of Loan and the transfer of the entire equity interest in Swiftech Company by Ocean Union to Swiftech International are legal. On 31 December 2015, Nonton executed a deed of waiver of loan in favour of Swiftech International, pursuant to which Nonton agreed to waive the Loan.

HISTORY, DEVELOPMENT AND REORGANISATION

5. Incorporation of our Company

On 3 November 2015, our Company was incorporated in the Cayman Islands with limited liability and with an authorised share capital of HK\$380,000 divided into 38,000,000 Shares. One fully paid Share was allotted and issued to the initial subscriber to the memorandum and articles of association of our Company, which was subsequently transferred to Nonton on 3 November 2015. On 3 November 2015, Nonton subscribed for 9,999 fully paid Shares resulting in Nonton, holding 10,000 fully paid Shares (representing the entire issued share capital of our Company at the relevant time).

6. Acquisition of 25.33% issued shares of Silver Bliss by Blink Wishes

On 4 February 2016, Blink Wishes entered into the sale and purchase agreement with Nonton to acquire 2,533 shares of Silver Bliss (representing 25.33% of the issued share capital of Silver Bliss) at a consideration of HK\$7,600,000. The said consideration was arrived at after arm's length's negotiations between the parties and with reference to the combined net assets value of Silver Bliss as at 30 September 2015 on the basis of its unaudited combined management accounts and the consideration amount paid by Swiftech International for its acquisition of the equity interest in Swiftech Company from Ocean Union. The said consideration was settled on 4 February 2016. After the completion of the said share transfer, Blink Wishes holds a total of 2,533 shares in Silver Bliss, representing 25.33% of the issued share capital of Silver Bliss.

Our Directors are of the view that the Pre-IPO Investment broadens the Shareholders basis and enhances our Company's business network. The aforesaid transactions were completed on 4 February 2016. Our Directors are of the view that the Pre-IPO Investment was entered into on normal commercial terms.

Details of the Pre-IPO Investment are summarised below:

Name of investor	:	Blink Wishes
Date of the agreements in relation to the Pre-IPO Investment	:	4 February 2016
Amount of consideration paid	:	HK\$7,600,000
Payment date of the consideration	:	4 February 2016
Effective cost per Share paid (<i>note</i>)	:	HK\$0.044
Discount to the Offer Price	:	78.0% to 87.43%
Shareholding upon Listing	:	172,244,000 Shares representing 21.53% of the issued share capital of our Company upon Listing

Note: For illustration purposes only, assuming completion of the Public Offer.

Blink Wishes is a limited company incorporated in the BVI on 18 November 2015 and its entire issued share capital is owned by Mr. Kevin Lee, a non-executive Director. The principal business activity of Blink Wishes is investment holding.

HISTORY, DEVELOPMENT AND REORGANISATION

As confirmed by Mr. Kevin Lee, he has never been involved in any investment or dealings with our Directors, Controlling Shareholders, our Group's subsidiaries and any of their respective associates save for the Pre-IPO Investment. Mr. Kevin Lee, who is an experienced business man with his own lighting products manufacturing business, learned about our Group through his knowledge of Humoled and You Mei Lai before they were disposed of by Swiftech Company as part of the Reorganisation. Mr. Kevin Lee, through his wholly-owned company Blink Wishes, invested in our Group due to his confidence in the business prospects, management and potentials of our Group.

Our Directors believe that the Pre-IPO Investment would strengthen the shareholder base of our Group and enhance the corporate governance practices of our Group. Our Group considers that by introducing Blink Wishes as an additional shareholder, our Group would benefit from Mr. Kevin Lee's insight and experience on organisational and financial management. The more diversified shareholding structure of our Group is expected to promote accountability of the management to shareholders and strengthen internal control for ensuring management's obligation to shareholders are understood and met.

As a result of the completion of the Pre-IPO Investment, Blink Wishes was interested in 25.33% of the issued share capital of our Company immediately before completion of the Public Offer. Upon Listing, Blink Wishes would be interested in 21.5% of the issued share capital of our Company. As such, Shares held by Blink Wishes would not be considered as part of the public float under the GEM Listing Rules.

Pursuant to the agreements in relation to the Pre-IPO Investment, Blink Wishes does not enjoy any special rights in connection with the Pre-IPO Investment.

As confirmed by the Sole Sponsor, considering that the Pre-IPO Investment was completed more than 28 clear days before the first submission of the listing application form in respect of the Listing, the Pre-IPO Investment is in compliance with the Interim Guidance on Pre-IPO Investments (i.e. Guidance Letter HKEx-GL29-12), Guidance Letter HKEx-GL43-12 and Guidance Letter HKEx-GL44-12 issued by the Listing Committee.

No net proceeds arose from the Pre-IPO Investments to our Group.

7. Acquisition of Silver Bliss

On 20 June 2017, the authorised share capital of our Company was increased from HK\$380,000 to HK\$10,000,000 by the creation of additional 962,000,000 Shares.

On 20 June 2017, our Company acquired 7,467 shares and 2,533 shares in Silver Bliss from Nonton and Blink Wishes, respectively (together representing the entire issued share capital of Silver Bliss), in consideration of which our Company issued and allotted 507,746,000 Shares and 172,244,000 Shares in our Company, credited as fully-paid, to Nonton and Blink Wishes, respectively.

HISTORY, DEVELOPMENT AND REORGANISATION

Our PRC Legal Advisers confirmed that our Group has obtained all necessary approvals, consents, licences and permits and has effected all necessary filings or recordation under the relevant PRC laws and regulations in connection with the Reorganisation in the PRC.

Our Company will offer 200,000,000 Offer Shares under the Public Offer comprising 120,000,000 New Shares and 80,000,000 Sale Shares for subscription by professional, institutional and other investors, representing a total of 25% of the enlarged issued share capital of our Company upon Listing.

EXCLUDED BUSINESS

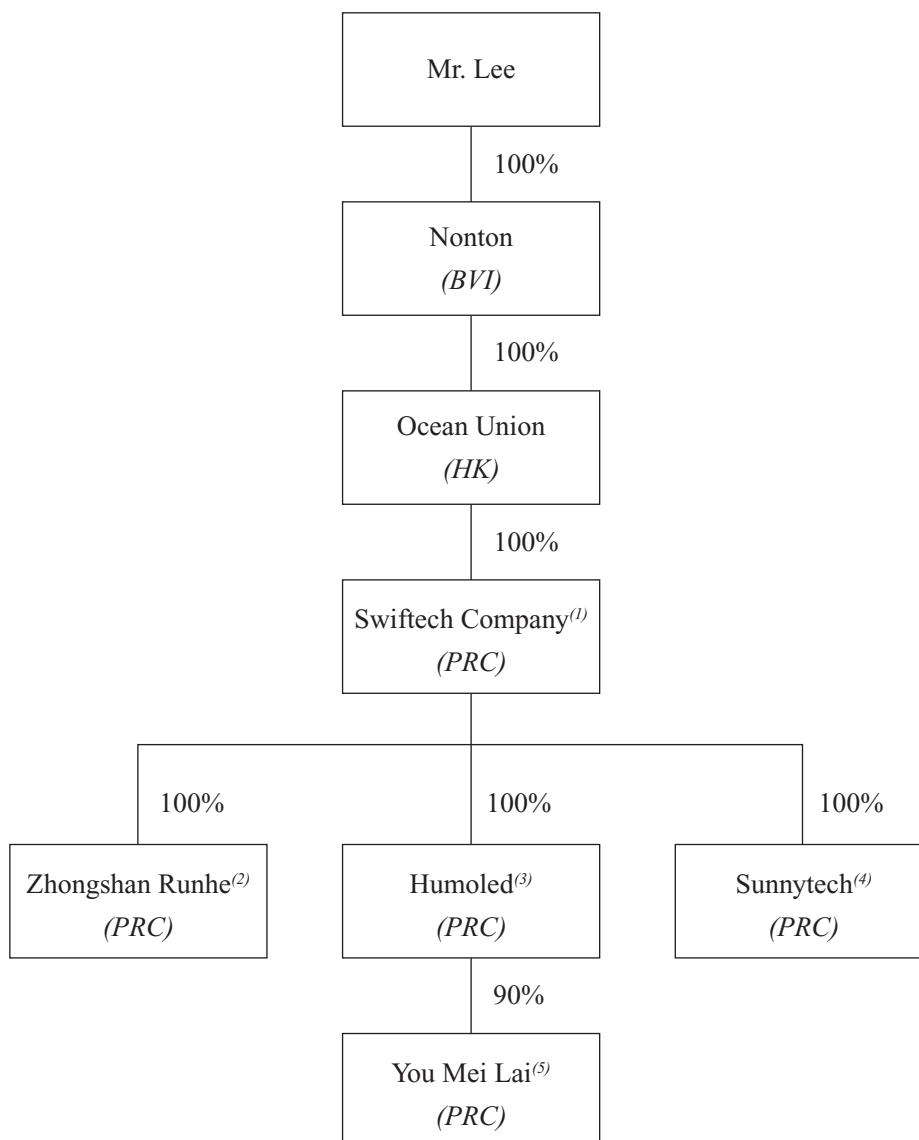
SHD International Ltd.

SHD International Limited (“**SHD International**”) was incorporated in Macau on 23 November 2012. Its principal business was to trade and export toys to customers in Europe and the US. SHD International was owned as to 74.4%, 12.8% and 12.8% by Nonton, Mr. Huang and Mr. Tong Yat Keung, respectively. To consolidate the entire control of our Group’s trading and export business, the then controlling shareholder of SHD International, Nonton, decided to commence business under Swiftech International to take over the export business of Swiftech Company. Upon the establishment of Swiftech International, all of our export sales via SHD International have been taken over by Swiftech International. By then, SHD International carried no business and was dissolved on 1 November 2015. As SHD International was already dissolved, SHD International was not included in the Group.

As confirmed by MdME, our legal adviser as to Macau law, SHD International has been in compliance with all the applicable laws and regulations in relation to its business operations in Macau in any material respect from 1 January 2014 up to 1 November 2015.

HISTORY, DEVELOPMENT AND REORGANISATION

As part of the Reorganisation, a number of share transfers had been effected and pursuant to which our Company became the holding company of our Group. Set out below the corporate structure of our Group immediately before the Reorganisation:



Notes:

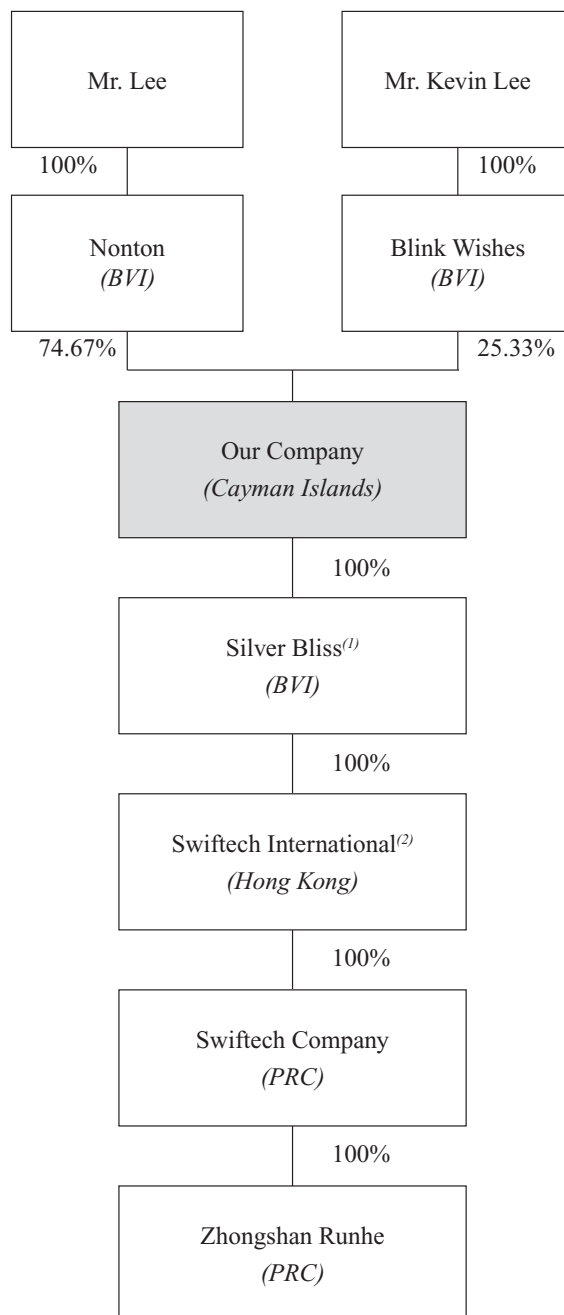
1. Swiftech Company is principally engaged in the manufacturing of inflatable products in the PRC.
2. Zhongshan Runhe is principally engaged in the manufacturing of PVC coating, PVC laminated oxford and plastic products in the PRC.
3. Humoled is principally engaged in research and development, wholesale, and export and import of light-emitting diode lighting products.
4. Sunnytech is principally engaged in the manufacturing and sales of hard plastic moulded toys.

HISTORY, DEVELOPMENT AND REORGANISATION

5. Zhongshan You Mei Lai Optoelectronics Technology Company Limited (中山市優美萊光電科技有限公司) (“**You Mei Lai**”), a company established in the PRC with limited liability on 4 April 2014 and owned as to 90% and 10% by Humoled and Mr. Zhu Zuopeng, respectively. You Mei Lai is principally engaged in the sales, research and development of light-emitting diode lighting products.

THE CORPORATE STRUCTURE OF OUR GROUP

The following diagram sets out the corporate structure of our Group immediately after completion of the Reorganisation but before completion of the Public Offer:

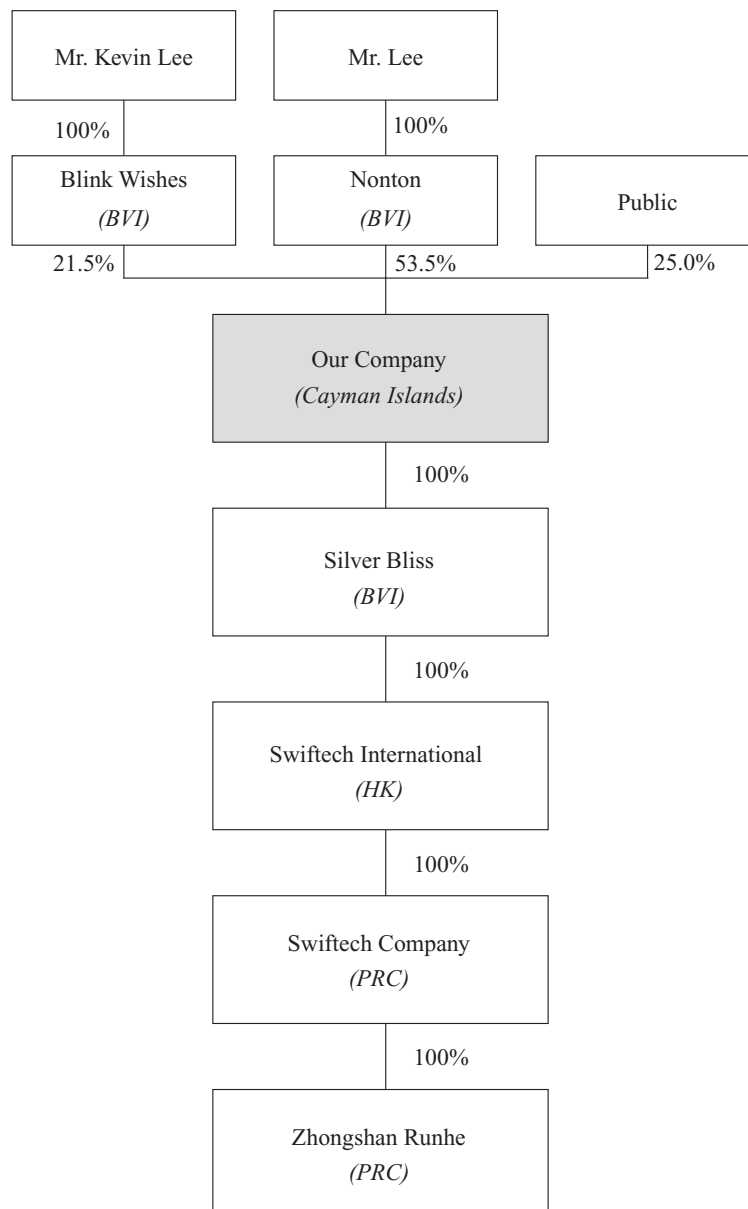


HISTORY, DEVELOPMENT AND REORGANISATION

Notes:




1. Silver Bliss is an investment holding company, it has no substantive business activities as at the Latest Practicable Date.
2. Swiftech International is principally engaged in trading and export business of inflatable products.

The following diagram sets out the corporate structure of our Group immediately after completion of the Public Offer (without taking into account any Shares to be issued upon exercise of any options which may be granted under the Share Option Scheme):



BUSINESS

OVERVIEW

We are a manufacturer of inflatable products in the PRC with focus on producing inflatable playgrounds with air blowers. In addition to inflatable playgrounds with air blowers, we also produce other inflatable products⁽¹⁾ and inflatable products related accessories⁽²⁾. Founded in 2003, we have over 10 years' experience in designing, manufacturing and marketing high quality inflatable playgrounds and other inflatable products. We sell our inflatable playgrounds and other inflatable products under various brands including “” brand, “” brand, “” brand.

We manufacture our products in our production facilities in Dongcheng Industrial Zone located in Zhongshan City, Guangdong Province. We are committed to high standards of quality in all of our products and follow stringent quality control procedures throughout our production processes. Through years of effort in product development, quality improvement and control, marketing and promotion, the inflatable products we produced were sold widely in overseas markets. During the Track Record Period, we have generated revenue of approximately RMB174,809,000, RMB168,802,000 and RMB172,347,000 respectively, of which approximately RMB157,147,000, RMB148,315,000 and RMB148,863,000, representing 89.9%, 87.9% and 86.4% of our total revenue were generated from sales of inflatable playgrounds with air blowers. Approximately RMB17,662,000, RMB20,487,000 and RMB23,484,000, representing 10.1%, 12.1% and 13.6% of our total revenue, were generated from sales of other inflatable products and inflatable products related accessories.

Notes:

1. Examples of other inflatable products are inflatable products without air blowers, such as mini inflatable playgrounds, inflatable tents and inflatable ball pools.
2. Examples of inflatable products related accessories are PVC laminated oxford and plastic nails.

COMPETITIVE STRENGTHS

We believe that the following competitive strengths allow us to achieve sustainable growth of our business:

We have not experienced any major product recalls by our customers during the Track Record Period and up to the Latest Practicable Date, which we believe is the result of our dedication to product quality and safety. We believe that our emphasis on product quality and safety has contributed to our continued success in gaining customer trust in our products, which will continue to be essential to our long-term development.

Our factory and production facilities is well-equipped and strategically located

Our production facilities located in the Dongcheng Industrial Zone in Zhongshan City comprised of three well-equipped production plants, staff quarters and security rooms, with a total gross floor area of approximately 27,799.2 sq.m. and it is located close to the export pier and near major highways, transportation systems and major logistic zones. Zhongshan City has long been a prominent industrial city within the Pearl River Delta Economic Zone

BUSINESS

with mature infrastructure, such as efficient highways and port facilities. Our strategic location in such a highly developed region allows our Group to enjoy great regional advantage in the terms of transportation, facilities, infrastructure and labour supply.

We have established relationships with our major customers

We believe that our dedication to quality control, product safety, customer service and competitive pricing throughout the years have earned us recognition and goodwill from our major customers of whom we have established strong and long-term business relationships, in particular, we have established over 5 years of business relationships with most of our top 5 customers. Our Directors believe that our well-established relationships with our major customers and market connections, together with our reliable and high-quality products and dedicated customer service, will continue to strengthen our market presence and fuel our future expansion.

Expertise and experience of our management team provides multiple benefits for our Group's business

Our Group is led by an experienced and dedicated management team which has contributed significantly to our Group's success throughout our development. Our Group's executive management team is led by Mr. Huang and Mr. Xiao, who through years of industry experience, have established strong relationships with clients and suppliers. Please refer to the section headed "Directors, Senior Management and Employees" in this prospectus for the experience and qualifications of our Directors and senior management. In addition, the combination of our management team's expertise and business acumen has allowed our Group to successfully assess and manage risks, anticipate changes in customer preferences, formulate sound business strategies and capture potential business opportunities. Our Directors believe that along with the above capabilities, our management team also possesses the leadership, commitment and qualifications to sustain our Group's business and ensure its continued growth.

BUSINESS STRATEGIES

Expand and enhance our product offerings through continuous product development and continue to strengthen our brand recognition

To achieve a more comprehensive product portfolio, we plan to develop new product offerings and adjust our product mix by expanding our existing design team and enhancing our research and development capabilities. We have plans to recruit experienced product designers and engage external product design companies to strengthen our product design ability and to develop new raw materials that are more durable or stronger for our inflatable products. To strengthen our brands recognition, we plan to further develop our intellectual property portfolio by registering new trademarks and patents for the new product designed by us.

BUSINESS

Expand production capacity

To expand our production capacity, we plan to acquire new production facilities and machinery, such as sewing machines and other supporting machines. We also plan to upgrade and automate the production facilities and machinery of our existing production lines to increase production efficiency. We will continue to review the status of our existing production facilities regularly and arrange for upgrade or replacement if necessary.




Attract and retain quality personnel

We believe that having employees who understand and adhere to our operating philosophy is critical to our success and future growth. To this end, we need to attract and retain suitable personnel to support and sustain the growth of our business. We also plan to provide our employees with continuous trainings, as we believe that this will provide them with a clear career advancement track and thus motivate and incentivise them. We will regularly review and update our employee compensation plans and bonuses based on their individual performance to recognise their contribution to our Group and align their interests with our objectives. We have conditionally adopted the Share Option Scheme, which we believe could supplement our existing employee compensation plans and bonuses, and attract and retain quality personnel to strive for the growth of our Group by providing them an opportunity to share our success.

Increase marketing effort, expand distribution network and explore new business opportunities

We plan to increase our marketing efforts by placing more advertisements to promote our brands and products and by participating in more exhibitions to expand our distribution network and explore new business opportunities. We will also regularly approach potential customers to provide them with information of our new products. We also plan to expand our wholesale distribution network by proactively approaching wholesale customers for business opportunities.

OUR BUSINESS MODEL

We generate our revenue by manufacturing and selling inflatable products under our own brands. “” brand “” brand and “” brand are examples of our core brands that we used in promoting our inflatable products. During the Track Record Period, we have also provided ODM services to our customers located in North America, Australia and Oceania, and the PRC, that represented 21.9%, 23.1% and 46.5% of our total revenue. Under ODM arrangement, we design and manufacture inflatable playground products under our client’s brand or instructions.

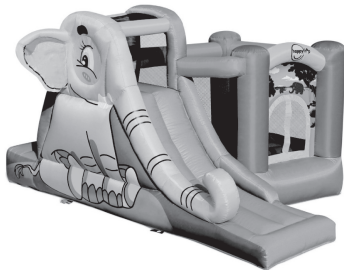
BUSINESS

OUR PRODUCTS

The products we produce include (i) inflatable playgrounds with air blowers, (ii) other inflatable products and (iii) inflatable products related accessories.

Set out below are samples of our products:

Inflatable playgrounds with airblowers



Other inflatable products






BUSINESS

The table below sets forth our sales by product types for the period indicated:




Product type	Year ended 31 December					
	2014		2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%
Inflatable playgrounds with air blowers	157,147	89.9	148,315	87.9	148,863	86.4
Other inflatable products (note 1)	5,604	3.2	1,433	0.8	5,803	3.4
Inflatable products related accessories (note 2) and subcontracting work (note 3)	12,058	6.9	19,054	11.3	17,681	10.2
Total	174,809	100.0	168,802	100.0	172,347	100.0

Notes:

- Other inflatable products include inflatable products without air blowers such as mini inflatable playgrounds, inflatable tents and inflatable ball pools.
- Inflatable products related accessories mainly include PVC laminated oxford, plastic nails and other accessories.
- Subcontracting work includes cutting of materials and sewing work performed by our Group for other manufacturers. The income from subcontracting works amounted to approximately RMB1,208,000, RMB1,900,000 and nil, respectively for each of the years ended 31 December 2014, 2015 and 2016.

Our products are promoted under different brands, and each brand carries its own features. For example, we use our “” brand and “” brand to promote smaller inflatable playgrounds that are able to accommodate one to six players at a time with a price range from RMB419.3 to RMB3,276.0 and “” brand for larger inflatable playgrounds with the capacity to accommodate up to ten players with a price range from RMB2,293.2 to RMB22,932.0.

The table below sets forth our revenue by brand for the period indicated:

Brand	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
“  ” brand	90,853	75,844	58,731
“  ” brand	17	542	550
“  ” brand	27,915	32,518	17,491
Other brands	6,901	2,853	3,604
ODM/Without brands	49,123	57,045	91,971
Total	174,809	168,802	172,347

BUSINESS

OUR CUSTOMERS

The table below sets out the revenue from our Group's top five customers for each of the years ended 31 December 2014, 2015 and 2016:

For the year ended 31 December 2014

Rank	Customer	Background	Approximate years of relationship with our Group	Typical credit term offered to our customers	Payment method	Revenue (RMB'000)	As a percentage of total revenue (%)
1	Swan Group (note 1)	Toys and sports goods trading and manufacturing group	7	nil to 60 days	Bank telegraphic transfer or bank transfer	31,283	17.9
2	Customer A (note 2)	American toys and juvenile products retailer	6	60 days	Bank telegraphic transfer	15,956	9.1
3	Customer B (note 3)	Australian clothing and homewares retailer	12	90 days	Bank telegraphic transfer	13,397	7.7
4	Customer C (note 4)	Toys and daily commodities trading company	6	nil	Bank telegraphic transfer	11,841	6.8
5	Customer D (note 5)	Multinational grocery and general merchandise	11	90 days	Bank telegraphic transfer	9,700	5.5
Total						<u>82,177</u>	<u>47.0</u>

Notes:

- Swan Plastic Products (HK) Limited (“**Swan Plastic**”, together with its subsidiaries, “**Swan Group**”), is a toys and sports goods trading and manufacturing group. At the material time, our Group sold our products mainly to two members of Swan Group, namely (i) Swan Plastic; and (ii) Zhongshan Horizon Outdoor Products Limited (“**Zhongshan Horizon**”), which is an indirectly owned subsidiary of Swan Plastic. Swan Plastic is a toys and sports goods trading company located in Hong Kong and its line of business includes inflatable beach items such as inflatable toys; watersports equipment and toys and sports goods. Zhongshan Horizon is a manufacturer and processor of inflatable products in the PRC. Mr. Huang was a director and a minority shareholder of Swan Plastic from 28 April 2011 to 30 September 2015 and from 4 August 2006 to 24 November 2015, respectively.
- Customer A is the world's leading toys and juvenile products retailer, with more than 755 international stores and over 250 licensed stores in 38 countries.
- Customer B is an Australian department store chain.
- Customer C is a trading company located in Shanghai, the PRC, covering a wide range of products including children's outdoor playground products, inflatable playgrounds, plastic toys, packaging and shoes.
- Customer D is a trading company which acts as a sourcing arm of a British multinational grocery and general merchandise retailer with stores in 12 countries across Asia and Europe and is the grocery market leader in the United Kingdom.

BUSINESS

For the year ended 31 December 2015

Rank	Customer	Background	Approximate years of relationship with our Group	Typical credit term offered to our customers	Payment method	Revenue (RMB'000)	As a percentage of total revenue (%)
1	SHD International Ltd. (note 1)	Toys and sports goods trading company	4	nil	Bank telegraphic transfer	18,423	10.9
2	Swan Group (note 2)	Toys and sports goods trading and manufacturing group	7	nil to 60 days	Bank telegraphic transfer or bank transfer	18,347	10.9
3	Customer B (note 3)	Australian clothing and homewares retailer	12	90 days	Bank telegraphic transfer	15,140	9.0
4	Customer E (note 4)	Toys distributor	12	60 days	Bank letter of credit	12,027	7.1
5	Customer F (note 5)	Small toys and games wholesaler	11	30 days	Bank telegraphic transfer	10,752	6.4
Total						<u>74,689</u>	<u>44.3</u>

Notes:

- SHD International is a toys trading company located in Macau with its customers locating in Europe and the US. Mr. Huang was a director and a minority shareholder of SHD International from 7 December 2012 to 31 October 2015 and from 24 January 2013 to 31 October 2015 respectively. Nonton, our Controlling Shareholder, was a shareholder of SHD International from 24 January 2013 to 31 October 2015. SHD International was voluntarily dissolved in November 2015.
- Swan Group is a toys and sports goods trading and manufacturing group. At the material time, our Group sold our products mainly to two members of Swan Group, namely (i) Swan Plastic, and (ii) Zhongshan Horizon, which is an indirectly owned subsidiary of Swan Plastic. Swan Plastic is a toys and sports goods trading company locating in Hong Kong and its line of business includes inflatable beach items, including inflatable toys, watersports equipment and toys and sports goods. Zhongshan Horizon is a manufacturer and processor of inflatable products in the PRC. Mr. Huang was a director and a shareholder of Swan Plastic from 28 April 2011 to 30 September 2015 and from 4 August 2006 to 24 November 2015, respectively.
- Customer B is an Australian department store chain.
- Customer E is a toys distribution company distributing toys for infants, kids and teenagers in the Asia and North Africa region.
- Customer F is an inflatable toys retailer and distributor based in the US.

BUSINESS

For the year ended 31 December 2016

Rank	Customer	Background	Approximate years of relationship with our Group	Typical credit term offered to our customers	Payment method	Revenue (RMB'000)	As a percentage of total revenue (%)
1	Customer H (note 1)	Manufacturer, processor and distributor of inflatable toys and other plastic products	3	60 days	Bank transfer	24,448	14.2
2	Customer I (note 2)	Manufacturer, processor and distributor of inflatable toys and plastic products	5	60 days	Bank transfer	14,753	8.6
3	Customer F (note 3)	Small toys and games wholesaler	11	30 days	Bank telegraphic transfer	14,151	8.2
4	Swan Group (note 4)	Toys and sports goods trading and manufacturing group	7	60 days	Bank transfer	11,812	6.8
5	Customer E (note 5)	Toys distributor	12	60 days	Bank letter of credit	11,468	6.7
						76,632	44.5
						76,632	44.5

Notes:

- Customer H is a company principally engaged in inflatable products manufacturing and distribution in Guangdong, the PRC, distributing products to both the domestic and export markets.
- Customer I is a manufacturer, processor and distributor of inflatable toys and other plastic products in the PRC with both domestic and overseas sales.
- Customer F is an inflatable toys retailer and distributor based in the US.
- Swan Group is a toys and sports goods trading and manufacturing group. During the year ended 31 December 2016, our Group sold our products to Zhongshan Horizon, an indirectly owned subsidiary of Swan Plastic. Zhongshan Horizon is a manufacturer and processor of inflatable products in the PRC. Mr. Huang was a director and a shareholder of Swan Plastic from 28 April 2011 to 30 September 2015 and from 4 August 2006 to 24 November 2015, respectively.
- Customer E is a toys distribution company distributing toys for infants, kids and teenagers in the Asia and North Africa region.

BUSINESS

The revenue of our Group for each of the years ended 31 December 2014, 2015 and 2016 amounted to approximately RMB174,809,000, RMB168,802,000 and RMB172,347,000, respectively and our Group had approximately 103, 135 and 135 customers, respectively. The five largest customers of our Group in aggregate accounted for approximately 47.0%, 44.3% and 44.5% of our total revenue, respectively and our largest customer accounted for approximately 17.9%, 10.9% and 14.2% of our total revenue, respectively. During the Track Record Period and up to the Latest Practicable Date, our Group had not experienced any material cancellation of orders by our customers.




Transactions with Zhongshan Horizon

During the Track Record Period, one of our customers, Zhongshan Horizon was also our subcontractor. Also as a local manufacturer and processor of inflatable products, Zhongshan Horizon purchased intermediate materials, mainly PVC laminated oxford, from our Group amounted to approximately RMB7,217,000, RMB15,503,000 and RMB11,812,000 for each of the years ended 31 December 2014, 2015 and 2016, respectively. Meanwhile, we outsourced parts of our manufacturing work, such as sewing, to Zhongshan Horizon during the peak season of our production process to alleviate our production capacity pressure during the Track Record Period. The manufacturing work outsourced to Zhongshan Horizon was amounted to approximately RMB2,747,000, RMB20,000 and RMB1,144,000 for the years ended 31 December 2014, 2015 and 2016, respectively. For details of our subcontracting work, please refer to the section headed “Business – Subcontracting” in this prospectus for further details.

Among the five largest customers for each of the years ended 31 December 2014, 2015 and 2016, Swan Group and SHD International were our related parties at the material time. For details of the transactions entered with these parties, please refer to the section headed “Financial Information – Related party transactions and balances” in this prospectus.

Save for Swan Group and SHD International, all of the five largest customers for each of the years ended 31 December 2014, 2015 and 2016 are Independent Third Parties and none of them is also a supplier of our Group. To the best of our Directors’ knowledge, none of our Directors, their respective close associates or Shareholders who own more than 5% of the issued share capital of our Company as at the Latest Practicable Date has any interest in any of the five largest customers of our Group during the Track Record Period.

SALES AND MARKETING

We have originated and promoted our products under several retail brands, including the “” brand, “” brand, and “” brand. Through years of effective marketing and promotion, these brands have been sold in over 50 countries. We have also provided ODM services to some of our customers during the Track Record Period.

BUSINESS

Sales and distribution network

During the Track Record Period, we exported our products to over 50 countries in Europe, Australia and Oceania, North America, Asia, Central and South America and Africa. Europe and Australia and Oceania are the principal markets for our products and they together accounted for approximately 44.7%, 48.3% and 34.6% of our total revenue for each of the years ended 31 December 2014, 2015 and 2016, respectively. We also sell our products in the PRC. During the Track Record Period, 14.2%, 17.8% and 34.4% of our total revenue were derived from sales in the PRC. Hong Kong and Macau are our principal markets in Asia, and they together contributed for approximately 93.4%, 91.9% and 91.2% of our total sales in Asia for the years ended 31 December 2014, 2015 and 2016, respectively.

The table below sets out the geographical breakdown of our revenue during the Track Record Period:

	Year ended 31 December					
	2014		2015		2016	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Domestic						
China ⁽¹⁾	24,814	14.2	30,115	17.8	59,262	34.4
Overseas						
Europe ⁽²⁾	37,614	21.5	41,610	24.7	37,325	21.7
Australia and Oceania ⁽³⁾	40,449	23.2	39,821	23.6	22,285	12.9
North America ⁽⁴⁾	22,051	12.6	18,968	11.2	18,551	10.8
Asia ⁽⁵⁾	41,091	23.5	34,705	20.5	32,287	18.7
Central and South America ⁽⁶⁾	8,083	4.6	2,807	1.7	2,588	1.5
Africa ⁽⁷⁾	707	0.4	776	0.5	49	0.0
	<u>149,995</u>	<u>85.8</u>	<u>138,687</u>	<u>82.2</u>	<u>113,085</u>	<u>65.6</u>
Total	<u><u>174,809</u></u>	<u><u>100.0</u></u>	<u><u>168,802</u></u>	<u><u>100.0</u></u>	<u><u>172,347</u></u>	<u><u>100.0</u></u>

Notes:

1. Sales to China mainly includes sales to a trading company and local manufacturers in the PRC, which are subsequently exported to overseas clients mostly in Europe and North America. Such subsequent export sales accounted for approximately RMB11,841,000, RMB10,679,000 and RMB44,561,000 for the years ended 31 December 2014, 2015 and 2016, respectively, or 6.8%, 6.3% and 25.9% of the total sales of corresponding years, respectively.
2. Europe comprises the United Kingdom, France, Germany, Italy, Poland, Spain, Belgium, Denmark, Czech Republic, the Netherlands, Portugal, Romania, Finland, Greece, Turkey, Latvia, Norway, Sweden, Cyprus, Croatia, Hungary, Estonia, Serbia, Lithuania and Ukraine.
3. Australia and Oceania comprises Australia, New Zealand and New Caledonia.

BUSINESS

4. North America comprises the United States of America and Canada.
5. Asia comprises Hong Kong, Macau, Thailand, South Korea, Sri Lanka, the Philippines and India. Hong Kong and Macau are our principal markets in Asia, and they together contributed for approximately 93.4%, 91.9% and 91.2% of our total sales in Asia for the years ended 31 December 2014, 2015 and 2016, respectively. Our Directors consider that most of the sales to Hong Kong and Macau are subsequently exported to overseas customers in Europe and North America.
6. Central and South America comprises Chile, Columbia, Brazil, Paraguay, Uruguay, Venezuela, Panama, Peru and Argentina.
7. Africa comprises South Africa, Angola, Uganda, Reunion and Tanzania.

Sales Channels

Although we generated most of our revenue from sales under our own brands during the Track Record Period, we have provided ODM services to some customers located in North America, Australia and Oceania, and China. The following table sets forth our sales through different channels on our own brands or to our ODM customers:

	Year ended 31 December					
	2014		2015		2016	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Sales under our own brands	125,686	71.9	111,757	66.2	80,376	46.6
ODM business						
Inflatable playgrounds with air blowers	35,956	20.6	37,365	22.2	69,561	40.4
Other inflatable products and inflatable products related accessories	2,306	1.3	1,593	0.9	10,607	6.1
Subtotal	38,262	21.9	38,958	23.1	80,168	46.5
Others (<i>note</i>)	10,861	6.2	18,087	10.7	11,803	6.9
Total	<u>174,809</u>	<u>100.0</u>	<u>168,802</u>	<u>100.0</u>	<u>172,347</u>	<u>100.0</u>

Note: Others include sales of inflatable products related accessories and intermediate materials which are not under our own brands or ODM business, and subcontracting work performed by our Group for other manufacturers.

For the products sold under our own brands, we have been selling to our customers directly during the Track Record Period. Some of them, including Swan Plastic, SHD International, are trading companies. During the Track Record Period, our sales ODM business were mainly sold to local manufacturers for their onward sales to overseas clients. Our Group generally offer credit terms of nil to 60 days to these trading companies or manufacturers, which is similar to other customers.

BUSINESS

The following table sets forth our sales by types of customers:

	Year ended 31 December					
	2014		2015		2016	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Trading companies	49,974	28.6	34,325	20.3	32,766	19.0
Local manufacturers	8,425	4.8	24,978	14.8	53,013	30.8
Retailers	103,451	59.2	95,962	56.9	68,359	39.7
Wholesalers	12,959	7.4	13,537	8.0	18,209	10.5
Total	<u>174,809</u>	<u>100.0</u>	<u>168,802</u>	<u>100.0</u>	<u>172,347</u>	<u>100.0</u>

Marketing

The sales and marketing activities of our Group are mainly conducted by the sales and marketing team. As at the Latest Practicable Date, our sales and marketing team consisted of approximately 17 staff. Our sales and marketing team is principally responsible for searching potential customers by various means (including participating in exhibitions such as Spielwaremess International Toy Fair Nuremberg, Hong Kong Toys and Games Fair and China Import and Export Fair, posting advertisements on the internet and distribution of marketing materials), handling enquiries from existing customers, and following up the orders and shipments of products for our customers. We also seek customer feedback from time to time in respect of the quality of our products through frequent visits to our customers and other communication means such as email and telephone.

Pricing policy

Our pricing strategy is based on a variety of factors including the raw material prices, production costs, market condition and the technical requirements of the products required by our customers.

The price of our products is determined on a “cost-plus” basis, comprising the price of the raw materials, the labour costs and a processing fee, which depends on the specifications and skills required for the relevant products. We regularly monitor our production costs in order to ascertain if our selling price is justifiable. We normally revise our selling price annually to counter for inflation and our cost increase and our new prices are reflected in new product catalogues or price lists. As a result of our “cost-plus” pricing strategy and the measures we adopted, our Directors believe that we can pass on part of the increase in purchase costs of raw materials to our customers.

BUSINESS

Major terms in the sales agreements with our customers

We do not enter into long-term agreements with our customers. The sales contracts we entered with our customers contain generally the following terms:

Our responsibilities:

- conformity with required quality;
- complete inspection of products according to our customer's requirements before final delivery.

Price of goods:

- to be specified in individual sales orders.

Shipment terms:

- for overseas customers, delivery shall be made in accordance with free-on-board terms; for local customers, delivery shall be made in such directions given by our customers;
- for overseas customers, we are generally responsible for the transportation costs from our factory to Zhongshan Port, and transportation costs from Zhongshan Port to overseas destinations are normally borne by our overseas customers; for local customers, our customers may be responsible for the transportation costs.

Settlement method and credit period:

- the purchase price shall be settled via telegraphic transfer or letter of credit;
- a credit period of 0 to 120 days may be granted to some of our major customers.

Packaging:

- item number, place of manufacturing and specific marks must be shown on each packaging and product.

Other terms:

- any price changes, extension of time for delivery or any other changes shall be agreed in advance and be legally binding on our customer unless evidenced by the purchase order agreement.

BUSINESS

For ODM arrangement, the customers shall confirm and provide supporting documents to us that the logo or trademarks used are the properties of the customers. Save as the terms in relation to the ownership of the logo or trademarks, the agreements which our Group enters into with our ODM customers are of material the same terms as our Group's sales under our own brands.

Terms of payment and credit policy

For export sales to our overseas customers, as our products will be loaded in cargo and shipped abroad, our prices are normally paid in 2 instalments with the first of which, generally up to 30% of the total value of the goods, is settled upon order is made, and the balance is to be settled upon the bill of lading is issued. We may grant some of our major customers a credit period of 0 to 120 days. For our domestic customers, save for orders for PVC laminated oxford and subcontracting work, which a 60 days' credit period is granted in general, we normally deliver our goods to them upon full payment.

We mainly accept payments of our customers by way of bank telegraphic transfer or bank letter of credit. Our management closely monitors the credit exposure and repayment conditions of our customers. Specific provisions will be made if our management believes that any customer is in financial distress and is unable to settle its long outstanding trade amount. For more information, please see the section headed "Financial Information – Certain balance sheet items – Trade and other receivables" in this prospectus.

During the Track Record Period, we did not experience any material bad debts, and we did not provide for doubtful debts as there were subsequent settlements or no historical default of payments by the respective customers and the amounts are still considered recoverable. We make specific provisions when there is objective evidence indicating that the possibility of collecting an outstanding debt is doubtful.

Product warranty and return policy

We do not provide warranty for our products but we accept return or exchange of any defective product or damaged product during delivery from our customers after our examination and approval. We will refund our customers the relevant purchase amount for any defective or damaged products returned to us or exchange the defective or damaged products for new products. The liability or defect of our products are borne by us solely and there is no allocation of product defects between our suppliers and us. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material product return due to product quality defects or damages or any product recalls or product liability claims.

Seasonality

Our Directors consider that some of our inflatable playgrounds are popular choices of gifts for customers during the summer time and at festivals, our sales in the few months before the summer time and festivals are generally better. As a result, we generally record higher revenue during the second quarter of a year. For each of the years ended 31 December 2014, 2015 and 2016, aggregate revenue for second quarter amounted to approximately RMB53,330,000, RMB48,087,000 and RMB46,984,000 respectively,

representing 30.5%, 28.5% and 27.3% of our total revenue. However, as our customers are located at both the southern and northern hemispheres and the seasonality impact on our sales is, to a certain extent, offset by sales from various markets, we are of the view that the seasonality of our Group's sales is not apparent as a whole.

After-sales services

To better serve our customers and collect market information in a timely manner, it is our policy that all complaints, feedbacks and enquiries from our customers shall be handled and answered promptly and adequately. We have customer service hotlines through which our customers may reach us if they have any complaints, feedbacks or enquiries in relation to our products. In addition, our sales and marketing team regularly pays visits to our customers to assist them in solving any sales-related issues.

In addition, during the Track Record Period, we have engaged 5 to 6 regional after-sales service agents, who are generally overseas toy importers, for the provision of after-sales services to our customers in some of our major markets, such as Australia, the United Kingdom, France and Spain. Having local manpower, resources and networks, and experiences in running toy business, these agents can provide after-sales services, including replying any enquiries from our customers about using our products, sending missing parts to our customers and examining and arranging for return and exchange for any defective or damaged products to the relevant countries that the agents are responsible for. These after-sales service fees were determined with reference to the price and quantity of different types of products sold to the country, and are generally certain percentages of our total sales in the relevant country. The after-sales service fees incurred for these agents for each of the years ended 31 December 2014, 2015 and 2016 were RMB2,913,000, RMB4,296,000 and RMB3,736,000, respectively, representing approximately 6.4%, 6.4% and 6.1% of the sales subject to the after-sales services of the corresponding period. For the years ended 31 December 2014, 2015 and 2016, Little Kids Big Kids Pty Ltd, who is a toy importer in Australia and the largest regional after-sales service agent of our Group, mainly provides after-sales services to our clients in Australia. The aforesaid regional after-sales service agent accounted for approximately 51.5%, 86.1% and 48.1% of our total after-sales service fees paid to these agents for each of the years ended 31 December 2014, 2015 and 2016, respectively. The changes in after-sales service fees during the Track Record Period was mainly due to the changes in the turnover subject to the after-sales service for the same period.

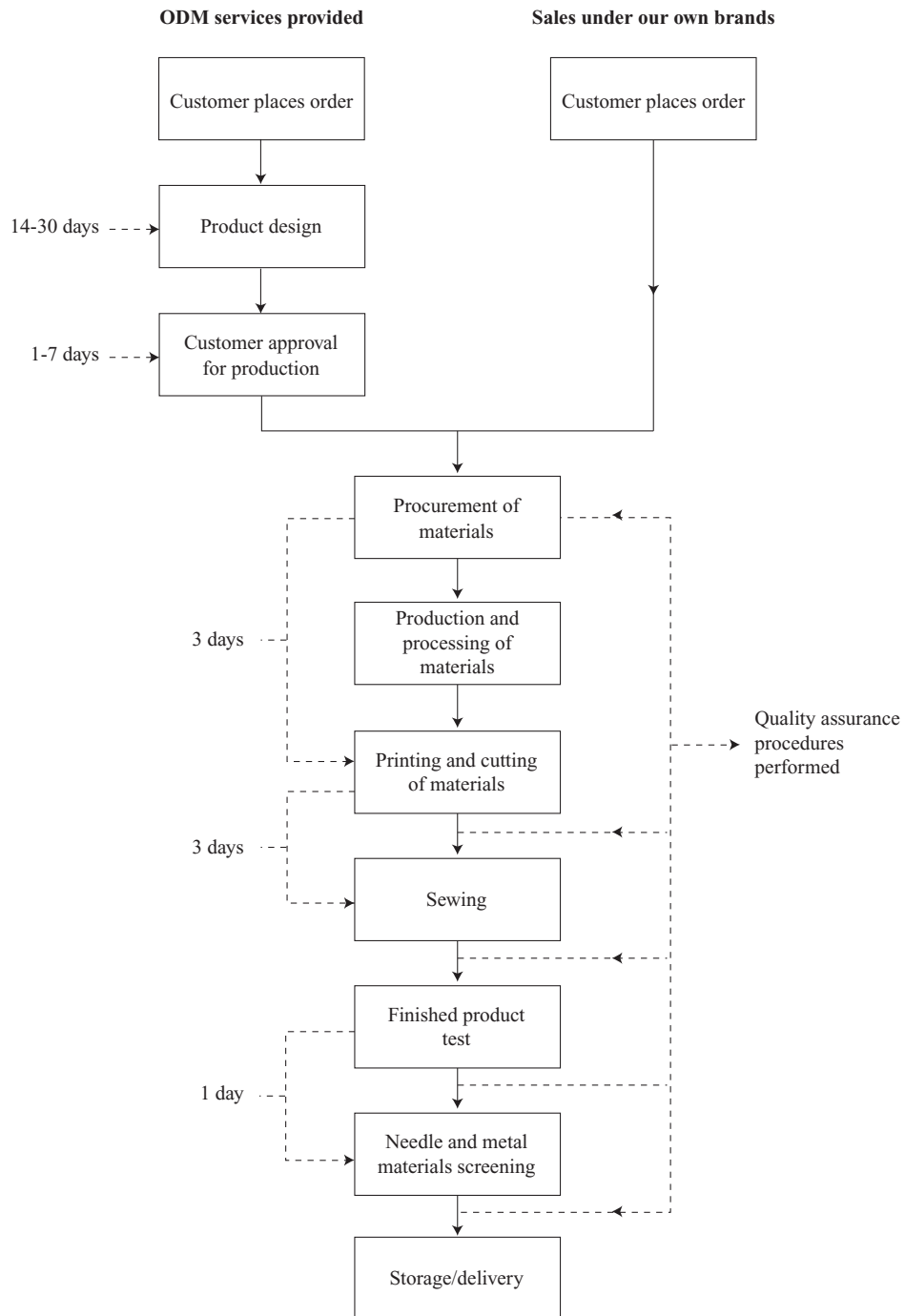
To the best knowledge of our Directors, having made all reasonable enquiries, all of these regional after-sales service agents are Independent Third Parties and, save for being our after-sales service agents, none of them has any other relationship with our Group.

BUSINESS

PRODUCTION

Production process

Set out below is our standard production process:



Product design

Our Research and Development Department is responsible for development of new products to be sold under our own brands or design products for our customers who require our ODM services, our Research & Development Department will work together with our design team to develop new products or to improve existing designs through product development or according to customer specifications. After creating initial product designs, we proceed to develop the technical details of the designs and create prototypes to finalise the design specifications of the product. Our Research & Development Department is responsible for ensuring the manufacturing feasibility of the product and its compliance with the relevant product safety and industrial standards or customer's specification.

Procurement of materials

After ensuring our designs are suitable for production, our Production Department and our Production and Material Control Department will procure suitable raw materials and packaging materials in accordance with our initial design and technical specifications.

Testing of materials

To ensure that we comply with the relevant product safety and industrial standards, our engineers of the Research & Development Department carry out extensive testing on the fabrics, raw materials and packaging materials, such as EN71-1 (test on mechanical and physical properties), EN71-2 (test on flammability) and other testing on the strength, elasticity and tolerance of fabrics procured. We conduct the majority of testing in our in-house laboratory.

Production and processing of materials

We produce and purchase the PVC laminated oxford used in the production of our inflatable playgrounds and other inflatable products in house, according to the technical specifications.

Printing and cutting of materials

Upon approval by our Research & Development Department, our Production Department and Production and Material Control Department begin the manufacturing process by printing and cutting materials for production.

Sewing

Our Production Department proceeds to sew together the cut materials to assemble our products. Our quality control team are involved during this stage to ensure that the products meet the required product quality standard and comply with safety and reliability concerns and are free of defects.

BUSINESS

Finished product test

Upon completion of production, we proceed to test the finished products and ensure that they are compliant with our initial technical specifications and that the finished products do not contain defects.

Needle and metal materials screening

In particular, we conduct careful checking on small metal parts in our finished products to avoid children from being hurt during play by putting them through metal detection machines to ensure that no such small metal parts, such as needles are contained in our final products.

Production facility

As at the Latest Practicable Date, our Group leased from Zhongshan Dongcheng Real Estate Industrial Limited (中山東成地產實業有限公司), an Independent Third Party, our various production facilities comprising three production plants, ancillary offices, ancillary facilities, warehouse, and staff dormitory in Zhongshan City, Guangdong Province. The production facilities had a gross floor area of approximately 27,799.2 sq.m. and the monthly rent and building management fee is approximately RMB409,000. As advised by our PRC Legal Advisers, the lease contract fully complies with the law and regulation of the PRC. As at the Latest Practicable Date, we employed over 350 production workers to operate and manage our production lines.

The tenancy agreement we entered for our production facilities in Zhongshan City, Guangdong Province expires in 2019. There contains no option to renew in the tenancy agreement and therefore there is no assurance that the landlord would renew the tenancy agreement upon its expiration. However, as Zhongshan City, Guangdong is an industrial zone with many similar production facilities available in the same region, our Directors are of the view that our Group could relocate to other production sites in the same region if the tenancy agreement is not renewed. Our Directors estimate that, in the event if relocation is required, it would take around 2 to 3 months to complete the whole relocation process and the total costs incurred for the relocation is around RMB4,350,000.

Machinery and equipment

The principle production machinery owned by our Group and used in production process include machines for calendaring, lamination and coating of PVC and various types of sewing machines, each having an expected useful life of 6 to 10 years. For the years ended 31 December 2014, 2015 and 2016, our Group spent approximately RMB371,000 and RMB916,000 and RMB249,000 on the acquisition of machinery, respectively. Our Group conducts regular maintenance on its machinery and equipment, including checking for normal wear and tear, injecting lubricant, keeping record on machine configurations, adjustment settings and care for fittings. Maintenance costs incurred for production machinery for the years ended 31 December 2014, 2015 and 2016 were approximately

BUSINESS

RMB148,000, RMB132,000 and RMB87,000, respectively. During the Track Record Period, there had been no major disruptions of the business operations resulting from insufficient equipment maintenance or broken down of machinery or equipment.

The table below sets forth the average age and remaining useful life of our production machinery as at 31 December 2016 by major types of machines:

	Average age as at 31 December 2016	Remaining useful life as at 31 December 2016
Sewing machines	5.9	4.1
Lamination and calendering machines	1.8	8.2
PVC welding machines	5.8	4.2
Other supporting and testing machines	5.1	4.4

Note: Useful life of our production machinery is expected to be 6 to 10 years as estimated by our Directors.

Production capacity and planning

Our Group conducts general production planning based on anticipated purchase order volumes, and conducts detailed production planning based on actual orders received. Our Group reviews and adjusts its production plans regularly to ensure all finished products can be delivered in accordance with customer demands and to avoid from running-out of our production capacity. The aggregate production capacity of the factories and an analysis of the utilisation rate during the Track Record Period are set out below:

	For the year ended 31 December 2014			For the year ended 31 December 2015			For the year ended 31 December 2016		
	Estimated annual production capacity (note 4)	Production volume	Utilisation rate (note 5)	Estimated annual production capacity (note 4)	Production volume	Utilisation rate (note 5)	Estimated annual production capacity (note 4)	Production volume	Utilisation rate (note 5)
Inflatable playgrounds with air blowers									
Small to medium size (note 1)	210,894 pieces	189,960 pieces	90.1%	192,075 pieces	187,445 pieces	97.6%	185,900 pieces	164,965 pieces	88.7%
Large size (note 2)	150 pieces	118 pieces	78.7%	154 pieces	148 pieces	96.1%	149 pieces	148 pieces	99.3%
Other inflatable products (note 3)	100,975 pieces	38,331 pieces	38.0%	103,425 pieces	3,822 pieces	3.7%	100,100 pieces	73,450 pieces	73.4%
PVC laminated oxford	7.8 million yards	5.0 million yards	64.1%	7.9 million yards	5.6 million yards	70.9%	7.9 million yards	4.5 million yards	57.0%

BUSINESS

Notes:

1. Small to medium size inflatable playgrounds with air blowers are for fewer than 7 players.
2. Large size inflatable playgrounds with air blowers are for 7 or more players.
3. Other inflatable products include inflatable tents and mini inflatable playgrounds without air blowers.
4. Production capacity is estimated by the daily production volume (in pieces or yards) and multiplied by the expected number of days of production during the period indicated.
5. Utilisation rate is computed by dividing actual production output by estimated production capacity.

Our overall production facility utilisation rate was higher in the year ended 31 December 2015, as compared with 2014. The utilisation rate of our inflatable playgrounds with air blowers in 2015 was higher as compared with that of 2014 primarily due to the decrease in estimated annual production capacity as some of our production machinery were disposed in the year as these machinery were aged. Due to the higher demand for our PVC laminated oxford from other local inflatable manufacturer, orders and production volume of PVC laminated oxford increased by approximately 12.0% leading to the increase in utilisation rate in 2015. The decrease in utilisation rate of the production of inflatable products in 2015 was in line with the decrease in relevant sale, due to the reduced marketing effort on other inflatable products in 2015 as focused on promoting our inflatable playgrounds with air blowers, which are considered to be more profitable. In 2016, the utilisation rate of the production of other inflatable products increased to 73.4% primarily due to increased sales of PVC inflatable products to local toys companies. The utilisation rates of the production facility of inflatable playgrounds with air blowers in 2016 were generally in line with what we recorded for the two years ended 31 December 2015.

During the Track Record Period, our Group made investment of approximately RMB2,161,000 in property, plant and equipment, out of which approximately RMB1,536,000 was invested into the purchasing or upgrading of existing production lines for inflatable playgrounds with air blowers to compensate the decrease in our production capacity due to the disposal of aged machinery. In view of the strong demand and increasing business opportunity in large size inflatable playgrounds markets in North and South America, we plan to expand our production line for manufacturing large size inflatable playgrounds with air blowers. In the future, we plan to further acquire new production facilities and machinery, such as automatic cutting tables, heavy duty sewing machines and large scale testing facilities, as well as to upgrade and automate the production facilities and machinery of our existing production lines to further increase our production capacity, especially for large size inflatable playgrounds. In this regard, we plan to further invest approximately RMB4,500,000, out of which approximately RMB3,500,000 will be invested in acquiring new production facilities and machinery for manufacturing large size inflatable playgrounds, and the remaining RMB1,000,000 will be invested in upgrading our existing production lines. We estimate that the expansion would be completed by mid 2018 and by the time of completion of expansion, our large size inflatable products production capacity will be increased from 149 pieces to approximately 500 pieces per year and our small to medium size inflatable products production capacity will be increased from 185,900 pieces to approximately 210,000 pieces per year. Having considered our existing production capacity for inflatable playgrounds with air blowers are almost saturated and we have subcontracted a

BUSINESS

considerable amount of our manufacturing works to local factories, although there may be spare new capacity shortly after the expansion is completed, our Directors believe that future demand, and our Directors' efforts in bringing in new customers through implementing our business strategies as mentioned in the paragraph headed "Business strategies" in this section above, would justify the need for extra production capacity.

SUBCONTRACTING

For each of the years ended 31 December 2014, 2015 and 2016, we subcontracted a portion of sewing, printing and packaging works to 5, 5 and 9 subcontractors, respectively, which are mainly local factories involving in sewing and packaging works. The total subcontracting fees amounted to approximately RMB6,514,000, RMB6,486,000 and RMB14,721,000, representing 4.5% 4.7% and 11.0% of our total cost of goods for each of the years ended 31 December 2014, 2015 and 2016, respectively. During the Track Record Period, we did not experience any difficulties in engaging subcontractors which would have had a material impact on our business, financial condition or results of operations.

We select our subcontractors based on our assessment of their (i) service quality; (ii) timeliness on delivery; (iii) quotation; and (iv) whether they have a quality assurance system that meets our work requirements. Credit periods granted by our subcontractors during the Track Record Period were around 30 to 60 days.

As required under the usual terms of contracts, our subcontractors have to state their responsibilities and policies relating to quality control, work safety and environmental protection in the contract. Our staff will conduct site visits to ensure general compliance and the quality of works by our subcontractors. In general, we will carry out supervision on our subcontractors on a continuing basis to check if their quality of work can meet our requirements.

During the Track record Period and up to the Latest Practicable Date, there are no material disputes between our Group in respect of the quality of work performed by our subcontractors.

One of our subcontractors, Zhongshan Horizon, a subsidiary indirectly owned and controlled by Swan Plastic, purchased intermediate materials, mainly PVC laminated oxford, from our Group amounted to approximately RMB7,217,000, RMB15,503,000 and RMB11,812,000 for each of the years ended 31 December 2014, 2015 and 2016, respectively.

Save as for Zhongshan Horizon, as at the Latest Practicable Date, none of our Directors, their respective close associates or any Shareholders who, to the knowledge of our Directors, owned more than 5% of our Company's issued share capital as at the Latest Practicable Date, has any interest in any of our subcontractors during the Track Record Period. To the best knowledge of our Directors, having made all reasonable enquiries, each of our subcontractors is an Independent Third Party. For details of the transactions between Zhongshan Horizon with our Group, please refer to the section headed "Financial Information – Related parties transactions and balances" in this prospectus.

BUSINESS

RAW MATERIALS PROCUREMENT AND MERCHANDISING

Raw materials

Raw materials purchased for use in our Group's manufacturing process during the Track Record Period included air blower, PVC cloth, PE cloth, PVC laminated oxford, polyester cloth, PVC coating materials, oxford cloth, PP tape, polypropylene resin and velcro. For air blowers, they are purchased from Independent Third Parties. Some of the PVC laminated are produced in house.

Air blowers are key raw materials for our inflatable playgrounds and we purchase them instead of manufacturing them by ourselves. To cope with our Group's business needs and products development, our Group has been procuring various air blower models from our suppliers. Subject to various factors, including (i) introduction of more advanced air blower series; (ii) demand for different air blower requirements and accessories of our Group from time to time; and (iii) discount offered by the air blower manufacturers from time to time, the purchase price of air blowers may vary. For the years ended 31 December 2014, 2015 and 2016, our Group purchased approximately 165,000 pieces, 172,000 pieces and 158,000 pieces of air blowers for approximately RMB28,183,000, RMB30,567,000 and RMB25,434,000, representing approximately 33.2%, 36.8% and 29.1% of total raw materials procurement, respectively.

Sensitivity analysis

The sensitivity analysis below illustrates the impact of hypothetical fluctuations in our Group's average costs of the raw materials consumed during the Track Record Period. The percentage used below covers the historical range of fluctuation in average costs of the raw materials consumed by our Group.

Hypothetical fluctuation in average costs of raw materials consumed	+5% <i>(RMB'000)</i>	+10% <i>(RMB'000)</i>	-5% <i>(RMB'000)</i>	-10% <i>(RMB'000)</i>
Change in profit before tax				
For the year ended 31 December 2014	(4,599)	(9,198)	4,599	9,198
For the year ended 31 December 2015	(4,258)	(8,517)	4,258	8,517
For the year ended 31 December 2016	(4,263)	(8,525)	4,263	8,525
Change in profit after tax				
For the year ended 31 December 2014	(3,450)	(6,899)	3,450	6,899
For the year ended 31 December 2015	(3,194)	(6,388)	3,194	6,388
For the year ended 31 December 2016	(3,197)	(6,394)	3,197	6,394

BUSINESS

Procurement

Our material procurement is determined by our production schedule based on our Group's estimation of orders. Our Production and Sales Department determines the production and sales volume at a particular time so as to formulate our procurement plan. Our Procurement Department then contacts our suppliers in relation to our materials requirements. All of our raw materials are sourced domestically. We adopt a centralised procurement system for the majority of our materials in order to enjoy economies of scale and maximise our bargaining power with suppliers. Suppliers will directly deliver the materials to our production facilities after we place order with them.

Suppliers

For the years ended 31 December 2014, 2015 and 2016, we procured from 82, 103 and 101 suppliers, respectively. We select our suppliers on the basis of product quality, their background and credibility, reputation, service, price, scale of production and ability to meet our delivery schedule and requests. We typically work with reputable and reliable suppliers to secure key raw materials such as air blowers used in our production process. We have established stable and good relationships with our suppliers of our principal raw materials. Our raw materials are generally available from a number of domestic suppliers, and we normally have at least two sources of supply for each type of raw materials to avoid dependency. We require goods provided by our suppliers to meet high quality standards and we conduct regular evaluation on suppliers. Furthermore, before we engage a new supplier, such supplier has to pass our internal quality control process.

We do not enter into long-term agreements with our suppliers. During the Track Record Period and up to the Latest Practicable Date, we did not encounter any shortage of raw materials or delay in delivery of materials by our suppliers that significantly affects our operation.

Payment terms granted by our suppliers vary depending on a number of factors including our relationship with our suppliers and the size of the transactions. On average, our suppliers typically provide us with credit terms of 30 to 75 days. We usually settle our trade payables by bank transfers and bank bills.

During the years ended 31 December 2014, 2015 and 2016, purchases of materials from our five largest suppliers amounted to approximately RMB62,482,000, RMB65,091,000 and RMB63,118,000 and represented 73.5%, 78.4% and 72.2% of our total cost of goods purchased, respectively, and purchases from our single largest supplier accounted for 32.2%, 35.5% and 28.8% of our total cost of goods purchased, respectively.

Our Directors are of the view there are readily available alternative suppliers in the market. Apart from our existing suppliers of air blowers and textile, our Directors consider that there is at least one other existing air blowers supplier and textile supplier who are able to supply air blowers and textile to our Group at comparable terms, volume and quality with our two largest suppliers. In addition, to our Director's best understanding on the market, there are at least five other potential alternative suppliers in Zhongshan and Guangzhou, who are willing and able to supply air blowers and textile to our Group at comparable terms,

BUSINESS

volume and quality with our two largest suppliers. In view of the above and the long business relationships established between our Group and our suppliers, our Directors believe that our Group does not expose to material concentration risk relating to suppliers.

The table below sets out the background information of the top five suppliers and their respective percentages of purchases of our Group during the Track Record Period:

For the year ended 31 December 2014

Rank	Name of supplier	Principal business	Location	Type of products purchased by our Group	Approximate years of relationship with our Group	Typical credit term offered by our suppliers	Payment method	Total purchases (RMB'000)	Percentage of our Group's total purchase (%)
1	Supplier A (note 1)	Manufacturing air blowers	China	Air blowers	12	60 days	Bank transfer	27,404	32.2
2	Supplier B (note 2)	Manufacturing textile	China	Textile	11	75 days	Bank transfer	24,436	28.8
3	Zhongshan Dongjian Trading Company Limited ("Zhongshan Dongjian") (中山市東健貿易有限公司) (note 3)	Trading in daily commodities	China	Plastic materials	2	60 days	Bank transfer	5,181	6.1
4	Supplier C (note 4)	Manufacturing PVC coating materials	China	PVC coating materials	3	60 days	Bank transfer	2,979	3.5
5	Supplier D (note 5)	Manufacturing textile	China	Textile	10	60 days	Bank transfer	2,482	2.9
Total								62,482	73.5

For the year ended 31 December 2015

Rank	Name of supplier	Principal business	Location	Type of products purchased by our Group	Approximate years of relationship with our Group	Typical credit term offered by our suppliers	Payment method	Total purchases (RMB'000)	Percentage of our Group's total purchase (%)
1	Supplier A (note 1)	Manufacturing air blowers	China	Air blowers	12	60 days	Bank transfer	29,453	35.5
2	Supplier B (note 2)	Manufacturing textile	China	Textile	11	75 days	Bank transfer	28,358	34.2
3	Supplier C (note 4)	Manufacturing PVC coating materials	China	PVC coating materials	3	60 days	Bank transfer	2,790	3.4
4	Supplier E (note 6)	Manufacturing chemical raw materials	China	PU glue, CVDSS-linking accelerant	4	60 days	Bank transfer	2,285	2.7
5	Supplier D (note 5)	Manufacturing textile	China	Textile	10	60 days	Bank transfer	2,205	2.6
Total								65,091	78.4

BUSINESS

For the year ended 31 December 2016

Rank	Name of supplier	Principal business	Location	Type of products purchased by our Group	Approximate years of relationship with our Group	Typical credit term offered by our suppliers	Payment method	Total purchases (RMB'000)	Percentage of our Group's total purchase (%)
1	Supplier A (note 1)	Manufacturing of air blowers	China	Air blowers	12	60 days	Bank transfer	25,211	28.8%
2	Supplier B (note 2)	Manufacturing textile	China	Textile	11	75 days	Bank transfer	22,517	25.8%
3	Supplier G (note 8)	Manufacturing PVC membranes and films	China	PVC films	6	60 days	Bank transfer	8,467	9.7%
4	Supplier C (note 4)	Manufacturing PVC coating materials	China	PVC coating materials	3	60 days	Bank transfer	3,894	4.4%
5	Supplier F (note 7)	Trading of textile and clothings	China	Textile	4	75 days	Bank transfer	3,029	3.5%
								63,118	72.2%

Notes:

- Supplier A was founded in 1989 and is one of the most well-known air blowers manufacturers in the PRC. The company mainly manufactures different kinds of air blowers such as cooling air blowers and high pressure air blowers.
- Supplier B is a textile manufacturing group in Jiangsu, the PRC.
- Zhongshan Dongjian is a trading company based in Zhongshan City, the PRC and mainly engaged in trading of daily commodities. Prior to the disposal of their relevant equity interest on 16 January 2016, Ms. Lin, the spouse of Mr. Huang, and Mr. Xiao held 70% and 15% equity interest in Zhongshan Dongjian, respectively.
- Supplier C is a manufacturer specialising in producing PVC coating materials, architectural membrane, tent fabric, air tightness materials, digital printing advertising materials and other industrial textiles in Zhejiang, the PRC.
- Supplier D is a company engaged in manufacturing of textile and leather processing in Zhongshan City, the PRC.
- Supplier E is a company engaged in manufacturing of chemical raw materials for textile and leather processing in Jiangsu, the PRC.
- Supplier F is a company engaged in trading of textile and clothings in Guangzhou City, the PRC.
- Supplier G is a manufacturer specialising in producing PVC membranes and films in Zhongshan City, the PRC.

Among the five largest suppliers during each of the years ended 31 December 2014, 2015 and 2016, Zhongshan Dongjian was our related party at the material time. For details of its transactions with our Group, please refer to the section headed “Financial Information – Related party transactions and balances” in this prospectus.

BUSINESS

Save for Zhongshan Dongjian, as at the Latest Practicable Date, none of our Directors, their respective close associates or any Shareholders who, to the knowledge of our Directors, owned more than 5% of our Company's issued share capital as at the Latest Practicable Date, has any interest in any of our suppliers during the Track Record Period. To the best knowledge of our Directors, having made all reasonable enquiries, each of our suppliers is an Independent Third Party.

INVENTORY MANAGEMENT

Our inventory comprises mainly raw materials such as air blowers and PVC cloth and finished products. We generally maintain inventory levels based primarily on our estimated production requirements and sales orders, which usually equals to inventory necessary to sustain two to three months' production. In certain cases, we stock up our inventory upon receipt of forecast or confirmed order from a customer.

We carry out physical inventory counts periodically for better control and management of inventories to ensure the accuracy and completeness of stock-in and stock-out information on record. In addition, our Group adopted the "first-in first-out" method to ensure inventories of older age will not be unnecessarily accumulated for an extended period of time. Generally, provision will be made for inventories which are considered obsolete after taking into account the aging of the inventory items, the movement and usefulness or residual value of the inventories.

QUALITY CONTROL

Our Group places strong emphasis on quality control. As such, we have implemented stringent quality control procedures which are carried out by our quality control team throughout our production process and on all production lines.

Quality control team

As at the Latest Practicable Date, our quality control team comprised 21 quality control inspectors, headed by our Head of Production Department, Ms. Li Qiuhong, who collectively take charge of intermediate and final quality inspection procedures. Ms. Li has over 20 years of experience in factory management and her detailed experience and qualifications are set out in the section headed "Directors, Senior Management and Employees" in this prospectus. Our quality control team is responsible for (i) inspecting raw materials and components before such materials and components are accepted for use; (ii) performing sample tests at various stages of the production process to ensure that the quality of our products is at high level; and (iii) inspecting finished products to ensure that our products meet the specifications of the orders and the quality requirements. Our quality control inspectors work independently from the production line, ensuring that our products are assessed objectively.

BUSINESS

Quality control over raw materials and components

The principal raw materials involved in our production include air blowers, PVC laminated oxford, polyester cloth and PVC coating materials. To ensure adequate supply and efficient delivery to our production facilities, we procure our raw materials and packaging materials from domestic suppliers.

Our Production and Material Control Department assesses and selects suppliers based on, among other things, the suppliers' reputation, their operating history, scale and production capacity, ability to meet strict timelines and their after-sales services, and requires that each purchasing contract be subject to review and approval. Our Group performs periodic assessments on our selected suppliers, ensuring product safety controls and industrial standards are complied with.

We carry out various sample tests on our raw materials and components to comply with product safety and quality standards such as the US ASTM F963-11 of the Standard Consumer Safety Specification for Toy Safety, EN 71-1 (test on mechanical and physical properties), EN71-2 (test on flammability) and EN71-8 (test on swings, slides and similar actively toys for domestic use) required by the European Commission, content of phthalates, AZO Dyes, PAHs, cadmium, organotin as required by the EU REACH Regulation 1607/2009, AS/NZA ISO8124-1:2013, ISO8124-2:2009 as required by Australia and New Zealand, and other international standards.

Quality control over the production process

Our Group performs quality inspections on work-in-progress and finished products manufactured at our factories as well as deliverables supplied by third-party subcontractors based on acceptable quality level standards. At present, our Group has been accredited with international factory audits and quality management certifications including ISO9001: 2000 and ISO9001:2008, that we obtained through participating in the scheme of certifying corporate as having a managing system that complies with the applicable standards under the regulations as published by the International Organisation for Standardisation.

For further details of our quality control in the production process, please refer to the section headed "Business – Production – Production process" in this prospectus. We have enacted an internal quality control standard, which specifies the standards for our products and provides guidance for our quality control team for carrying out their works.

Quality control over finished products

Upon completion of production, we test the finished products and ensure that they are compliant with our initial technical specifications. For example, they are checked to see if the sewing is in order and whether there are any defects in the products. In particular, we conduct careful checking on small metal parts in our finished products in order to avoid children from being hurt during play by putting them through metal detection machines to ensure that no small metal parts especially needles are contained in each of our final products.

BUSINESS

After the products are tested on the initial technical specifications, our quality control team again test the products and ensure they are compliant with both our technical and design specifications, ensuring that the design, quality and safety of the product has been maintained from the conceptual stage and throughout.

We did not experience any material complaint or product recalls or sales returns for the products we sold during the Track Record Period and up to the Latest Practicable Date.

HEALTH AND WORK SAFETY

Our Group strives to ensure that its production staff work within a safe and healthy working environment by setting out a system of safety regulations in our staff manual. Our Group has also been accredited with occupational health and safety management standard certification, OHSAS18001:2007. Training on occupational safety is provided on a regular basis to enhance employee awareness of labour safety issues, and remind employees of the importance of such. In addition, regular inspections are conducted at our factory to monitor and ensure compliance by employees with safety rules and the maintenance of the machinery. During the Track Record Period and up to the Latest Practicable Date, there was no material breach of work safety rules by our Group's production staff.

In order to protect the rights of workers to receive medical care and monetary compensation after suffering from work injuries or occupational diseases, our Group has procedures in place to handle work-related accidents and occupational diseases at the factories. If a worker is injured as a result of work-related accidents or is diagnosed as suffering from occupational diseases, our Group will apply, on behalf of the injured or sick worker, for compensation from local social security authorities in accordance with our Group's procedures. Our Group will assist the relevant social security authorities to verify the details of the accident and assess the condition of the worker. Compensation will be paid from occupational injury insurance fund managed by the social security authorities.

During the Track Record Period and up to the Latest Practicable Date, our Group did not experience any significant accident involving employees' safety in the course of their employment and our Group had complied with applicable health and safety laws and regulations in all material respects.

ENVIRONMENTAL MATTERS

We recognise the importance of environmental protection and have adopted stringent measures for environmental protection in order to ensure the compliance by us with the prevailing environmental protection laws and regulations. Our Group has been accredited with quality management standard certification, ISO14001:2004. Please refer to the section headed "Regulatory Overview – Environmental protection" in this prospectus for details about the environmental protection requirements related to our operations.

For each of the years ended 31 December 2014, 2015 and 2016, our cost of compliance with applicable environmental laws and regulations were approximately RMB39,000, RMB22,000 and RMB43,000 respectively which was mainly attributable to the cost of waste

BUSINESS

disposal. Our Directors currently expect that such cost of compliance going forward for the year ending 31 December 2017 would be around the same range as that incurred during the Track Record Period.

As advised by our PRC Legal Advisers, we were in all material respects in compliance with the applicable environmental protection laws and regulations during the Track Record Period.

During the Track Record Period, we were not subject to any major environmental claims, lawsuits, penalties or disciplinary actions.

CORPORATE SOCIAL RESPONSIBILITY

Our Group places utmost emphasis on our corporate social responsibilities and we are committed to complying with high standards to encourage the global toy industry supply chain to participate in business with ethical and socially responsible partners. Not only are we committed to realising the impact of our operations on the health and safety of our workers and on the environment, we also ensure that all our products are ethically manufactured in facilities that adhere to high codes of conduct.

As a result of our endeavours to assume corporate social responsibilities, our Group has been accredited with a Seal of Compliance issued by the ICTI CARE Foundation, confirming that we have successfully implemented and do maintain a Code of Business Practices system which complies with the requirements of the ICTI Code of Business Practices (2013 Version). Our continuous strive towards establishing policies and practises that address social concerns alongside commercial initiatives ensures that social responsibilities are not ignored in the course of pursuing business growth, as we appreciate the closely linked relationship between corporate social responsibilities and the overall success of an organisation.

AWARDS

We have been granted a number of major awards and certificates in recognition of our business development. Set out below are the awards that our Group considers material:

Year	Awards/certificates	Issued or granted by
2005	“Certificate of Registration – Quality Management System – ISO 9001:2000”	BSI Assurance UK Limited
2009	“Export Brand of Guangdong”(廣東省出口名牌)	Department of Foreign Trade and Economic Cooperation of Guangdong (廣東省對外貿易經濟合作廳)
2011	“Seal of Compliance – ICTI Code of Business Practices – Class B (2009 version)”	ICTI CARE Foundation

BUSINESS

Year	Awards/certificates	Issued or granted by
2012	“A Level Taxpayer”(A級納稅人)	Zhongshan National Tax Bureau (中山市國家稅務局), Zhongshan Local Tax Bureau (中山市地方稅務局)
2012	“Member of Credibility Covenant”(誠信公約會員單位)	Guangdong Enterprises Union (廣東省企業聯合會), Guangdong Enterprises Association (廣東省企業家協會)
2013	“Certificate of Registration – Quality Management System – ISO 9001:2008”	BSI Assurance UK Limited
2013	“Superb Independent Brand of Guangdong”(廣東省優秀自主品牌)	Guangdong Enterprises Union (廣東省企業聯合會), Guangdong Enterprises Association (廣東省企業家協會)
2013	“Export Toys Quality Permit Certificate”(出口玩具質量許可證書)	Guangdong Entry-Exit Inspection and Quarantine Bureau (廣東省出入境檢驗檢疫局)
2013	“Level Three Enterprise of Safe Production Standardisation”(安全生產標準化三級企業)	Zhongshan Safe Production Scientific Research Institute (中山市安全生產科學研究所)
2014	“Top Ten Independent Brands of Guangdong”(廣東省十佳自主品牌)	Guangdong Enterprises Union (廣東省企業聯合會), Guangdong Enterprises Association (廣東省企業家協會)
2014	“Certificate of Registration – Occupational, Health & Safety Managements System” – OHSAS18001:2007	BSI Assurance UK Limited
2014	“Certificate of Registration – Quality Management System – ISO14001:2004”	BSI Assurance UK Limited
2015	Bronze Award of 2015 Canton Fair Design Awards (2015年廣交會出口產品設計獎)	China Foreign Trade Centre (Group) (中國對外貿易中心(集團))
2015	“Seal of Compliance – ICTI Code of Business Practices (2013 version)”	ICTI CARE Foundation

DESIGN AND DEVELOPMENT

As at the Latest Practicable Date, we have dedicated design and development teams of 23 staff led by Mr. Zhu Wenyi who has over 10 years of experience in product design and research and development of our products. Please refer to the section headed “Directors, Senior Management and Employees” in this prospectus for biographical details of Mr. Zhu Wenyi. Our product development process focuses on improving and developing our existing product lines, including quality improvement and introduction of new style, package and design for overseas markets and the domestic Chinese market. Our sales representatives also provide us with timely and direct customer feedbacks to assist our product development. We also engaged an external design company to provide product design services to us. For each of the years ended 31 December 2014, 2015 and 2016, we had incurred expenses in relation to external product design services amounted to approximately RMB390,000, RMB34,000 and RMB5,000, respectively. We adopt a market-oriented product development approach and carry out feasibility analysis prior to launching new products.

INTELLECTUAL PROPERTY

Majority of our revenue is generated from sales of products under our own brands, which were self-developed, and therefore, our intellectual property rights are of fundamental importance to our business as we rely significantly on consumers’ recognition of our brand names.

As at the Latest Practicable Date, we have registered 35 trademarks, 89 patents and 86 copyrights in the PRC. In addition, we have registered 8 trademarks and 2 patents in other countries including Hong Kong, the EU, Australia and Oceania and North America. Details of our registered intellectual property portfolio which we consider material are provided in the section headed “Statutory and General Information – B. Further information about the business – 2. Intellectual property rights of our Group” in Appendix IV to this prospectus.

During the Track Record Period, a registered trademark assignment agreement and two patented technology assignment agreements were entered into between Mr. Xiao and Swiftech Company on 30 October 2015, 28 November 2015 and 3 November 2015 respectively, pursuant to which Mr. Xiao assigned 3 registered trademarks and 2 patents to our Group at nil consideration. A registered trademark assignment agreement was entered into between Mr. Huang and Swiftech Company on 12 November 2015, pursuant to which Mr. Huang assigned one registered trademark to our Group at nil consideration. In addition, a registered trademark assignment agreement was also entered into between Humoled and Swiftech Company on 1 January 2016 whereby 7 registered trademarks are agreed to be transferred to our Group from Humoled at a consideration of RMB200,000. As at the Latest Practicable Date, such assignment procedures have been completed with the approval of the assignments by the Trademark Office of the State Administration for Industry and Commerce of the PRC. Our Group has also registered 4 major domain names, namely “www.swiftech.cn”, “www.happyhopkids.com”, “www.alpha-era.co” and “www.mooseoutdoors.net”. As advised by our PRC Legal Advisers, our Group has the ownership and rights to use the domain names during the registration period. Save as disclosed above, all of our registered trademarks, patents and copyrights were self-developed.

BUSINESS

We undertake a pro-active approach to the management of our intellectual property portfolio. We undertake defensive registrations of our trademarks in additional categories where it is reasonably foreseeable that the trademarks may be used in our products in the future. Registration of intellectual property rights is usually made by our agents. As at the Latest Practicable Date, we had not been subject to any material intellectual property claims against us. Save as disclosed in the paragraph headed “Legal proceedings and compliance – Legal proceedings” in this section, we had not experienced any material dispute in relation to infringement on our intellectual property rights during the Track Record Period and up to the Latest Practicable Date that would materially affect our operation or financial position.

EMPLOYEES

As at the Latest Practicable Date, we had 530 full-time employees. Most of our employees are located in Zhongshan City, Guangdong Province, the PRC. A breakdown of our employees by responsibilities during the Track Record Period as at the Latest Practice Date is set forth below:

	As at 31 December 2014	As at 31 December 2015	As at 31 December 2016	As at the Latest Practicable Date
Management and executives	71	66	54	51
Administration and human resources	52	29	32	34
Finance and accounting	3	4	4	4
Design and product development	33	35	28	23
Procurement	5	3	3	3
Production	608	456	368	377
Quality control	34	28	20	21
Sales and marketing	20	19	17	17
	<u>826</u>	<u>640</u>	<u>526</u>	<u>530</u>

During the Track Record Period, the number of our Group’s employees has been generally decreasing, which was mainly resulted from natural attrition and resignation of the employees. In mid 2015, the People’s Government of Guangdong Province (廣東省人民政府) has increased the statutory minimum wages for approximate 15.0% for Zhongshan city. In addition, relevant government authorities of Zhongshan city also increased the percentage of social insurance contributions in Zhongshan city. Our Directors considered that upon the implementation of aforesaid new policies, the demand for labours from the factories nearby and the average labour costs in Zhongshan city has increased considerably and the attrition rate in our Group’s factory has increased, which may be because (i) it is easier for the production staff to seek for job opportunities with higher salary package or less workload; (ii) some of the production staff may prefer to work at factories that did not require them to pay for their social insurance contribution, and in turn could offer them a more competitive package. To cope with the increase in wages and the labour shortfall pressure, our management opted not to replace all the quitted employees, and instead, has implemented several measures to maintain our production costs and quality, such as (i) higher degree

BUSINESS

adoption of semi-automation in production to phase out certain standardized and labour intensive production stages, such as cutting, sewing, turning, sorting of accessories since 2015, which could reduce the pressure on manpower; (ii) raising the piece-rate incentive bonus to incentivize our production staff to meet the production target in respective peak production seasons to improve the production efficiency; (iii) streamlining the organization structure to trim down indirect labour in accordance to the attrition of employees from time to time, so as to minimize the effect of average labour costs increase; and (iv) increasing our subcontracting works to other nearby factories. As such, our number of employees has been decreasing during the Track Record Period. Nevertheless, our employment scale has reached a stable level since late 2016 and our Directors consider that our current employment scale has achieved minimum level that are essential for fulfilling the production requirement for our current business scale.

In view of the strong demand and increasing business opportunity in large size inflatable playgrounds markets in North and South America, we plan to expand our production capacity by acquiring new production facilities and machinery for manufacturing large size inflatable playgrounds with air blowers. To operate these new production facilities and machinery, our Directors consider that labours equipped with different skill sets, such as knowledge in operating automatic cutting tables, heavy duty sewing machines and large scale testing facilities, are required. As such, our Group plan to provide competitive salary packages to attract quality personnel to fill this vacancy. In addition, we plan to conduct comprehensive trainings for our employees and provide bonus for our well performed staff, and arrange them to work in the new production line. For the details of our expansion plan, please refer to the section headed “Business Objectives and Future Plans – Implementation Plans”.

As advised by our Group’s PRC Legal Advisers, based on the resignation notices, most of the termination of employment during the Track Record Period are due to their own resignation. Our Group’s PRC Legal Adviser further advises that (i) our Group is not obliged to paid any resignation compensation, in addition to their entitled salary and benefits, to those who resigned on their own pursuant to the PRC law; (ii) our Group has fully paid for their resignation compensation for whose employment was terminated by our Group during Track Record Period; and (iii) our Group was in full compliance with Chapter 4 of the PRC Labour Contract Law “中華人民共和國勞動合同法” and other applicable laws and regulations.

Having considered that (i) the labours resigned are mostly low-skilled whose works can be easily subcontracted to other nearby factories or replaced directly by other newly joined labours; (ii) the continuing adoption of semi-automation of some standard processes, including cutting, sewing, turning, sorting during the Track Record Period, which further reduced the reliance on manpower or skilled labours; and (iii) these labours are relatively salary sensitive and the Group could offer them more competitive salary reward by scheduling them with more working hours, our Directors considered that even our Group may occasionally face short term difficulties in recruitment of labours in the course of business, our Group does not face practical threats in the shortage of workforce to fulfill our production requirements during the peak season.

BUSINESS

For each of the years ended 31 December 2014, 2015 and 2016, our staff costs were approximately RMB39,384,000, RMB39,276,000 and RMB29,056,000 respectively.

To ensure the production effectiveness and quality, our Group has implemented the following management policy and on-job trainings for our production staff:

- a) trainings are provided to our new production staff on their applicable technical skills, mainly by the experienced staff, including sewing and assembly techniques, printing techniques, testing techniques, and the quality and safety requirement of our Group's products;
- b) regular trainings are provided to our production staff on the specification requirements and updates on the common industrial standards in relation to our products, such as the US ASTM F963-11 of the Standard Consumer Safety Specification for Toy Safety required by the U.S. and EN71 required by the European Commission;
- c) quality inspections are performed on work-in-progress and finished products manufactured at our Group's production base as well as deliverables supplied by third-party subcontractors based on acceptable quality level standards;
- d) comprehensive checking on finished products, including if the sewing is in order and there are any defects or small metal parts in the products are conducted to ensuring that the design, quality and safety of the product has been maintained from the conceptual stage and throughout the production stage;
- e) regular trainings and staff manual are provided to our production staff on occupational safety, including the knowledge on work safety standards, to enhance employee awareness of labour safety issues and remind employees of the importance of such;
- f) regular inspections are conducted at our production base to monitor and ensure compliance by employees with safety rules and the maintenance of the machinery; and
- g) introduction would be provided to our newly joined staff on our Group's work flow of the production process, corporate structure and culture, respective roles and responsibilities of different posts and code of conduct adopted by our Group.

Our Group intends to use its best effort and retain appropriate and suitable personnel to serve our Group. Our Group assesses available human resources on a continuous basis and will determine whether additional personnel are required to cope with the business development of our Group. Our Directors believe that we maintain a good working relationship with our employees. We had not experienced any significant problem or dispute with our employees or suffered disruptions due to any labour dispute during the Track Record Period.

BUSINESS

During the Track Record Period, Swiftech Company has failed to fully pay social insurance premiums for some of the employees and failed to make housing provident fund payment for the qualified employees. In addition, Zhongshan Runhe has failed to make housing provident fund payments for the qualified employees. We have taken rectification actions. For Swiftech Company, we have paid social insurance premiums for all of our qualified employees since January 2016 and up to the Latest Practicable Date and we have paid the housing provident funds for all of our qualified employees since December 2015 and up to the Latest Practicable Date. For Zhongshan Runhe, we have paid the housing provident funds for all of our qualified employees since December 2015 and up to the Latest Practicable Date.

In addition, the Company has set aside approximately RMB1,338,000 as provision for the outstanding social insurance premiums for the Track Record Period and estimated overdue penalty as at 31 December 2016. The Company has set aside approximately RMB546,000 and RMB30,000 as provision for the outstanding housing provident fund for Swiftech Company and Zhongshan Runhe respectively.

Meanwhile, the Group has adopted various measures, such as (i) assigning a designated personnel to overlook the related matters; (ii) setting up a complete system for paying social insurance and housing provident fund for all employees; (iii) seeking for professional advice to strengthen its internal control to avoid occurrence of similar event; and (iv) putting in place more stringent supervision on its human resources management, social insurance and housing provident fund upon the order issued by the competent authorities, to prevent the occurrence of the past non-compliance incidents. Accordingly, the past non-compliance incidents would not have material adverse effect on our Group's operation and financial position.

Save as these incidents, as advised by our PRC Legal Advisers, according to the confirmations from the relevant authorities, we have been in compliance in all material respects with the applicable employment laws during the Track Record Period.

INSURANCE

During the Track Record Period, we maintained insurance policies primarily covering employees' compensation, office insurance, and damages to certain fixed assets, such as our production plants and equipment as well as raw materials and finished products in storage caused by natural disasters such as droughts, floods, earthquakes, hailstorms, windstorms and snowstorms. For each of the years ended 31 December 2014, 2015 and 2016, we incurred expenses of approximately RMB89,000, RMB59,000 and RMB57,000 for such insurance policies, respectively. During the Track Record Period, we also maintained products liability insurance policies covering our sales. For each of the years ended 31 December 2014, 2015 and 2016, we incurred expenses of approximately RMB434,000, RMB386,000 and RMB418,000 for our products liabilities policies, respectively.

BUSINESS

MARKET COMPETITION

According to the Euromonitor Report, the overall inflatable playground manufacturers market in the PRC is comparatively fragmented. It is estimated that there are more than hundreds of inflatable playground manufacturers in China, with our Group owning an approximately 3% of the market share in terms of turnover in China. Since most of inflatable playground products manufacturers have adequate production lines in their factories and are experienced in inflatable playground manufacturing, they also receive original equipment manufacturing orders from time to time. However, some players, such as Swiftech Company, have already switched from purely original equipment manufacturing to ODM manufacturing to better improve their competitiveness in the market.

We believe that the certain competitive strengths allow us to achieve sustainable growth of our business:

- We place great emphasis on the quality and safety of our products
- Our factory and production facilities is scaled, well-equipped and strategically located
- We have established relationships with our major customers
- Expertise of our management team provides multiple benefits for our Group's business

Details of our Group's competitive strengths are set out in the paragraph headed "Competitive strengths" in this section.

PROPERTIES

Our production facilities and warehouse facilities are situated in Zhongshan City, Guangdong Province, the PRC.

As at the Latest Practicable Date, we rented production facilities in Dongcheng Industrial Zone of Zhongshan City, Guangdong Province with Zhongshan Dongcheng Real Estate Industrial Limited (中山東成地產實業有限公司). These production facilities include three production plants, ancillary offices, ancillary facilities, warehouse, and staff dormitory, occupying a total gross floor area of approximately 27,799.2 sq.m.. As advised by our PRC Legal Advisers, our Group has complied with relevant PRC laws with respect to such rented properties in all material respects and has obtained proper property rental certificates (房屋租賃證) for the aforementioned buildings and we are entitled to use the said properties during the rental period until 2019.

As at the Latest Practicable Date, we leased an office in Kwun Tong, which has a total area of approximately 2,048 sq.ft. for our business operations with the term of the tenancy expiring in October 2017 from an Independent Third Party. We will negotiate with the landlord for renewal of the lease prior to the expiry of the current lease term.

BUSINESS

INTERNAL CONTROL

Our Directors are responsible for formulating and overseeing the implementation of our internal control measures and the effectiveness of our quality management system.

On 29 August 2015, our Group has appointed an independent internal control consultant, Antonio & Clayton CPA Limited (the “**Consultant**”), to perform a detailed evaluation on the adequacy and effectiveness of our Group’s internal control system covering the areas of financial and operational risk, compliance, risk management and quality control.

The details of the major findings and recommendations provided by the Consultant are set out below:

Internal control review findings	Recommendations
1. Our Group had no internal audit department monitoring the effectiveness of internal control procedures and compliance with policies and standards.	Our Group should employ independent professionals for carrying out internal audit functions.
2. Our Group did not have a system for budget management.	Our Group should set up a complete budget management system.
3. Our Group had no policy and procedures regarding verification of accounting records with existing clients and suppliers.	Our Group should set up a complete system for verifying accounting records and conduct monthly verification with clients and suppliers.
4. The record of our Group’s accounts receivables was inconsistent with bills due to the bank charges for overseas sales.	Our Group should formally record the accounts receivables from overseas sales and list out all the bank charges and other relevant fees in the accounts.
5. Our Group did not fully pay social insurance and housing provident fund for some of our employees.	Our Group should set up a complete system for paying social insurance and housing provident fund for employees and confirm all employees are covered by insurance in accordance with the PRC laws.

According to the results of the follow up review by the Consultant in November 2015 and January 2016, our Group had implemented measures and rectified deficiencies as recommended by the Consultant. The Consultant is of the view that the internal control measures adopted by our Group are adequate and efficient and that our Directors and our Sponsor concur the views of the Consultant.

BUSINESS

LEGAL PROCEEDINGS AND COMPLIANCE

Legal proceedings

During the Track Record Period, we were named a co-plaintiff in a civil proceeding in Hong Kong that the defendant, being a ship owner, was alleged to have failed to deliver a cargo of goods containing our products that we delivered to our customer, who is also a co-plaintiff in the civil proceeding, to the designated port as the cargo sunk in the ocean under a thunderstorm in 2013. The value of the goods is approximately US\$100,000. We have delivered our goods to our customer on a free on board basis, and that our customer has subsequently repaid all of the outstanding sums for the purchase to us and we have no additional claim against our customer or the defendant.

As at the Latest Practicable Date, we had received all payments for the goods from our customer and our Directors are of the view that the civil proceeding does not have any material impact on our business operation or financial position.

Other than the civil proceeding of which our Group is the plaintiff, no member of our Group was engaged in any other claim, litigation or arbitration of material importance and no claim, litigation or arbitration of material importance is known to our Directors to be pending or threatened against any member of our Group.

Non-compliance matters of our Group

Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, we had no material non-compliance of applicable laws and regulations in the PRC and our major overseas markets that would affect our Group's operation and financial position.

BUSINESS

LICENSES, REGULATORY APPROVALS AND COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, we have obtained all requisite licences, approvals and permits from relevant regulatory authorities for our operations in the PRC. Set out below are the business licences and certificates we have obtained for our operation:

Name of our subsidiary	Certification	Certifying institution/ authority	Validity period of certificate
Swiftech Company	Business License (營業執照)	Administration for Industry & Commerce of Zhongshan (中山市工商行政管理局)	From 5 June 2003 up to and including 4 June 2025
	Certificate of Approval for Establishment of Enterprises with Investment of Taiwan, Hong Kong, Macao and Overseas Chinese in the People's Republic of China (中華人民共和國台灣僑投資企業批准證書)	People's Government of Guangdong Province (廣東省人民政府)	Not applicable
	Basic Account Opening Certificate (開戶許可證)	The People's Bank of China Zhongshan Branch (中國人民銀行中山市中心支行)	Not applicable
	Customs of the People's Republic of China on the Administration of Registration of Customs Declaration Entities (中華人民共和國海關報關單位註冊登記證書)	Zhongshan Customs District People's Republic of China (海關)	Not applicable
	Guangdong Province Certificate of Air Pollutant Emission (廣東省污染物排放許可證)	Zhongshan Environmental Protection Bureau (中山市環境保護局)	From 13 November 2015 up to and including 12 November 2018
Zhongshan Runhe	Business License (營業執照)	Administration for Industry & Commerce of Zhongshan (中山市工商行政管理局)	From 22 June 2009 up to and including 10 June 2020
	Basic Account Opening Certificate (開戶許可證)	The People's Bank of China Zhongshan Branch (中國人民銀行中山市中心支行)	Not applicable
	Guangdong Province Certificate of Air Pollutant Emission (廣東省污染物排放許可證)	Zhongshan Environmental Protection Bureau (中山市環境保護局)	From 8 November 2012 up to and including 7 November 2017

BUSINESS

RISK MANAGEMENT

Our Directors have confirmed that during the ordinary course of our business, we are primarily exposed to (i) control risks relating to our overall monitoring system; (ii) regulatory risks in relation to our business; (iii) operational risk; and (iv) market risk relating to changes in macroeconomic environment.

In order to continuously improve our Group's internal control and risk management system in the future, our Group has established an on-going process for identifying, evaluating and managing the significant risks faced by our Group. The key procedures that our Group has established and implemented are summarised as follows:

- (i) segregation of duties and functions of the respective operational departments of our Group;
- (ii) monitoring the budget and financial performance;
- (iii) reviewing systems and procedures to identify, measure, manage and control reputational, legal, credit, market and operational risks;
- (iv) handling price-sensitive information by setting out the procedures and policies;
- (v) updating the staff handbook, internal control manual and compliance manual when there are changes to business environment or regulatory guidelines; and
- (vi) updating the risk register to follow up any identified risk.

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

The following set out the key risks for our business and the mitigating internal control procedures thereof:

Risk control

Our risk register has identified certain risks that require management, including inappropriate and inconsistent practises, failure to detect unethical behaviours, wrong doings or potential frauds and unauthorised access to confidential information. In order to control such risks, our Group has endorsed staff handbook, internal control manual and compliance manual which require all directors and employees of our Group to observe.

Regulatory risk management

Upon Listing, our Group may be exposed to the risks of non-compliance with the Listing Rules. We have assigned our chief financial officer and company secretary, Mr. Wan Hon Keung, to update the context of compliance manual at least annually and to distribute to all Directors and employees new amendments of the GEM Listing Rules. We have

BUSINESS

engaged Frontpage Capital as compliance adviser as required under Rule 6A.19 of the GEM Listing Rules. All directors and employees are required to acknowledge their understanding of staff handbook, internal control manual and compliance manual at least annually. Our Group will also retain a Hong Kong legal adviser to advise us on compliance matters with applicable Hong Kong laws and regulations.

Operational risk management

Our head of Operation Department and head of quality control are responsible for maintaining the operation and assessing the operational risks of our respective projects. They are responsible for implementing our risk management policies and procedures. Emphasis are placed on the occupational safety, that we have implemented safety guidelines based on applicable regulations and require all of our employees to strictly comply with such guidelines, and we carry out regular safety checks on our production equipment to ensure that it is thoroughly tested and safe for use. In addition, we require operators of our production equipment to attend training sessions on the required safety standards and we provide our employees with regular work place safety trainings.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OVERVIEW

Immediately following completion of the Public Offer, Mr. Lee and Nonton will control more than 30% of our Company's issued share capital. For the purpose of the GEM Listing Rules, Mr. Lee and Nonton (an investment holding company wholly-owned by Mr. Lee, which has not commenced any substantive business activities as at the Latest Practicable Date) are the Controlling Shareholders.

Each of Mr. Lee and Nonton confirms that he/it does not hold or conduct any business which competes, or is likely to compete, either directly or indirectly, with the business of our Group.

INDEPENDENCE OF OUR GROUP

In the opinion of our Directors, our Group is capable of carrying on its businesses independently of, and does not place undue reliance on, the Controlling Shareholders, their respective associates or any other parties, taking into account the following factors:

(i) Financial independence

Our Group has its own financial management system and the ability to operate independently from the Controlling Shareholders from a financial perspective. Our Directors believe that our Group is capable of obtaining financing from external sources without reliance on the Controlling Shareholders.

(ii) Operational independence

Our Group has established its own organisational structure comprising individual departments, each with specific areas of responsibilities. Our Group has not shared its operational resources, such as suppliers, customers, marketing, sales and general administration resources with the Controlling Shareholders and/or their associates. Our Directors are of the view that there is no operational dependence on the Controlling Shareholders.

(iii) Management independence

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

Our Board consists of six Directors, comprising two executive Directors, one non-executive Director and three independent non-executive Directors. Mr. Huang is an executive Director and the Chairman. Mr. Xiao is an executive Director and the Chief Executive Officer. None of our Directors or members of senior management hold any directorship or position in Nonton.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Each of our Directors is aware of his fiduciary duties as a director which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest to exist. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant Board meeting in respect of such transactions and shall not be counted in the quorum. In addition, the senior management team of our Group are independent from the Controlling Shareholders. Our Directors are of the view that our Board and senior management are capable of managing our Group's business independently from the Controlling Shareholders.

RULE 11.04 OF THE GEM LISTING RULES

The Controlling Shareholders, our Directors and their respective associates do not have any interest in a business apart from our Group's business which competes or is likely to compete, directly or indirectly, with our Group's business and would require disclosure under Rule 11.04 of the GEM Listing Rules.

NON-COMPETITION UNDERTAKINGS

In order to avoid any possible future competition between our Group and the Controlling Shareholders, Mr. Lee and Nonton (each a “**Covenantor**” and collectively the “**Covenantors**”) have entered into the Deed of Non-competition with our Company (for itself and for the benefit of each other member of our Group) on 20 June 2017. Pursuant to the Deed of Non-competition, each of the Covenantors has irrevocably and unconditionally undertaken to our Company (for itself and as trustee for its subsidiaries) that, during the period that the Deed of Non-competition remains effective, he/it shall not, and shall procure that his/its associates (other than any member of our Group) not to develop, acquire, invest in, participate in, carry on or be engaged, concerned or interested or otherwise be involved, whether directly or indirectly, in any business in competition with or likely to be in competition with the existing business activity of any member of our Group.

Each of the Covenantors further undertakes that if any of he/it or his/its close associates other than any member of our Group is offered or becomes aware of any business opportunity which may compete with the business of our Group, he/it shall (and he/it shall procure his/its associates to) notify our Group in writing and our Group shall have a right of first refusal to take up such business opportunity. Our Group shall, within 6 months after receipt of the written notice (or such longer period if our Group is required to complete any approval procedures as set out under the GEM Listing Rules from time to time), notify the Covenantor(s) whether our Group will exercise the right of first refusal or not.

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

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

The undertakings contained in the Deed of Non-competition are conditional upon the Listing Division granting approval for the listing of and permission to deal in the Shares on the Stock Exchange and all conditions precedent under the Underwriting Agreement having been fulfilled (or where applicable, waived) and the Underwriting Agreement not having been terminated in accordance with its terms. If any such condition is not fulfilled on or before the date falling 30 days after the date of this prospectus (or if such date is not a Business Day, the immediate preceding Business Day), the Deed of Non-competition shall lapse and cease to have any effect whatsoever and no party shall have any claim against the other under the Deed of Non-competition.

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

CORPORATE GOVERNANCE MEASURES

To avoid potential conflicts of interest, our Group will implement the following measures:

- (i) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors (or their associates), the interested Directors shall abstain from voting at the relevant Board meeting and shall not be counted in the quorum;
- (ii) the Covenantors will make an annual confirmation as to compliance with his/its undertaking under the Deed of Non-competition for inclusion in the annual report of our Company;
- (iii) our Company has appointed Frontpage Capital as its compliance adviser, which will provide advice and guidance to our Company in respect of compliance with the applicable laws and the GEM Listing Rules including various requirements relating to directors' duties and internal controls. Please refer to the section headed "Directors, Senior Management and Employees – Compliance adviser" in this prospectus for further details in relation to the appointment of compliance adviser;
- (iv) the Controlling Shareholders undertake to provide all information requested by our Group which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-competition; and

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (v) our independent non-executive Directors will, based on the information available to them, review on an annual basis (a) the compliance with the Deed of Non-competition; and (b) all the decisions taken in relation to whether to pursue the new opportunity under the Deed of Non-competition. Findings of such review will be disclosed in our Company's annual report after Listing.

BUSINESS OBJECTIVES AND FUTURE PLANS

BUSINESS OBJECTIVES

Our primary objectives are to strengthen our position in the inflatable products industry and further expand our business operations with a view to creating long term Shareholders' value. We intend to achieve our objectives by implementing the following future plans and business strategies:

FUTURE PLANS AND BUSINESS STRATEGIES

To achieve our business objectives, we intend to adopt the following strategies in the future:

Please refer to the section headed "Business – Business strategies" in this prospectus for a detailed description of our future plans and business strategies.

IMPLEMENTATION PLANS

We will endeavour to achieve the following milestone events during the period from the Latest Practicable Date to 31 December 2019, and their respective scheduled completion times are based on certain bases and assumptions as set out in the paragraph headed "Bases and key 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 under the section headed "Risk Factors" in this prospectus. Therefore, there is no assurance that our business plans will materialise in accordance with the estimated time frame and that our future plans will be accomplished at all.

For the period from the Listing Date to 31 December 2019:

- (a) **Expand and enhance our product offerings through continuous product development efforts and continue to strengthen our brand recognition**

	From the Latest Practicable Date to 31 December 2017 (HK\$'000)	For the six months ending 30 June 2018 (HK\$'000)	For the six months ending 31 December 2018 (HK\$'000)	For the six months ending 30 June 2019 (HK\$'000)	For the six months ending 31 December 2019 (HK\$'000)	Total (HK\$'000)	% to total net proceeds from Public Offer (%)
Develop new products offerings and adjust our product mix to achieve a more comprehensive product portfolio	400	400	400	400	400	2,000	11.2
Improve manufacturing for our products such as development of new raw materials for inflatable products	400	400	400	400	400	2,000	11.2
Register trademarks and patents for our new product design and new corporate trademarks	100	100	100	100	100	500	2.8
	<u>900</u>	<u>900</u>	<u>900</u>	<u>900</u>	<u>900</u>	<u>4,500</u>	<u>25.2</u>

BUSINESS OBJECTIVES AND FUTURE PLANS

During the Track Record Period, we have launched approximately 30 new inflatable playground products annually. Our Directors consider that launching new products is important in bringing new business to our Group, as our customers are looking for new features and designs. Our Group has been successful in acquiring sales from new products with over RMB40,000,000 annually for each of the years ended 31 December 2014, 2015 and 2016, respectively.

We plan to devote more efforts in developing new inflatable playground products, in particular large size inflatable playgrounds, and expect to launch approximately 40 new designs for small and mid size inflatable playgrounds and approximately 20 for large size inflatable playgrounds. We plan to insert various new features in our inflatable playgrounds, such as live feed-back sensors, flashes, integrated sound systems and other challenges and gaming functions. In addition, we plan to acquire the patent rights of several popular cartoon brands to insert in our inflatable products to further enhance our recognition on the inflatable products market.

We will achieve the above through expanding our research and development department by hiring two additional designers, two additional engineers and two additional technical staff of product design and development, and by procuring suitable and appropriate materials and carrying out trials and testing, particularly for large size inflatable playgrounds which require extra durable and strong raw materials and special manufacturing technique. As such, it is expected we will also regularly update our corporate materials and register new trademarks and patents.

We also plan to dedicate our resources to develop new raw materials, such as lighter and stronger PVC laminated oxford, and improve the efficiency on manufacturing of our existing raw materials for our inflatable products.

Our Directors are of the view that these efforts in developing new inflatable playground products would allow our Group to considerably increase its competitiveness among its competitors when approaching our potential customers and participating in various expos in the future.

(b) Expand production capacity

	From the Latest Practicable Date to 31 December 2017 (HK\$'000)	For the six months ending 30 June 2018 (HK\$'000)	For the six months ending 31 December 2018 (HK\$'000)	For the six months ending 30 June 2019 (HK\$'000)	For the six months ending 31 December 2019 (HK\$'000)	Total (HK\$'000)	% to total net proceeds from Public Offer (%)
Acquire new production facility or machinery	1,500	2,000	–	–	–	3,500	19.6
Upgrade production facility or machinery for our existing production lines	500	500	–	–	–	1,000	5.6
	<u>2,000</u>	<u>2,500</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>4,500</u>	<u>25.2</u>

BUSINESS OBJECTIVES AND FUTURE PLANS

In view of the strong demand and increasing business opportunity in large size inflatable playgrounds markets in North and South America, we plan to expand our production line for manufacturing large size inflatable playgrounds with air blowers. Given the manufacturing of large size inflatable playgrounds (i) is generally not capable to be subcontracted due to its complexity, size, weight and low tolerance of defects; and (ii) requires specific kind of production facilities and machineries, in order to cope with our business plan in promoting large size inflatable playgrounds with air blowers, we plan to further acquire new production facilities and machinery, such as automatic cutting tables, heavy duty sewing machines and large scale testing facilities, as well as to upgrade and automate the production facilities and machinery of our existing production lines to further increase our production capacity, especially for large size inflatable playgrounds. In this regard, we plan to further invest approximately RMB4,500,000, out of which approximately RMB3,500,000 will be invested in acquiring new production facilities and machinery for manufacturing large size inflatable playgrounds, and the remaining RMB1,000,000 will be invested in upgrading our existing production lines. We estimate that the expansion would be completed by mid 2018 and by the time of completion of expansion, our large size inflatable products production capacity will be increased from 149 pieces to approximately 500 pieces per year and our small to medium size inflatable products production capacity will be increased from 185,900 pieces to approximately 210,000 pieces per year. According to the estimated investment of the expansion plan, we expect the investment in the new production facilities will have a breakeven revenue of approximately RMB16,328,000 per year and a payback period of approximately 3 years, based on our Directors' understanding on our Group's estimated growth in sales. Supported by the increasing customers' enquiries and the positive feedback from our potential new customers we acquainted in various exhibitions, our Directors are of the view that there will be sufficient demand for the Group's expanded production capacity to cover the associated increase in our fixed cost for the year ending 31 December 2018, being the first year after the new processing facilities commence operations.

Having considered (i) our Group's existing production capacity is practically fully utilized and we have subcontracted a considerable amount of our manufacturing works to local factories; (ii) there are considerable number of customers approaching our Group and expressing their intention to purchase inflatable playground products from our Group, but we have lost some of the sales due to our production capacity limit in the peak seasons of production; (iii) the expansion of our production facilities can increase the production capacity of large size inflatable products, which is believed to be of strong demand and higher margins; (iv) the efforts to bring in new customers through implementing our Group's business strategies upon Listing as mentioned in this section; and (v) the expected payback period is reasonable, although there may be spare new capacity shortly after the expansion is completed, our Directors believe that future demand, due mainly to our efforts in bringing in new customers through implementing our business plans, would justify the need for extra production capacity, and that our Group would be able to capture the business opportunities from these potential new customers if our Group has expanded our production capacity.

BUSINESS OBJECTIVES AND FUTURE PLANS

(c) Attract and retain quality personnel

	From the Latest Practicable Date to 31 December 2017 (HK\$'000)	For the six months ending 30 June 2018 (HK\$'000)	For the six months ending 31 December 2018 (HK\$'000)	For the six months ending 30 June 2019 (HK\$'000)	For the six months ending 31 December 2019 (HK\$'000)	Total (HK\$'000)	% to total net proceeds from Public Offer (%)
Provide continuous structured training track to motivate and incentivise our staff	720	720	720	720	720	3,600	20.1
	<u>720</u>	<u>720</u>	<u>720</u>	<u>720</u>	<u>720</u>	<u>3,600</u>	<u>20.1</u>

To cope with our business plan to promote and increase the production capacity for our large size inflatable products, our Directors consider that labours equipped with different skill sets, such as knowledge in operating automatic cutting tables, heavy duty sewing machines and large scale testing facilities, are required. As such, our Group plan to provide competitive salary packages to attract quality personnel to fill this vacancy. We also plan to strengthen the relevant industrial knowledge of our employees by inviting professional experts to conduct comprehensive trainings regularly, based on their respective positions and functions. Trainings areas may cover recreational safety, material safety, relevant regulations and requirements, sewing and testing techniques and other relevant industrial knowledge.

In addition, trainings will be provided to newly joined staff for them to be familiarised with our corporate culture, their respective roles and responsibilities. In order to retain quality personnel, we will also provide competitive salary packages to attract quality personnel and bonus for our well performed staff.

With the expanded production capacity and increasing headcount and internal structured training, our Group will also be able to minimise the subcontracting expenses, which amounted to approximately RMB6,514,000, RMB6,486,000 and RMB14,721,000 for each of the years ended 31 December 2014, 2015 and 2016, respectively. In addition, as our Group's production capacity for inflatable playgrounds has been practically fully utilised and the current demand of our inflatable playground products has exceeded our existing production capacity, we have lost some of the sales due to our production capacity limit in the peak seasons of production during the Track Record Period. As such, the expansion in headcount, which complement the expanded production capacity and our continuous marketing and product development efforts, can improve our revenue and profitability and capture the market growth going forward.

BUSINESS OBJECTIVES AND FUTURE PLANS

(d) Increase marketing effort, expand distribution network and explore new business opportunities

	From the Latest Practicable Date to 31 December 2017 (HK\$'000)	For the six months ending 30 June 2018 (HK\$'000)	For the six months ending 31 December 2018 (HK\$'000)	For the six months ending 30 June 2019 (HK\$'000)	For the six months ending 31 December 2019 (HK\$'000)	Total (HK\$'000)	% to total net proceeds from Public Offer (%)
Expand our wholesale distribution network	360	360	360	360	323	1,763	9.8
Strengthen marketing efforts such as placing of advertisements and participating in more exhibitions to explore new business opportunities	360	360	360	360	324	1,764	9.9
	<u>720</u>	<u>720</u>	<u>720</u>	<u>720</u>	<u>647</u>	<u>3,527</u>	<u>19.7</u>

During the Track Record Period, our Group focused our marketing efforts in participating in exhibitions located globally, including Europe, the United States, Hong Kong, the PRC and Africa, and posting advertisements on the internet, and incurred advertising and promotion expenses of approximately RMB2,076,000, RMB1,277,000 and RMB1,874,000, respectively. Our Directors are of the view that such marketing focus is and expected to be effective in the future. Our Group has been successful in acquiring new customers and capturing new business opportunities by participating in various exhibitions, with approximately RMB11,280,000, RMB10,912,000 and RMB10,883,000 revenue were generated from sales to new customers acquainted in the exhibitions we participated during the Track Record Period. For each of the years ended 31 December 2014, 2015 and 2016, we have participated in 13, 16 and 10 exhibitions and have acquainted 36, 28 and 32 new customers, respectively.

Our Group plans to further increase our marketing efforts by devoting more resources in exploring new business opportunities. The increase in distribution networks is expected to commence following the acquisition of new production facilities or machinery and upgrade for our existing production lines as discussed in (b) above to capitalise the increase of our production capacity. Apart from placing advertisements, we will also strengthen our co-operation with our wholesale distribution network or other trading companies through active participation in several international attractions, trade fairs and exhibitions such as IAAPA Attractions Expo, which is a large scaled annual amusement trade show, organised by the International Association of Amusement Parks and Attractions, in addition to the ones in which our Group have been participating regularly.

Having considered (i) the large inflatable playgrounds have been under strong demand from which our Group has generated increasing revenue throughout the Track Record Period; (ii) there have been increasing customer enquiries on broadening the Group's product variety such as inflatable water parks; and (iii) the successful experience from

BUSINESS OBJECTIVES AND FUTURE PLANS

participating in various exhibitions during the Track Record Period, the Directors expect that the Group would be able to capture an extra annualised sales of over RMB10,000,000 for FY2017 and FY2018 by participating in these expos.

In particular, we plan to expand our distribution channel for large size inflatable products, which are mainly overseas playground toy rental companies, amusement parks and expo or event organisers. We will actively involve in seeking for opportunities to co-operate with these potential customers by visiting them and providing them with trial samples or trial discounts. We also plan to co-operate with an American based inflatable playground toy importer to promote our large size inflatable products in North and South America by using its distribution network. We expect our efforts in promoting our large size inflatable products can boost our relevant sales, which is believed to share a higher margin than our other products.

BASES AND KEY ASSUMPTIONS

The business objectives set out by our Directors are based on the following bases and key assumptions:

- the amounts contained in our implementation plan are estimated according to current market price;
- there will be no significant economic change in respect of inflation, interest rate, tax rate and currency exchange rate that will adversely affect our business operations;
- we 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 change in the existing laws (whether in the PRC or any part of the world), policies, or industry or regulatory treatment relating to us, or in the political, economic or market conditions in which we operate;
- there will be no material change in the bases or rates of taxation applicable to us;
- there will be no disaster, natural, political or otherwise, which would materially disrupt our business operations or cause substantial loss, damage or destruction to our properties or facilities;
- there will be no significant change in the business relationships with our major clients and suppliers;
- there will be no change in the effectiveness of any licences and permits obtained by us; and
- we will not be materially affected by the risk factors as set out under the section headed “Risk Factors” in this prospectus.

BUSINESS OBJECTIVES AND FUTURE PLANS

REASONS FOR THE PUBLIC OFFER AND THE USE OF PROCEEDS

Despite the considerable expenses for the Listing, our Directors decide to proceed with this form of equity financing for the purpose of our business expansion instead of the debt financing because our Directors are in the views that to maintain low level of borrowings would benefit to our Group and Shareholders as a whole. Given that (i) the uncertain interest rate movement going forward (which may expose to increasing borrowing costs in the future via debt financing), and (ii) borrowing rate in the PRC is relatively high, our Directors believe that our Group's financial performance and liquidity may be negatively affected due to the principal and interest payments, if we proceed with debt financing to fund our business expansion.

According to Euromonitor Report, the overall inflatable playground manufacturers market in the PRC is comparatively fragmented with more than five hundreds of inflatable playground manufacturers in China. Our Directors believe that the Listing will allow us to stand out from other inflatable playground manufacturers, and can further enhance the profile and recognition of our Group and our brands and products and hence further strengthen our existing and potential suppliers' and customers' confidence in us, enable us to attract and retain quality personnel in this competitive market, and enhance our internal corporate governance. In addition, the Listing and the Public Offer could enhance our capital base and provide our Company with additional avenues to raise capital to strengthen our financial position and enable us to implement our business objectives set out in this section. Furthermore, a public listing status on GEM will allow us to access to capital market for future corporate finance exercises, which will assist in our future business development and strengthen our competitiveness.

Based on the Offer Price of HK\$0.275 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$0.20 to HK\$0.35 per Offer Share, we will receive gross proceeds of HK\$33,000,000. All expenses (including underwriting fees) in connection with the Listing to our Group are estimated to be approximately HK\$15,117,000. Consequently, we should receive net proceeds, after deducting all related expenses (including underwriting fees), of approximately HK\$17,883,000 from the Public Offer. Our Directors intend to apply such net proceeds as follows:

BUSINESS OBJECTIVES AND FUTURE PLANS

	From the Latest Practicable Date to	For the six months ending	For the six months ending	For the six months ending	For the six months ending		Approximate percentage
	31 December 2017	30 June 2018	31 December 2018	30 June 2019	31 December 2019	Total	(%)
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)	
Expand and enhance our product offerings through continuous product development efforts and continue to strengthen our brand recognition	900	900	900	900	900	4,500	25.2
Expand production capacity	2,000	2,500	–	–	–	4,500	25.2
Attract and retain quality personnel	720	720	720	720	720	3,600	20.1
Uplift marketing effort, expand distribution network and explore new business opportunities	720	720	720	720	647	3,527	19.7
General working capital	1,756	–	–	–	–	1,756	9.8
	<u>6,096</u>	<u>4,840</u>	<u>2,340</u>	<u>2,340</u>	<u>2,267</u>	<u>17,883</u>	<u>100.0</u>

The net proceeds from the issue of the Offer Shares will be approximately 90.2% utilised by 31 December 2019 and approximately HK\$1,756,000 will be used as working capital and funding for other general corporate purposes according to our current business plans. Our Directors consider that the net proceeds from the issue of the Offer Shares of approximately HK\$17,883,000 and our internal resources will be sufficient to finance our business plans as schedule up to the year ending 31 December 2019. In the event that we would require additional financing apart from the net proceeds from the issue of the Offer Shares for our future plans, the shortfall will be financed by our internal resources.

We estimate that the additional net proceeds to be received by our Company will be approximately HK\$17,883,000, after deducting all related expenses (including underwriting fees), assuming a Offer Price of HK\$0.275 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$0.20 to HK\$0.35 per Offer Share.

If the final Offer Price is set at the highest or lowest point of the indicative Offer Price range, the net proceeds of the Public Offer will increase or decrease by approximately HK\$8,370,000, 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 Public Offer are not immediately required for the above purposes, it is the present intention of our Directors that such net proceeds will be placed on short-term interest-bearing deposits with authorised financial institutions.

Our Group will issue an announcement in accordance with the requirements under the GEM Listing Rules if there is any material change in the use of proceeds as described above.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

BOARD OF DIRECTORS

Our Board is responsible and has general powers for the management and conduct of our Group's business. Our Board consists of six Directors, including two executive Directors, one non-executive Director and three independent non-executive Directors. The following table sets forth certain information of our Directors:

Name	Age	Present position	Date of joining our Group	Date of appointment as Director	Roles and responsibilities
<i>Executive Directors</i>					
Mr. Huang Xiaodong (黃小冬)	55	Chairman and executive Director	5 June 2003	3 November 2015	Overall strategic management and development of our Group's business operations
Mr. Xiao Jiansheng (肖健生)	54	Chief Executive Officer and executive Director	5 June 2003	1 February 2016	Overseeing our Group's operation, business development, human resources, finance and administration
<i>Non-executive Director</i>					
Mr. Lee Kin Kee (李建基)	53	Non-executive Director	5 March 2016	5 March 2016	Formulating strategies of our Group
<i>Independent Non-executive Directors</i>					
Mr. Mao Guohua (毛國華)	50	Independent non-executive Director	20 June 2017	20 June 2017	Serving on the Audit Committee, the Remuneration Committee and the Nomination Committee, and providing independent judgement on the issues of strategy, performance, resources and standard of conduct of our Company

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Age	Present position	Date of joining our Group	Date of appointment as Director	Roles and responsibilities
Mr. Gan Mingqing (甘敏青)	51	Independent non-executive Director	20 June 2017	20 June 2017	Serving on the Audit Committee, the Remuneration Committee and the Nomination Committee, and providing independent judgement on the issues of strategy, performance, resources and standard of conduct of our Company
Mr. Chu Wai Wa Fangus (朱偉華)	50	Independent non-executive Director	20 June 2017	20 June 2017	Serving on the Audit Committee, the Remuneration Committee and the Nomination Committee, and providing independent judgement on the issues of strategy, performance, resources and standard of conduct of our Company

EXECUTIVE DIRECTORS

Mr. Huang Xiaodong (黃小冬), aged 55, is the Chairman and an executive Director of our Company. Mr. Huang is responsible for the overall strategic management and development of our Group's business operations. Mr. Huang was appointed as our Chairman and executive Director on 3 November 2015.

Mr. Huang has over 16 years of experience in the toy manufacturing industry. He joined our Group as the manager of Swiftech Company in 5 June 2003. He has undertaken the positions of director of Zhongshan Runhe since June 2009 and director of Swiftech Company since April 2011. Mr. Huang is a director of all subsidiaries of our Company.

Mr. Huang obtained his associate degree in art and crafts (工藝美術) from Guangzhou Academy of Fine Arts (廣州美術學院) in July 1987. Before joining our Group, Mr. Huang had worked for Zhongshan Municipal Engineering Corporation (中山市市政工程有限公司) from August 1987 to October 1999 and his last position was production manager. Mr. Huang had worked as a director in Modern Swan Toy Manufacturing Limited (中山現代山禾玩具製品有限公司) from October 1999 to July 2015 and a director in Swan Plastic from April 2011 to

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

September 2015. He serves as the deputy chairman of the 7th standing committee of the Guangdong Province Toys Association (廣東省玩具協會第七屆理事會副會長). Mr. Huang was a director of SHD International which was dissolved on a voluntary basis on 1 November 2015. Mr. Huang confirmed that (i) SHD International was solvent immediately prior to its dissolution; (ii) there is no wrongful act on his part leading to the dissolution of SHD International and (iii) he is not aware of any actual or potential claim has been or will be made against him as a result of the dissolution of SHD International.

Mr. Huang has not been a director of any listed companies over the past three years.

Mr. Huang confirmed that, during the Track Record Period and as at the Latest Practicable Date, none of the business ventures of his, his spouse and his associates, other than those disclosed under related parties transactions in the Accountants' Report set out in the Appendix I to this prospectus, competed/competes, directly or indirectly, with our Group's business.

Mr. Xiao Jiansheng (肖健生), aged 54, is the Chief Executive Officer and an executive Director of our Company. Mr. Xiao is responsible for overseeing our Group's operation, business development, finance and administration. Mr. Xiao was appointed as the Chief Executive Officer and executive Director on 1 February 2016. He is also a member of each of the Remuneration Committee and the Nomination Committee. Mr. Xiao is a director of all subsidiaries of our Group.

Mr. Xiao has over 30 years of experience in the amusement products design and manufacturing industry. He joined our Group as a general manager and director of Swiftech Company in June 2003. Mr. Xiao obtained a bachelor's degree in hydraulic transmission from Wuhan Huazhong Institute of Technology (武漢華中工學院) in July 1982. Before joining our Group, he worked in Guangxi Guilin Forestry Machinery Factory (廣西桂林林業機械廠) as an assistant engineer from October 1982 to June 1984 and Zhongshan Golden Horse Entertainment Equipment Company Limited (中山市金馬遊樂設備有限公司) as a branch factory manager from July 1984 to May 1998. Mr. Xiao also worked in Zhongshan Baoshili Plastic Industry Company Limited (中山市保時利塑膠實業有限公司) as a factory director from May 1998 to May 2000, in Zhongshan Modern Import & Export Company Limited (中山市現代進出口有限公司) as a manager from June 2000 to May 2003 and in Zhongshan Dongjian Trading Company Limited as a director from April 2003 to January 2016. Mr. Xiao has not been a director of any listed companies over the past three years.

NON-EXECUTIVE DIRECTORS

Mr. Lee Kin Kee (李建基), aged 53, was appointed as our non-executive Director on 5 March 2016.

Mr. Kevin Lee has 28 years of experience in the finance profession. Before joining our Group, he served as an audit assistant with Price Waterhouse Company in August 1987, and was promoted to senior accountant II in July 1990 before he left his position in October 1990. From October 1990 to January 1994, he served with the Elec & Eltek Group, and held the positions of senior officer with the Department of Audit & System Review, and, in the Department of Group Finance & Treasury, the positions of senior accountant, manager

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

(management accounting) and manager (corporate accounting & credit control). From January 1994 to July 1994, he served with Technic Holdings Corporation as a finance manager. From August 1995 to March 1997, he served with Asia Commercial Holdings Limited as a PRC financial controller. From July 1998 to July 2001, he served with SEI Interconnect Products (Hong Kong) Limited, initially as an assistant manager of the Accounting Department, and, from January 1999 onward, as a manager of Accounting Department. From July 2001 to November 2004, he served with Wah Shing Toys Company Limited, initially as a financial controller in the Finance Department, and, from February 2004 onwards, as a director in the Production & Material Control Department. From December 2004 to July 2007, he served with Musical Industries Limited as a general manager. From August 2007 to December 2008, he served with United Luminous International (Holdings) Limited as a financial controller. From January 2009 to March 2010, he served with Traxon Technologies Limited as its finance & accounting director. From March 2010 onwards, he serves with Optiled Lighting International Limited as a financial controller. From December 2015 onwards, he serves with Super Strong Holdings Limited (Stock Code: 8262) as a non-executive director and re-designated as an executive director from August 2016 onwards.

Mr. Kevin Lee obtained a Master's degree in Business Administration from the University of Canberra in Australia in May 2001. He was admitted as a certified public accountant of the Hong Kong Institute of Certified Public Accountants in February 1992, and became a fellow thereof in October 2000.

Mr. Kevin Lee was a director of the following companies incorporated in Hong Kong which were dissolved (but not due to member's voluntary winding-up) with details as follow:

Name of Company	Nature of business immediately prior to dissolution	Date of dissolution
Eco-Green Hong Kong Limited (note 1)	Ceased business	27 January 2012
Ecolighting Limited (note 1)	Ceased business	24 October 2014
Glory Talent Limited (note 2)	Inactivity	15 March 2002

Notes:

1. Eco-Green Hong Kong Limited and Ecolighting Limited were deregistered under section 291AA of the Predecessor Companies Ordinance. Under section 291AA of the Predecessor Companies Ordinance, an application for deregistration can only be made if (a) all the members of such company agree to such deregistration; (b) such company has never commenced business or operation, or has ceased to carry on business or ceased operation for more than three months immediately before the application; and (c) such company has no outstanding liabilities.
2. Glory Talent Limited was struck off and dissolved pursuant to section 291 of the Predecessor Companies Ordinance. Under section 291 of the Predecessor Companies Ordinance, the Registrar of Companies in Hong Kong can strike off a defunct company from the register of companies.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Kevin Lee confirmed that (i) these companies were solvent immediately prior to their dissolutions; (ii) there is no wrongful act on his part leading to the above dissolutions of the companies and (iii) he is not aware of any actual or potential claim has been or will be made against him as a result of the dissolutions of these companies.

Saved as disclosed above, Mr. Kevin Lee has not been a director of any listed companies over the past three years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Mao Guohua (毛國華), aged 50, was appointed as our independent non-executive Director on 20 June 2017. He is also the chairman of the Nomination Committee and a member of each of the Audit Committee and Remuneration Committee.

Mr. Mao obtained a bachelor's degree in Business Administration from the Capital University of Economics and Business (首都經貿大學) in October 1989. Mr. Mao had worked as deputy section manager in Heilongjiang Qiqihar Industrial and Commercial Administration Bureau from October 1989 to March 1999. Mr. Mao started his legal career as a professional lawyer in Guangdong Zhongyuan Law Firm (廣東中元律師事務所) from March 1999 to September 2006. He later joined Guangdong Guorong Law Firm (廣東國融律師事務所) as a partner from September 2006 to February 2008 and Guangdong Baoxin Law Firm (廣東保信律師事務所) as a professional lawyer from March 2008 to January 2015. He has worked in Guangdong Dejiang Law Firm (廣東德疆律師事務所) as a professional lawyer since January 2015.

Mr. Mao has not been a director of any listed companies over the past three years.

Mr. Gan Mingqing (甘敏青), aged 51, is our independent non-executive Director. He was appointed as independent non-executive Director on 20 June 2017. He is also the chairman of the Remuneration Committee and a member of each of the Audit Committee and Nomination Committee.

Mr. Gan obtained a bachelor's degree in Financial Application from Zhongnan University of Economics and Law (中南財經大學) in August 2001. Before joining our Group, Mr. Gan had served consecutively as the major officer, the deputy section manager, and the section manager in the Foreign Exchange Administration Section and Financial Administration Section (外匯管理科及金融管理科) of the Zhongshan Branch of the People's Bank of China from January 1987 to September 2003. He worked in Zhongshan Yijin Stainless Steel Products Company Limited (中山市藝進不銹鋼製品有限公司) from October 2003 to March 2007 and his last position was managing director. Since March 2007, Mr. Gan has served with Zhongshan Botianni Stainless Steel Products Company Limited (中山市柏天尼不銹鋼製品有限公司) as the chairman of the board of directors.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Gan was also a director of three private companies in the PRC, all of them were dissolved due to their inactivity. Set out below are the particulars of these three private companies:

Name of Company	Nature of business immediately prior to dissolution	Date of dissolution
Zhongshan Yijin Stainless Steel Engineering Company Limited (中山市藝進不銹鋼工程有限公司)	Never carried out business	30 July 2009
Zhongshan Shiqi District Xinxu Hardware Company (中山市石岐區新曦五金商行)	Never carried out business	30 July 2009
Zhongshan Shiqi District Julibao Hardware Company (中山市石岐區聚力寶五金商行)	Never carried out business	30 July 2009

Mr. Gan confirmed that (i) these companies were solvent immediately prior to their dissolutions; (ii) there is no wrongful act on his part leading to the above dissolutions of the companies and (iii) he is not aware of any actual or potential claim has been or will be made against him as a result of the dissolutions of these companies.

Mr. Gan has not been a director of any listed companies over the past three years.

Mr. Chu Wai Wa Fangus (朱偉華), aged 50, was appointed as our independent non-executive Director on 20 June 2017. He is also the chairman of the Audit Committee and a member of each of the Remuneration Committee and Nomination Committee.

Mr. Chu joined Excellent Management Limited in August 1997, an integrated solutions and software company specialising in information technologies, project management in travel industry and is the director of the company, responsible for finance and accounting services. Mr. Chu had been an independent non-executive director, a member of the audit committee and the remuneration committee of Century Sunshine Group Holdings Limited (Stock Code: 509) (formerly known as Century Sunshine Ecological Technology Holdings Limited) from 9 July 2008 to 1 July 2010, a company listed on the Main Board of the Stock Exchange. Mr. Chu had also been an independent non-executive director, the chairman of the remuneration committee, and a member of the audit committee and the nomination committee of Clear Lift Holdings Limited (Stock Code: 1341) from 10 December 2015 to 17 March 2017, a company listed on the Main Board of the Stock Exchange. In addition, Mr. Chu is currently an independent non-executive director of China Candy Holdings Limited (Stock Code: 8182), a company listed on the GEM of the Stock Exchange. Save as disclosed herein, Mr. Chu has not been a director of any listed companies over the past three years.

Mr. Chu obtained a bachelor's degree with first class honours in accountancy from The City University of Hong Kong (formerly known as the City Polytechnic of Hong Kong) in December 1994, and received a master of science degree in global business from The

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Chinese University of Hong Kong in October 2005. He is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and an associate of the Association of Chartered Certified Accountants.

Save as disclosed in this prospectus, each of our Directors (i) had no interest in the Shares within the meaning of part XV of the SFO as at the Latest Practicable Date; (ii) is independent from, and not related to, any Directors, substantial shareholders, Controlling Shareholders, or senior management of our Company; and (iii) did not hold any other directorships in public companies the securities of which are listed on any securities market in Hong Kong or overseas in the three years prior to the Latest Practicable Date.

Save as disclosed in this prospectus, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of our Shareholders and there was no information relating to our 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

The following table sets forth certain information of the senior management of our Group:

Name	Age	Present Position	Date of joining our Group	Date of appointment as senior management	Roles and responsibilities
Mr. Wan Hon Keung (溫漢強)	55	Company Secretary and Chief Financial Officer	7 September 2015	5 March 2016	Overseeing corporate finance, investor relations and financial management of our Group
Mr. Wang Haifeng (王海峰)	46	Financial Controller	5 June 2003	1 June 2004	Responsible for overseeing and enhancing the accounting function of our Group's accounts and finance department
Ms. Lin Yannong (林燕農)	44	Marketing Director	5 June 2003	5 June 2003	Planning and handling marketing and promotional activities

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Age	Present Position	Date of joining our Group	Date of appointment as senior management	Roles and responsibilities
Ms. Li Qiuhong (李秋紅)	45	Head of the Production Department	5 June 2003	5 June 2003	Responsible for overseeing the production of our Group
Mr. Zhu Wenyi (朱文軼)	38	Art Director	1 May 2004	2 January 2014	Responsible for product design of our Group

Mr. Wang Haifeng (王海峰), aged 46, is the Financial Controller of our Group, joined our Group as an assistant finance manager in June 2003 and was appointed as the finance manager of our Group in June 2004. He has also been a director of one of our subsidiaries, Swiftech Company, since August 2015. Mr. Wang is primarily responsible for overseeing and enhancing the accounting function of our Group's accounts and finance department. Mr. Wang obtained his associate degree in corporate financial accounting from Shaanxi Finance & Economics Institute (陝西財經學校) in July 1995. He obtained the qualification of assistant accountant conferred by the Ministry of Finance of the PRC in May 1998. He obtained an associate degree in accounting from China Central Radio and TV University (中央廣播電視大學) in January 2009. Mr. Wang has over 20 years of experience in financial accounting. Before joining our Group, Mr. Wang had worked in Hanzhong Baohe Food Processing Plant (漢中市褒河糧食加工廠) as the section manager of the financial section from October 1995 to November 1998 and Zhongshan Jiayong Garment Company Limited (中山嘉永製衣有限公司) as the chief accountant from December 1998 to September 2002.

Ms. Lin Yannong (林燕儂), aged 44, is the Marketing Director of our Group. She was appointed as the marketing manager of our Group in June 2003. Ms. Lin is primarily responsible for planning and handling marketing and promotional activities. Ms. Lin obtained a bachelor's degree in international business and economics from Shantou University (汕頭大學) in June 1994 and a postgraduate diploma in business-to-business market management from the School of Professional and Continuing Education of the University of Hong Kong (香港大學專業進修學院) in August 2015. Ms. Lin has over 20 years of experience in sales and marketing. Before joining our Group, Ms. Lin had worked as the marketing manager in Zhongshan Modern Industry Company Limited (中山市現代實業有限公司) from August 1996 to July 2002.

Ms. Li Qiuhong (李秋紅), aged 45, is the Head of Production Department of our Group. She was appointed as the factory manager of our Group in June 2003. Ms. Li is primarily responsible for overseeing the production of our Group. Ms. Li has over 20 years of experience in factory management. Before joining our Group, Ms. Li had worked as a factory manager in Zhongshan Hechang Handbag Factory (中山市合昌手袋廠) from 1993 to 1997, in Zhongshan Baochang Commodity Company Limited (中山市保昌日用製品有限公司) from 1998 to 2000, and in Zhongshan Zihong Commodity Factory (中山市梓紅日用品廠) from 2001 to 2003. Ms. Li graduated from Meizhou Xinxing Vocational School (梅州市新興

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

職業高中) in June 1990. Ms. Li completed an international business administration workshop (國際高級工商管理總裁研修班) at the School of Continuing Education, Tsinghua University (清華大學繼續教育學院) in October 2011.

Mr. Zhu Wenyi (朱文軼), aged 38, is the Art Director of our Group. He was appointed as a designer of our Group in May 2004. He was promoted to the position of chief designer in June 2013 and was further promoted to the position of Art Director in January 2014. Mr. Zhu is primarily responsible for product design of our Group. He has over 10 years of experience in product design. Mr. Zhu obtained a bachelor's degree in Arts and Design from Guangzhou Academy of Fine Arts (廣州美術學院) in July 2003.

COMPANY SECRETARY AND CHIEF FINANCIAL OFFICER

Mr. Wan Hon Keung (溫漢強), aged 55, is the Company Secretary and the Chief Financial Officer of our Company and is primarily responsible for overseeing corporate finance, investor relations and financial management of our Group. Mr. Wan first joined our Group as the financial controller of Swiftech International in September 2015. He was appointed as the Company Secretary and the Chief Financial Officer on 5 March 2016. Mr. Wan was admitted as an associate member of the Hong Kong Institute of Certified Public Accountants, formerly, known as Hong Kong Society of Accountants, in June 1997. Mr. Wan was also admitted as a fellow of The Association of Chartered Certified Accountants in May 2002.

Mr. Wan has over 30 years' experience in commercial accounting, administration and corporate governance. He commenced his career in accounting when he joined Guang Hong Li International Fashion Garment Company Limited in April 1985. Since then, he has held various accounting and finance positions. From 1996 to 2000, Mr. Wan worked at Life Fitness Asia Pacific Limited as the finance manager. From 2000 to 2007, Mr. Wan worked at Alkahn-Hong Kong Labels Limited (which was acquired by Paxar Far East Limited in 2004) and his last position being the senior accounting manager. From 2007 to 2008, Mr. Wan worked at The United Laboratories Limited as the senior accounting manager. From 2008 to 2012, Mr. Wan worked at Yueshou Management Service Limited as the company secretary and financial controller. He had worked as the chief financial officer of Pak Wing Group (Holdings) Limited (stock code: 8316) from March 2015 to September 2015.

Mr. Wan was an independent non-executive director for the following companies listed on the Stock Exchange for the following periods: Huscoke Resources Holdings Limited (stock code: 704) from 2008 to 2011, Karce International Holdings Company Limited (stock code: 1159) from 2008 to 2009, Xian Yuen Titanium Resources Holdings Limited (stock code: 353) from 2007 to 2008 and Kanstar Environmental Paper Products Holdings Limited (stock code: 8011) from 2006 to 2007.

COMPLIANCE OFFICER

Mr. Xiao is the compliance officer of our Company. For details of his biographical details, please refer to the paragraph headed "Executive Directors" in this section.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

COMPLIANCE ADVISER

Our Company has appointed Frontpage Capital as its compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules and Frontpage Capital assumes responsibility for acting as our Company's compliance adviser. Pursuant to Rule 6A.23 of the GEM Listing Rules, the compliance adviser will advise our Company in the following circumstances:

- (1) before the publication of any regulatory announcement, circular or financial report;
- (2) where a transaction, which might be a notifiable or connected transaction under the GEM Listing Rules, is contemplated including share issues and share repurchases;
- (3) where our Company proposes to use the proceeds of the Public Offer in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Company deviate from any forecast, estimate, or other information in this prospectus; and
- (4) where the Stock Exchange makes an inquiry of our Company under Rule 17.11 of the GEM Listing Rules.

The term of the appointment shall commence on the Listing Date and end on the date on which our Company distributes the annual report of its financial results for the second full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

Except for (i) Frontpage Capital's role as the Sole Sponsor in relation to the Listing; (ii) the compliance adviser agreement entered into between our Company and Frontpage Capital; and (iii) the Underwriting Agreement pursuant to which Frontpage Capital has the capacity as the Sole Sponsor and a Joint Lead Manager, Frontpage Capital does not have any other contractual arrangement with our Group as at the Latest Practicable Date.

AUDIT COMMITTEE

Our Company has established the Audit Committee on 20 June 2017 with written terms of reference in compliance with paragraphs C.3.3 and C.3.7 of the Corporate Governance Code (the "**Corporate Governance Code**") as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the Audit Committee are, among other things, to review and supervise the financial reporting process and internal control system of our Group. The Audit Committee comprises three members, all are our independent non-executive Directors, namely Mr. Chu Wai Wa Fangus, Mr. Mao Guohua and Mr. Gan Mingqing, of whom Mr. Chu Wai Wa Fangus is the chairman of the Audit Committee.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

REMUNERATION COMMITTEE

Our Company has established the Remuneration Committee on 20 June 2017 with written terms of reference in compliance with paragraph B.1.2 of the Corporate Governance Code. The Remuneration Committee comprises four members, namely Mr. Chu Wai Wa Fangus, Mr. Mao Guohua, Mr. Xiao Jiansheng and Mr. Gan Mingqing. Mr. Gan Mingqing is the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee are, amongst other things, to make recommendations to our Board on the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management and on our Group's policy and structure for all remuneration of our Directors and senior management.

NOMINATION COMMITTEE

Our Company has established the Nomination Committee on 20 June 2017 with written terms of reference in compliance with paragraph A.5.2 of the Corporate Governance Code. The Nomination Committee comprises four members, namely Mr. Chu Wai Wa Fangus, Mr. Mao Guohua, Mr. Xiao Jiansheng and Mr. Gan Mingqing. Mr. Mao Guohua is the chairman of the Nomination Committee. The Nomination Committee is mainly responsible for making recommendations to our Board on appointment of Directors and succession planning for our Directors.

CORPORATE GOVERNANCE

Our Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. Our Company will comply with the Corporate Governance Code and the associated GEM Listing Rules. In order to comply with the requirements under the GEM Listing Rules, in particular, the code provisions contained in the Corporate Governance Code, we have adopted the following measures as at the Latest Practicable Date:

- (i) we have established the Audit Committee, Remuneration Committee and Nomination Committee on 20 June 2017 with respective written terms of reference in accordance with the code provisions contained in the Corporate Governance Code. Further information is set out in the paragraphs headed "Audit Committee", "Remuneration Committee" and "Nomination Committee" in this section;
- (ii) our Board has adopted the terms of reference with regard to corporate governance and a shareholders' communication policy in accordance with the code provision of the Corporate Governance Code;
- (iii) we will arrange appropriate insurance cover on our Directors' liabilities in respect of legal actions against our Directors arising out of corporate activities before Listing;
- (iv) we have appointed three independent non-executive Directors representing more than one-third of our Board and at least one of them has accounting expertise;

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

- (v) the chairman of our Board is Mr. Huang whereas the chief executive of our Company is Mr. Xiao. The roles of the chairman and the chief executive will be separate and distinct;
- (vi) our Directors will operate in accordance with the Articles which require the interested Director not to vote or be counted in the quorum on any resolution of our Board approving any contract or arrangement or other proposal in which he/she or any of his/her close associates is materially interested;
- (vii) our Directors, including the independent non-executive Directors, will be able to seek independent professional advice from external parties in appropriate circumstances at our cost;
- (viii) our Company has adopted a comprehensive compliance manual covering legal and regulatory compliance with reference of the Corporate Governance Code;
- (ix) our Company will consider engaging an independent internal control consultant to perform regular review on corporate governance to ensure on-going compliance after Listing; and
- (x) our Directors will attend professional development seminar including but not limit to the corporate governance to ensure on-going compliance after Listing.

Our Company is expected to comply with the Corporate Governance Code which sets out the principles of good corporate governance in relation to, among others, our Directors, chairman and chief executive of officer, Board composition, the appointment, re-election and removal of Directors, their responsibilities and remuneration and communications with our Shareholders. Our Board will review our Company's policies and practises on corporate governance from time to time. Our Company will state in our interim and annual reports whether we have complied with the Corporate Governance Code, and will provide details of, and reasons for, any deviations from it in the corporate governance report which will be included in our annual reports.

DIRECTORS AND SENIOR MANAGEMENT'S REMUNERATION

The aggregate amount of compensation (including fees, salaries, contributions to pension schemes, housing and other allowances, benefits in kind and discretionary bonuses) which were paid to our Directors for each of the years ended 31 December 2014, 2015 and 2016 was approximately RMB556,000, RMB636,000 and RMB822,000, respectively.

The aggregate amount of compensation (including fees, salaries, contributions to pension schemes, housing and other allowances, benefits in kind and discretionary bonuses) which were paid to the above senior management of our Group for each of the years ended 31 December 2014, 2015 and 2016 was approximately RMB649,000, RMB827,000 and RMB1,278,000, respectively.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

The aggregate amount of contributions to retirement benefits scheme paid by our Group to our Directors for each of the years ended 31 December 2014, 2015 and 2016 was approximately RMB2,000, RMB2,000 and RMB2,000, respectively.

Our Company's policy concerning the remuneration of our Directors is that the amount of remuneration is determined by reference to the relevant Director's experience, responsibilities, workload, performance and the time devoted to our Group. Further details of the remuneration of our Directors are set out in the section headed "Statutory and General Information – D. Further information about substantial shareholders, Directors and experts – 3. Remuneration of Directors" in Appendix IV to this prospectus.

The emoluments paid to our Group's five highest paid individuals (including Directors) in aggregate for each of the years ended 31 December 2014, 2015 and 2016 were approximately RMB1,103,000, RMB1,174,000 and RMB1,778,000, respectively. During the Track Record Period, no emolument was paid by our Group to any of our Directors or the five highest paid individuals (including Directors and employees) as an inducement to join or upon joining our Group or as compensation for loss of office. None of our Directors has waived any emoluments during the Track Record Period.

Except as disclosed above, no other payments of remuneration have been made, or are payable, in respect of the Track Record Period, by our Group to or on behalf of any of our Directors.

For additional information on Directors' remuneration during the Track Record Period as well as information on the highest paid individuals, please refer to notes 10 and 11 in the Accountants' Report set out in Appendix I to this prospectus.

MANDATORY PROVIDENT FUND SCHEME

Our Group participates in the mandatory provident fund prescribed by the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) and our Directors confirm that our Group has made the relevant contributions in accordance with the aforesaid laws and regulations. Save for the aforesaid, our Group did not participate in any other pension schemes during the Track Record Period.

SHARE OPTION SCHEME

The Share Option Scheme was conditionally adopted pursuant to the written resolutions of the Existing Shareholders of our Company passed on 20 June 2017. The purpose of the Share Option Scheme is to enable our Company to grant options to selected participants as incentives or rewards for their contribution to it. Our Directors consider the Share Option Scheme, with its broadened basis of participation, will enable our Group to reward the employees, our Directors and other selected participants for their contributions to our Group. This will be in accordance with Chapter 23 of the GEM Listing Rules and other relevant rules and regulations. Further details of the Share Option Scheme are set forth in the section headed "Statutory and General Information – E. Share option scheme" in Appendix IV to this prospectus.

SHARE CAPITAL

SHARE CAPITAL

Without taking into account any Shares to be issued upon exercise of any options which may be granted under the Share Option Scheme, the share capital of our Company immediately following the Public Offer will be as follows:

<i>Authorised share capital</i>	<i>HK\$</i>
1,000,000,000 Shares	10,000,000
<i>Issued and to be issued, fully paid or credited as fully paid upon completion of the Public Offer:</i>	
680,000,000 Shares in issue as at the date of this prospectus	6,800,000
<u>120,000,000 Shares to be issued pursuant to the Public Offer</u>	<u>1,200,000</u>
<u>800,000,000 Shares</u>	<u>8,000,000</u>

MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at least 25% of the total issued share capital of our Company must at all times be held by the public. The 200,000,000 Offer Shares represent 25% of the issued share capital of our Company upon Listing.

RANKING

The Offer Shares will rank identical in all respects with all the Shares now in issue or to be issued as mentioned in this prospectus, and, in particular, will qualify 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 Listing.

GENERAL MANDATE TO ISSUE SHARES

Conditional on the conditions as stated in the section headed “Structure and Conditions of the Public Offer – Conditions of the Public Offer” of this prospectus, our 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 nominal value of our 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 our Shareholders) shall not exceed:

- (i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following the completion of the Capitalisation Issue and the Public Offer; and

SHARE CAPITAL

- (ii) the aggregate nominal value of the share capital of our Company repurchased pursuant to the authority granted to our Directors referred to in the paragraph headed “General mandate to repurchase shares” in this section below.

This mandate does not cover Shares to be allotted, issued, or dealt with under a rights issue or pursuant to the exercise of any option which may be granted under the Share Option Scheme. This general mandate to issue Shares will remain in effect until the earliest of:

- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
- (iii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders at a general meeting.

For further details of this general mandate, please refer to the section headed “Statutory and General Information – Further information about our Company – 3. Written resolutions of our Shareholders passed on 20 June 2017” in Appendix IV to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Conditional on the conditions as stated in the section headed “Structure and Conditions of the Public Offer” of this prospectus, our Directors have been granted a general unconditional mandate to exercise all powers to repurchase Shares (Shares which may be listed on the Stock Exchange or on any other stock exchange which is recognised by the SFC and the Stock Exchange for this purpose) with an aggregate nominal value of not more than 10% of the aggregate nominal value of our Company’s share capital in issue immediately following completion of the Public Offer (excluding Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which our Shares may be listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and made in connection with all applicable laws and regulations 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 – A. Further information about our Company – 6. Repurchase of our Shares by our Company” in Appendix IV to this prospectus.

The general mandate to repurchase Shares will remain in effect until the earliest of:

- (i) the conclusion of the next general meeting of our Company;

SHARE CAPITAL

- (ii) the expiration of the period within which the next annual general meeting is required by the Memorandum and the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
- (iii) the time when such mandate is revoked or varied or renewed by an ordinary resolution of our Shareholders in general meeting,

For further details of this general mandate, please refer to the paragraphs headed “Statutory and General Information – A. Further information about our Company – 3. Written resolutions of our Shareholders passed on 20 June 2017” and headed “Statutory and General Information – A. Further information about our Company – 6. Repurchase of our Shares by our Company” in Appendix IV to this prospectus.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. Details of the principal terms of the Share Option Scheme are summarised in the section headed “Statutory and General Information – E. Share Option Scheme” in Appendix IV to this prospectus.

Our Group did not have any outstanding share options, warrants, convertible instruments, or similar rights convertible into the Shares as at the Latest Practicable Date.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

As a matter of the Companies Law, an exempted company is not required by law to hold any general meetings or class meetings. The holding of general meeting or class meeting is prescribed for under the articles of association of a company. Accordingly, our Company will hold general meetings as prescribed for under the Articles, a summary of which is set out in the section headed “Summary of the Constitution of our Company and Cayman Islands Company Law” set out in Appendix III to this prospectus.

SUBSTANTIAL SHAREHOLDERS

So far as is known to our Directors, the following persons will, immediately following completion of the Public Offer (without taking into account any Shares which may be taken up under the Public Offer, and Shares to be issued upon exercise of any options which may be granted under the Share Option Scheme), have interests or short positions in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be 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 general meetings of our Company or any of its subsidiaries:

Long position in the Shares

Name	Capacity/nature	Number of fully paid Shares held/interested as at 5 May 2017 (note 5)	Percentage of shareholding as at 5 May 2017 (note 5)	Number of Shares held/interested immediately following completion of the Public Offer	Percentage of shareholding immediately following completion of the Public Offer
Nonton	Beneficial owner	10,000	100.0%	427,756,000	53.5%
Mr. Lee (note 1)	Interest of a controlled corporation	10,000	100.0%	427,756,000	53.5%
Ms. Chak Lai Hung Theresa (note 2)	Interest of spouse	10,000	100.0%	427,756,000	53.5%
Blink Wishes	Beneficial owner	–	–	172,244,000	21.5%
Mr. Kevin Lee (note 3)	Interest of a controlled corporation	–	–	172,244,000	21.5%
Ms. Law Siu Ling (note 4)	Interest of spouse	–	–	172,244,000	21.5%

Notes:

1. Mr. Lee beneficially owns the entire issued share capital of Nonton. Therefore, Mr. Lee is deemed, or taken to be, interested in all the Shares held by Nonton for the purpose of the SFO. Mr. Lee is the sole director of Nonton.
2. Ms. Chak Lai Hung Theresa is the spouse of Mr. Lee. Under the SFO, Ms. Chak is deemed to be interested in the same number of Shares in which Mr. Lee is interested.
3. Mr. Kevin Lee beneficially owns the entire issued share capital of Blink Wishes. Therefore, Mr. Kevin Lee is deemed or taken to be interested in all the Shares held by Blink Wishes for the purpose of the SFO. Mr. Kevin Lee is the sole director of Blink Wishes.
4. Ms. Law Siu Ling is the spouse of Mr. Kevin Lee. Under the SFO, Ms. Law is deemed to be interested in the same number of Shares in which Mr. Kevin Lee is interested.
5. The date of filing of application proof and prior to completion of the Reorganisation.

Save as disclosed above, our Directors are not aware of any other persons who will, immediately following completion of the Public Offer (without taking into account any Shares which may be taken up under the Public Offer, and Shares to be issued upon exercise of any option which may be granted under the Share Option Scheme or repurchased by our

SUBSTANTIAL SHAREHOLDERS

Company pursuant to the mandate as referred to the section headed “Statutory and General Information – A. Further information about our Company” in Appendix IV to this prospectus), have interests or short positions in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be 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 general meetings of our Company or any of its subsidiaries.

FINANCIAL INFORMATION

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our combined financial information included in the Accountants' Report, which has been prepared in accordance with HKFRSs, the text of which is set out in Appendix I to this prospectus, and the unaudited pro forma combined financial information included in Appendix II to this prospectus, in each case together with the accompanying notes. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those risks set forth under the section headed "Risk Factors" and elsewhere in this prospectus.

OVERVIEW

We are a manufacturer of inflatable products in the PRC. Founded in 2003, we have over 10 years' experience in designing, manufacturing and marketing high quality inflatable playgrounds and other inflatable products. We sell our inflatable products under various brands including "PENG" brand, "PENG" brand, "PENG" brand. Through years of effort in marketing and promotion, the inflatable products we produce have been sold widely in various overseas markets.

We manufacture our products in our production facilities in Dongcheng Industrial Zone located in Zhongshan City, Guangdong Province. We are committed to high standards of quality in all of our products and follow stringent quality control procedures throughout our production processes. We believe our product design and development capabilities will help strengthen our competitiveness through product differentiation and innovation.

BASIS OF PREPARATION

Our Company was incorporated in the Cayman Islands on 3 November 2015 as an exempted company with limited liability. To rationalise the corporate structure in the preparation of the Public Offer, we underwent the Reorganisation as detailed in the section headed "History, Development and Reorganisation" in this prospectus.

Pursuant to the Reorganisation, our Company became the holding company of the companies now comprising our Group on 20 June 2017. Our Group has been under the control of Mr. Lee throughout the Track Record Period or since their respective dates of incorporation or establishment where this is a shorter period. Our Group comprising our Company and our subsidiaries resulting from the Reorganisation is regarded as a continuity entity. Accordingly, the financial statements of our Group have been prepared on the basis as if the current group structure had been in existence throughout the Track Record Period, using the principles of merger accounting as set out below.

The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows include the results and cash flows of the companies now comprising our Group throughout the Track Record Period or since their respective dates of incorporation or establishment where this is a shorter period. The combined statements of financial position of our Group as at 31

FINANCIAL INFORMATION

December 2014, 31 December 2015 and 31 December 2016 have been prepared to present the assets and liabilities of the companies now comprising our Group as if the current group structure had been in existence at those dates.

Our Directors have adopted the HKFRSs in the preparation of the combined financial statements of our Company and our subsidiaries now comprising our Group for the Track Record Period.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and we believe will continue to be, affected by a number of factors, including those as set forth below.

Pricing of our products

Our pricing strategy is based on a variety of factors including the raw material prices, production costs, market condition and the technical requirements of the products required by our customers.

The price of our products is determined on a “cost-plus” basis, comprising the price of the raw materials, the labour costs and a processing fee, which depends on the specifications and skills required for the relevant products. We regularly monitor our production costs in order to ascertain if our selling price is justifiable. We normally revise our selling price annually to counter for inflation and our cost increase and our new prices are reflected in new product catalogues or price lists. As a result of our “cost-plus” pricing strategy and the measures we adopted, our Directors believe that we can pass on part of the increase in purchase costs of raw materials to our customers.

Product mix

We currently offer a variety of inflatable products, including inflatable playgrounds with air blowers and other inflatable products such as mini playgrounds, tents and ball pools. We believe our diverse product offerings enable us to capitalise on changing market trends and consumer preferences. Different products have different gross profit margins depending on factors such as raw material costs, production costs, product pricing and our marketing and branding strategy. As a result, our overall gross margin will vary depending on product mix across segments.

Our sales composition, margins and profit level have varied and may continue to vary as our product mix evolves. Our ability to expand our product offerings and the diversity of our product mix will have a significant impact on our results of operations and our competitiveness in the inflatable products manufacturing industry in China. However, as market conditions may vary from time to time and the pace of such change may be so quick that the market demand may not favour our products with higher profit margin. Accordingly, our operating performance and profitability may be adversely affected.

FINANCIAL INFORMATION

Cost of raw materials

Our raw materials primarily comprise air blowers, PVC laminated oxford, polyester cloth and PVC coating materials. Raw materials accounted for approximately 63.7%, 62.3% and 63.9% of our cost of sales during each of the years ended 31 December 2014, 2015 and 2016, respectively. All of the raw materials we procure, including packaging materials, are purchased from domestic suppliers to ensure adequate supply and efficient delivery to our production facilities.

The price of raw materials, including packaging materials, is determined principally by market forces, as well as our bargaining power vis-a-vis suppliers. For instance, according to the Euromonitor Report, the price of oxford cloth increased from around RMB7.3 per metre in 2010 to around RMB8.8 per metre in 2011 and reversed the trend to around RMB7.7 per metre in 2015. Besides, the price of PVC decreased from around RMB7,543.0 per tonne in 2011 to around RMB5,296.3 per tonne in 2015.

We expect that the prices of our raw materials may fluctuate and be affected by inflation in the future. We have been able to maintain our production costs at a competitive level while upholding our product quality. However, any significant increase in raw materials prices where we fail to pass on such increase to our customers could adversely impact our business and results of operations. Please also see “Risk Factors – Risks relating to our business – Fluctuations in the price and supply of raw materials may bring negative impact to the performance of our Group”.

Regulatory environment

As we sell our inflatable products to overseas markets such as the EU, Australia and Oceania, North America, and Central and South America, changes in the regulatory environment in these countries may impact our financial performance. Our ability to anticipate and respond to potential changes in government policies and regulations, such as, among other things, tax policies, safety standards, government regulations and their competitive implications, will have a significant effect on our future performance.

Seasonality

Sales of different products are also subject to different seasonal fluctuations. As some of our inflatable products are popular choice of gifts for customers during the summer time and at festivals, our sales in a few months before the summer time and festivals are generally better. Historically, we generally record higher revenue during the second quarter of a year.

FINANCIAL INFORMATION

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain critical accounting policies and estimates that are significant to the preparation of our combined financial statements and important for an understanding of our financial position and results of operation. Our significant accounting policies are set forth in note 3 to the Accountants' Report set out in Appendix I to this prospectus.

Accounting estimates are those that require management to exercise judgement and make estimates that could yield materially different results if management were to apply different assumptions or make different estimates.

We adopt accounting policies and make estimates that our Directors believe are most appropriate in the circumstances for the purpose of giving a true and fair view of our results and financial position. In each case, the determination of these items requires management judgements based on information and financial data that may change in future periods. When reviewing our combined financial information, you should consider (i) our selection of critical accounting policies; (ii) the judgement and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. We believe the most complex and sensitive judgements, because of their significance to our results of operations and financial condition, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Actual results in these areas could differ from our estimates. The critical accounting policies and estimates we have adopted are described below.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. We recognise the revenue from the sales of goods when the goods are delivered to the destination specified by our customers and titles have passed, at which time all the following conditions are satisfied:

- our Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- our Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to our Group;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably; and
- subcontracting income is recognised when services are provided.

FINANCIAL INFORMATION

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to our Group and we can measure the amount of income reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Our revenue recognition policy is set forth in note 3 in the Accountants' Report set out in Appendix I to this prospectus.

Value-added tax refundable recognition

Value-added tax refundable represents the excess of input value-added tax paid over output value-added tax generated from the sales of goods or services by our Group entities. We calculate value-added tax refundable on a monthly basis and recognised when there is reasonable assurance that we will receive the value-added tax refundable from the government.

Our value-added tax refundable recognition policy is set forth in note 3 in the Accountants' Report set out in Appendix I to this prospectus.

Property, plant and equipment

Property, plant and equipment are stated in the combined statements of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

We recognise depreciation so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. We review the estimated useful lives, residual values and depreciation method at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

We calculate depreciation on property, plant and equipment using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Leasehold improvements	Over the shorter of the term of the lease, and 2 to 9 years
Plant and machinery	6 to 10 years
Motor vehicles	4 to 5 years
Furniture and equipment	3 to 5 years
Computer equipment	3 to 10 years

FINANCIAL INFORMATION

Our accounting policy for property, plant and equipment is set forth in note 3 in the Accountants' Report set out in Appendix I to this prospectus.

Inventories

Inventories are stated at the lower of cost and net realisable value. We determine the costs of inventories on weighted average basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Our accounting policy for inventories is set forth in note 3 in the Accountants' Report set out in Appendix I to this prospectus.

Impairment losses on trade and other receivables

Our Group's management determines the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of our customers and other debtors and the current market condition, and requires the use of judgements and estimates. Our management reassesses the provisions at each reporting date. During the Track Record Period, we did not recognise any impairment loss on trade and other receivables.

Our accounting policy for impairment losses on trade and other receivables is set forth in note 3 in the Accountants' Report set out in Appendix I to this prospectus.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the combined statements of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. Our Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each of the Track Record Period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in our Group's financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available to utilise against those deductible temporary differences. Such deferred tax assets and liabilities are not recognised if the temporary difference arises 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.

FINANCIAL INFORMATION

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where our Group is able to control the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Track Record Period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which our Group expects, at the end of each of the Track Record Period, to recover or settle the carrying amount of its assets and liabilities.

Our accounting policy for taxation is set forth in note 3 in the Accountants' Report set out in Appendix I to this prospectus.

FINANCIAL INFORMATION

PRINCIPAL COMPONENTS OF OUR COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The following discussion addresses the principal trends that have affected our results of operations during the Track Record Period and should be read in conjunction with the combined financial statements during the Track Record Period as set forth in the Accountants' Report, the text of which is set forth in Appendix I to this prospectus. The following table sets forth selected financial data from our combined statements of profit or loss and other comprehensive income for the periods indicated:

	Year ended 31 December		
	2014	2015	2016
	(RMB'000)	(RMB'000)	(RMB'000)
Revenue	174,809	168,802	172,347
Cost of sales	<u>(144,476)</u>	<u>(136,775)</u>	<u>(133,426)</u>
Gross profit	30,333	32,027	38,921
Other income and gains	2,522	3,995	2,647
Distribution and selling expenses	(9,485)	(9,599)	(9,269)
Administrative expenses	(13,711)	(12,427)	(12,268)
Listing expenses	–	(2,736)	(5,348)
Finance costs	<u>(1,479)</u>	<u>(724)</u>	<u>–</u>
Profit before tax	8,180	10,536	14,683
Income tax expense	<u>(2,411)</u>	<u>(3,174)</u>	<u>(5,258)</u>
Profit for the year	<u>5,769</u>	<u>7,362</u>	<u>9,425</u>
Other comprehensive expense, net of income tax			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations	<u>–</u>	<u>(4)</u>	<u>(176)</u>
Other comprehensive expense for the year, net of income tax	<u>–</u>	<u>(4)</u>	<u>(176)</u>
Profit and total comprehensive income for the year attributable to owners of our Company	<u>5,769</u>	<u>7,358</u>	<u>9,249</u>
	<i>RMB cents</i>	<i>RMB cents</i>	<i>RMB cents</i>
Earnings per share			
– Basic and diluted	<u>0.85</u>	<u>1.08</u>	<u>1.36</u>

FINANCIAL INFORMATION

Revenue

We generate revenue primarily from the manufacture and sales of inflatable playgrounds with air blowers, other inflatable products and inflatable products related accessories. The table below sets forth the revenue of our Group for the periods indicated by major product categories, which are also expressed as a percentage of total revenue and the sales volume of each product category during the Track Record Period:

	2014				2015				2016			
	Revenue	Percentage of total sales	Sales volume	Average selling price	Revenue	Percentage of total sales	Sales volume	Average selling price	Revenue	Percentage of total sales	Sales volume	Average selling price
		(%)	(pieces)	(RMB per piece)		(%)	(pieces)	(RMB per piece)		(%)	(pieces)	(RMB per piece)
Inflatable playgrounds with air blowers	157,147	89.9	181,592	865.4	148,315	87.9	173,784	853.4	148,863	86.4	161,814	920.0
Other inflatable products (note 1)	5,604	3.2	34,797	161.0	1,433	0.8	4,527	316.5	5,803	3.4	63,171	91.9
Inflatable products related accessories (note 2) and subcontracting work (note 3)	12,058	6.9			19,054	11.3			17,681	10.2		
Total	<u>174,809</u>	<u>100.0</u>			<u>168,802</u>	<u>100.0</u>			<u>172,347</u>	<u>100.0</u>		

Notes:

1. Other inflatable products include inflatable products without air blowers such as mini inflatable playgrounds, inflatable tents and inflatable ball pools.
2. Inflatable products related accessories mainly include PVC laminated oxford, plastic nails and other accessories.
3. Subcontracting work includes cutting of materials and sewing work performed by our Group for other manufacturers. The income from subcontracting works amounted to approximately RMB1,208,000, RMB1,900,000 and nil, respectively for each of the years ended 31 December 2014, 2015 and 2016.

Inflatable playgrounds with air blowers contributed 89.9%, 87.9% and 86.4% of our revenue for each of the years ended 31 December 2014, 2015 and 2016 respectively. Sales of other inflatable products and inflatable products related accessories and subcontracting work made up the remaining 10.1%, 12.1% and 13.6% of our revenue for each of the years ended 31 December 2014, 2015 and 2016 respectively.

Due to economic slowdown, we recorded a decrease in sales order from customers in Europe and North America for the inflatable playgrounds with air blowers in 2015. The overall sales volume decreased by approximately 4.3% from 181,592 pieces in 2014 to 173,784 pieces in 2015. For the year ended 31 December 2016 as compared with 2015, the overall sales volume of inflatable playgrounds with air blowers decreased further by approximately 6.9% to 161,814 pieces. Such decrease was mainly resulted from our Group's business strategies to devote more efforts in promoting and manufacturing medium to large size inflatable playground products. During the year ended 31 December 2016, while our

FINANCIAL INFORMATION

Group has successfully attracted customers to place orders for our medium to large size inflatable playgrounds which are more profitable, the orders for our smaller inflatable playgrounds have decreased, leading to the overall decrease in sales volume.

The average selling price of our inflatable playgrounds with air blowers decreased slightly from RMB865.4 for the year ended 31 December 2014 to RMB853.4 for the same period in 2015. Such decrease was mainly attributable to domestic sales for smaller inflatable playgrounds at lower price in 2015 were more popular. For the year ended 31 December 2016, the average selling price increased to RMB920.0. Such increase was mainly driven by the appreciation of US Dollars against RMB since mid 2015 such that our US Dollars denominated sales which made up majority of our sales of inflatable playgrounds with air blowers were translated into higher RMB equivalent amount.

The average selling price of other inflatable products increased from RMB161.0 for the year ended 31 December 2014 to RMB316.5 for the year ended 31 December 2015, primarily attributable to the increase in sales of inflatable tents, which were sold at higher unit price when compared to other PVC inflatable products. For the year ended 31 December 2016, the average price of other inflatable products decreased to RMB91.9. Such decrease was mainly due to higher sales of PVC inflatable products to local toys companies.

Our sales for other inflatable products related accessories decreased from RMB19,054,000 for the year ended 31 December 2015 to RMB17,681,000 for the same period of 2016, primarily attributable to (i) lower sales of PVC laminated oxford to other local manufacturers; (ii) lower revenue from subcontracting work as our Group did not provide any subcontracting services to other manufacturers in 2016; partially offset by (iii) higher sales of other inflatable products related accessories under ODM arrangement of approximately RMB5,573,000 to two local toy manufacturers as they did not have the relevant design and manufacturing techniques or capacities to meet their customers' needs.

FINANCIAL INFORMATION

The table below sets forth the geographical breakdown of our revenue for the periods indicated:

	Year ended 31 December					
	2014		2015		2016	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Domestic						
China ⁽¹⁾	24,814	14.2	30,115	17.8	59,262	34.4
Overseas						
Europe ⁽²⁾	37,614	21.5	41,610	24.7	37,325	21.7
Australia and Oceania ⁽³⁾	40,449	23.2	39,821	23.6	22,285	12.9
North America ⁽⁴⁾	22,051	12.6	18,968	11.2	18,551	10.8
Asia ⁽⁵⁾	41,091	23.5	34,705	20.5	32,287	18.7
Central and South America ⁽⁶⁾	8,083	4.6	2,807	1.7	2,588	1.5
Africa ⁽⁷⁾	707	0.4	776	0.5	49	0.0
	<u>149,995</u>	<u>85.8</u>	<u>138,687</u>	<u>82.2</u>	<u>113,085</u>	<u>65.6</u>
Total	<u><u>174,809</u></u>	<u><u>100.0</u></u>	<u><u>168,802</u></u>	<u><u>100.0</u></u>	<u><u>172,347</u></u>	<u><u>100.0</u></u>

Notes:

1. Sales to China mainly includes sales to a trading company and local manufacturers in the PRC, which are subsequently exported to overseas clients mostly in Europe and North America. Such subsequent export sales accounted for approximately RMB11,841,000, RMB10,679,000 and RMB44,561,000 for the years ended 31 December 2014, 2015 and 2016, respectively, or 6.8%, 6.3% and 25.9% of the total sales of corresponding years, respectively.
2. Europe comprises the United Kingdom, France, Germany, Italy, Poland, Spain, Belgium, Denmark, Czech Republic, the Netherlands, Portugal, Romania, Finland, Greece, Turkey, Latvia, Norway, Sweden, Cyprus, Croatia, Hungary, Estonia, Serbia, Lithuania and Ukraine.
3. Australia and Oceania comprises Australia, New Zealand and New Caledonia.
4. North America comprises the United States of America and Canada.
5. Asia comprises Hong Kong, Macau, Thailand, South Korea, Sri Lanka, the Philippines and India. Hong Kong and Macau are our principal markets in Asia, and they together contributed for approximately 93.4%, 91.9% and 91.2% of our total sales in Asia for the years ended 31 December 2014, 2015 and 2016, respectively. Our Directors consider that most of the sales to Hong Kong and Macau are subsequently exported to overseas customers in Europe and North America.
6. Central and South America comprises Chile, Columbia, Brazil, Paraguay, Uruguay, Venezuela, Panama, Peru and Argentina.
7. Africa comprises South Africa, Angola, Uganda, Reunion and Tanzania.

FINANCIAL INFORMATION

During the two years ended 31 December 2014 and 2015, we recorded an increase in our domestic sales while our export sales, especially to Asia, North America and Central and South America, decreased. Our export sales to Asia dropped mainly due to the reduction of sales orders placed by Swan Plastic, whose customers which are mainly in Europe and the U.S. in 2015. As such, we mainly recorded a decrease in sales orders from customers in Europe, North America and Central and South America. We consider that such decrease was mainly due to the economic slowdown in European and South American markets, as well as one of our major customers in the U.S. had not placed orders with us in 2015 after they purchased a large stock of inflatable playgrounds with air blowers in 2014 for their summer promotions. The slight decrease in sales to Australia and Oceania in 2015 was mainly because one of our Australian clients has postponed one of its orders from late 2015 to January 2016.

For the year ended 31 December 2016, as compared with the corresponding period in 2015, we recorded an increase in our domestic sales while our export sales decreased. We recorded lower export sales mainly from the Australia and Oceania markets. Our customers in Australia had reduced the purchases from us in 2016 owing to the slowdown in retail sales of our inflatable playground with air blowers in Australia as impacted by the depreciation of Australia Dollars against US Dollars.

The increase in our domestic sales was mainly due to our Group's continuing efforts to broaden our sales channel by cooperating with local manufacturers. Owing to our relatively stronger design and better automatic production capability which can produce more quality products in cost-effective and competitive manners, our Group has successfully secured more orders, which are even more profitable than some of our less profitable direct export sales, from local manufacturers' sales network, which are generally subsequently exported to overseas clients for their onward sales. To the best knowledge to our Directors, the orders are mostly exported to Europe or North America for retail sales. Contributed by our expanded sales channel and better cooperation with local manufacturers, our domestic sales of inflatable playgrounds with air blowers and PVC inflatable products under ODM arrangement increased by approximately RMB24,051,000 and RMB4,633,000, respectively in 2016 as compared with 2015. Our Group has secured the orders from the local toy manufacturers as they did not have the relevant design and manufacturing techniques or capacities and relied on us to produce more quality and cost-effective products to meet their customers' needs. It is our Group's intention to continue cooperating with these local manufacturers and exploring business opportunities and sales channel from both overseas and local orders to maximize its benefit and diversify the market risk.

FINANCIAL INFORMATION

During the years ended 31 December 2014, 2015 and 2016, we generated approximately RMB125,686,000, RMB111,757,000 and RMB80,376,000 (representing 71.9%, 66.2% and 46.6% of our total revenue) from sales under our own brands, and approximately RMB38,262,000, RMB38,958,000 and RMB80,168,000 (representing 21.9%, 23.1% and 46.5% of our total revenue) from our ODM business. Our increase in sales from ODM business in 2016 is mainly owing to the increase in our domestic sales of inflatable playgrounds with air blowers and PVC inflatable products under ODM arrangement by cooperating with local manufacturers. The following table sets forth our sales through different channels on our own brands or to our ODM customers:

	Year ended 31 December					
	2014		2015		2016	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Sales under our own brands	125,686	71.9	111,757	66.2	80,376	46.6
ODM business	38,262	21.9	38,958	23.1	80,168	46.5
Others (<i>note</i>)	10,861	6.2	18,087	10.7	11,803	6.9
Total	<u>174,809</u>	<u>100.0</u>	<u>168,802</u>	<u>100.0</u>	<u>172,347</u>	<u>100.0</u>

Note: Others include sales of inflatable products related accessories and intermediate materials which are not under our own brands or ODM business, and subcontracting work performed by our Group for other manufacturers.

During the Track Record Period, our ODM business mainly include sales of inflatable playgrounds with air blowers not under our own brands, which accounted for approximately RMB35,956,000, RMB37,365,000 and RMB69,561,000 for the years ended 31 December 2014, 2015 and 2016, respectively, representing approximately 94.0%, 95.9% and 86.8% of the total sales from ODM business for the corresponding year, while other inflatable products and inflatable products related accessories accounted for the remaining sum of our ODM business. Our increase in sales from ODM business in 2016 is mainly owing to the increase in our domestic sales of inflatable playgrounds with air blowers and PVC inflatable products under ODM arrangement by cooperating with local manufacturers. Such increase was mainly due to our Group's continuing efforts to broaden our sales channel and reduced promotion efforts in sales under our own brands. Having considered that (i) the efficiency in manufacturing orders secured by the local manufacturer is generally higher, mainly due to the relatively bulk purchase for their ODM customers as compared; (ii) cooperating with these local manufacturers could provide our Group with alternative income stream, which could assist in diversifying the market risk; and (iii) we would accept the orders secured from these local manufacturers only if the profitability of the orders is acceptable by us, our Directors are of the view that cooperating with these local manufacturers are beneficial to our Group. It is our Group's intention to continue exploring ODM business opportunities from both overseas and local orders to maximise our benefit and diversify the market risk.

FINANCIAL INFORMATION

Sales of different products are subject to different seasonal fluctuations. The table below sets out the breakdown of our Group's turnover by quarter during the Track Record Period:

	Year ended 31 December					
	2014		2015		2016	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Quarter 1 (January to March)	50,916	29.1	33,124	19.6	36,369	21.1
Quarter 2 (April to June)	53,330	30.5	48,087	28.5	46,984	27.3
Quarter 3 (July to September)	41,217	23.6	39,960	23.7	40,996	23.8
Quarter 4 (October to December)	<u>29,346</u>	<u>16.8</u>	<u>47,631</u>	<u>28.2</u>	<u>47,998</u>	<u>27.8</u>
Total	<u>174,809</u>	<u>100.0</u>	<u>168,802</u>	<u>100.0</u>	<u>172,347</u>	<u>100.0</u>

As some of our inflatable playgrounds are popular choice of gifts for customers during the summer time and at festivals, our sales in a few months before the summer time and festivals are generally better. As a result, we recorded higher turnover in the second quarter during the Track Record Period. For each of the years ended 31 December 2014, 2015 and 2016, aggregate turnover for second quarter amounted to approximately RMB53,330,000, RMB48,087,000 and RMB46,984,000 respectively, representing 30.5%, 28.5% and 27.3% of our total revenue.

Cost of sales

Our cost of sales mainly consists of costs of raw materials, labour expenses attributable to production processing, utilities expenses, depreciation and amortisation, rental expenses and building management fees on the manufacturing plants, subcontracting expenses and other production costs. Cost of raw materials, which mainly comprises air blowers, PVC laminated oxford, polyester cloth and PVC coating materials, formed the largest component of our cost of sales, representing 63.7%, 62.3% and 63.9% respectively, of our total cost of sales for the years ended 31 December 2014, 2015 and 2016.

FINANCIAL INFORMATION

The table below sets forth our cost of sales by product categories for the periods indicated, both in actual terms and as a percentage of total cost of sales:

	Year ended 31 December					
	2014		2015		2016	
	Percentage		Percentage		Percentage	
	of total		of total		of total	
	Cost of	cost of	Cost of	cost of	Cost of	cost of
	sales	sales	sales	sales	sales	sales
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Inflatable playgrounds						
with air blowers	127,805	88.4	119,595	87.4	113,147	84.8
Other inflatable products	5,145	3.6	1,166	0.9	5,266	3.9
Inflatable products						
related accessories and						
subcontracting work	11,526	8.0	16,014	11.7	15,013	11.3
Total	<u>144,476</u>	<u>100.0</u>	<u>136,775</u>	<u>100.0</u>	<u>133,426</u>	<u>100.0</u>

The table below sets forth a breakdown of the components of our cost of sales for the periods indicated, both in actual terms and as a percentage of total cost of sales:

	Year ended 31 December					
	2014		2015		2016	
	Percentage		Percentage		Percentage	
	of total		of total		of total	
	Cost of	cost of	Cost of	cost of	Cost of	cost of
	sales	sales	sales	sales	sales	sales
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Raw materials	91,975	63.7	85,169	62.3	85,251	63.9
Labour expenses	31,242	21.6	31,581	23.1	20,975	15.7
Depreciation and						
amortisation	1,568	1.1	1,538	1.1	1,520	1.1
Utilities expenses	2,271	1.6	2,213	1.6	1,554	1.2
Rental expenses and						
building management						
fees	3,827	2.6	3,705	2.7	4,087	3.1
Subcontracting expenses	6,514	4.5	6,486	4.7	14,721	11.0
Other production costs						
(note)	7,079	4.9	6,083	4.5	5,318	4.0
Total	<u>144,476</u>	<u>100.0</u>	<u>136,775</u>	<u>100.0</u>	<u>133,426</u>	<u>100.0</u>

Note: Other production costs primarily include inspection and testing fees and consumables.

FINANCIAL INFORMATION

Gross profit and gross profit margin

The table below sets forth our gross profit and gross profit margin by each of our product categories and different channels on our own brands or to our ODM customers for the periods indicated:

	Year ended 31 December					
	2014		2015		2016	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Inflatable playgrounds with air blowers	29,342	18.7	28,720	19.4	35,716	24.0
Other inflatable products	459	8.2	267	18.7	537	9.2
Inflatable products related accessories and subcontracting work	532	4.4	3,040	16.0	2,668	15.1
Total	<u>30,333</u>	17.4	<u>32,027</u>	19.0	<u>38,921</u>	22.6
Sales under own brands	23,182	18.4	22,884	20.5	20,440	25.4
ODM business	6,476	16.9	6,222	16.0	16,577	20.7
Others	675	6.2	2,921	16.1	1,904	16.1
Total	<u>30,333</u>	17.4	<u>32,027</u>	19.0	<u>38,921</u>	22.6

During the year ended 31 December 2016, our Group has successfully attracted customers to order our medium to large size inflatable playgrounds, which are more profitable.

During the Track Record Period, we recorded a higher gross margin for sales under our own brands, as compared to our sales from ODM, mainly because a layer of profit are generally captured by the brand owners of our ODM products.

FINANCIAL INFORMATION

Other income and gains

Other income and gains primarily consists of interest income, government grants and subsidies, foreign exchange gains, waiver of amount due to a related party and other sundry income. The table below sets forth our other income and gains for the periods indicated:

	Year ended 31 December					
	2014		2015		2016	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Interest income on bank deposits	49	1.9	34	0.8	10	0.4
Interest income from carved-out subsidiaries	473	18.8	335	8.4	–	–
Interest income from a related company	1,333	52.9	977	24.5	–	–
Grants and subsidies	373	14.8	229	5.7	415	15.6
Net foreign exchange gains	283	11.2	1,474	36.9	1,733	65.5
Waiver of amount due to a related party	–	–	739	18.5	–	–
Other sundry income	11	0.4	207	5.2	489	18.5
Total	<u>2,522</u>	<u>100.0</u>	<u>3,995</u>	<u>100.0</u>	<u>2,647</u>	<u>100.0</u>

During the Track Record Period, Swiftech Company, our principal operating subsidiary, received certain government grants and subsidies in relation to corporate development and export encouragement scheme and compensation for expenses already incurred. The amount of these grants and subsidies were subject to the discretions of local governments and there were no unfulfilled conditions or contingencies related to these grants.

During the Track Record Period, we recognised interest income on bank deposits from Zhongshan Dongcheng. As advised by our PRC Legal Advisers, the provision of interest-bearing loan to Zhongshan Dongcheng has technically breached the General Rules on Loans (《貸款通則》). Nevertheless, our PRC legal advisers is of the view that the likelihood of competent authorities would impose penalties on our Group in this regard should be remote.

Distribution and selling expenses

Distribution and selling expenses mainly consist of employee benefits expenses with respect to sales personnel, commission to agents and distributors for the provision of after-sales services, advertising and promotion expenses, freight and transportation expenses for the delivery of our products from our warehouses to our customers, and insurance expenses.

FINANCIAL INFORMATION

The table below sets out the breakdown of our Group's distribution and selling expenses during the Track Record Period.

	Year ended 31 December					
	2014		2015		2016	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Employee benefits expenses	1,419	15.0	1,601	16.7	1,529	16.5
Advertising and promotion expenses	2,076	21.9	1,277	13.3	1,874	20.2
Freight and transportation expenses	2,140	22.5	1,565	16.3	1,368	14.8
Commission and after-sales service expenses	2,913	30.7	4,296	44.8	3,736	40.3
Insurance expenses	442	4.7	398	4.1	429	4.6
Other distribution and selling expenses <i>(note)</i>	495	5.2	462	4.8	333	3.6
Total	<u>9,485</u>	<u>100.0</u>	<u>9,599</u>	<u>100.0</u>	<u>9,269</u>	<u>100.0</u>

Note: Other distribution and selling expenses primarily include business travelling and packing expenses.

Administrative expenses

Administrative expenses primarily consist of employee benefits expenses for administrative staff, directors' emoluments, depreciation and amortisation, rental expenses and building management fees, vehicle expenses, legal and professional fees, utilities and office expenses, product development expenses, bank charges, hospitality and business travelling expenses, and other administrative expenses.

FINANCIAL INFORMATION

The table below sets out the breakdown of our Group's administrative expenses during the Track Record Period:

	Year ended 31 December					
	2014		2015		2016	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Employee benefits expenses	6,167	45.0	5,458	43.9	5,730	46.7
Directors' emoluments	556	4.1	636	5.1	822	6.7
Depreciation and amortisation	824	6.0	425	3.4	294	2.4
Rental expenses and building management fees	331	2.4	715	5.8	880	7.2
Vehicle expenses	580	4.2	558	4.5	463	3.8
Legal and professional fees	483	3.5	768	6.2	1,378	11.2
Utilities and office expenses	2,042	14.9	2,133	17.1	1,466	12.0
Product development expenses	390	2.8	34	0.3	5	0.0
Bank charges	872	6.4	656	5.3	257	2.1
Hospitality and travelling expenses	422	3.1	443	3.6	378	3.1
Other administrative expenses <i>(note)</i>	1,044	7.6	601	4.8	595	4.8
Total	13,711	100.0	12,427	100.0	12,268	100.0

Note: Other administrative expenses primarily include donation, other taxes and other sundry expenses.

Listing expenses

Our Group's listing expenses incurred for the Listing are non-recurring in nature and mainly comprise professional fees paid to the Sole Sponsor, legal advisers, reporting accountants, internal control consultant, market research consultant and other parties for their services in connection with the Public Offer. Please also refer to the paragraphs headed "Listing expenses" in this section below for details of the expenses incurred for the Listing.

Finance costs

Finance costs consist of interest expenses on bank borrowings and loans from related parties. For details of loans from related parties, please refer to note 22 to the financial information in the Accountants' Report set out in Appendix I to this prospectus.

FINANCIAL INFORMATION

Income tax expenses

Our income tax expenses consist of provisions for income tax at the prevailing rates applicable to our relevant Group entities, as adjusted for non-deductible expenses, withholding tax on undistributed profits and effect of different tax rates of our Group entities operating in jurisdictions other than the PRC. The effective tax rates were 29.5%, 30.1% and 35.8%, respectively for each of the years ended 31 December 2014, 2015 and 2016.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year ended 31 December 2015 compared to the year ended 31 December 2014

Turnover

Our turnover decreased by 3.4% to approximately RMB168,802,000 in 2015 from approximately RMB174,809,000 in 2014, primarily due to economic slowdown in the developed markets which had affected our exports to overseas markets. Our domestic sales, on the other hand, demonstrated a relatively strong growth, thanks to the demand of our processed intermediate materials.

Cost of sales

Our cost of sales decreased by 5.3% to approximately RMB136,775,000 in 2015 from approximately RMB144,476,000 in 2014.

Cost of raw materials decreased by 7.4% to approximately RMB85,169,000 in 2015 from RMB91,975,000 in 2014 primarily due to lower consumption of raw materials resulted from lower sales to our customers. In addition, an improvement in production efficiency of PVC laminated oxford was demonstrated in 2015 and it lowered the production waste and in turn reduced the cost of raw materials consumed in the production of PVC laminated oxford.

FINANCIAL INFORMATION

Besides, the crude oil price has also resulted in decrease in price of PVC related raw materials which lowered our cost of sales. The following table sets forth a breakdown of our Group's cost of raw materials for the periods as indicated:

	Year ended 31 December 2014		Year ended 31 December 2015	
	RMB'000	%	RMB'000	%
Materials				
– air blowers	32,762	35.6	30,391	35.7
– PVC laminated oxford and relevant raw materials (note 1)	31,738	34.5	30,994	36.4
– polyester cloth	4,258	4.6	3,927	4.6
– PVC coating materials	4,958	5.4	5,417	6.4
– packing materials	6,513	7.1	5,904	6.9
– others (note 2)	11,746	12.8	8,536	10.0
Total	<u>91,975</u>	<u>100.0</u>	<u>85,169</u>	<u>100.0</u>

Notes:

1. PVC laminated oxford and relevant raw materials include PVC laminated oxford, oxford cloth, PVC powder and polyurethane glue.
2. Others primarily include PVC films, mesh and other accessories.

Other components of the cost of sales mainly included labour expenses, depreciation and amortisation, utilities expenses and other production costs, which our Directors consider to be relatively stable throughout 2015 as compared to 2014 as many of them are relatively fixed cost in nature.

Gross profit and gross profit margin

Our gross profit increased by 5.6% to approximately RMB32,027,000 in 2015 from RMB30,333,000 in 2014. Our gross profit margin increased to 19.0% in 2015 from 17.4% in 2014. Such increase was primarily driven by the improved efficiency in production of PVC laminated oxford and lower cost of raw materials and the plummeting crude oil price. Upon the commencement of business of Swiftech International in June 2015, our Group has made direct sales to some of our overseas customers to whom we sold through other export agents including Swan Plastic and SHD International before. From then on, we are able to capture the layer of margin used to be earned by the export agents. In addition, we have been focusing our resources in manufacturing and promoting products and related accessories which are more profitable. As a result of the above, our gross profit margin has improved during the two years ended 31 December 2014 and 2015.

FINANCIAL INFORMATION

Other income and gains

Our other income and gains increased by 58.4% to approximately RMB3,995,000 in 2015 from approximately RMB2,522,000 in 2014, primarily due to the increase in exchange gain and other sundry income. Our exchange gain increased to approximately RMB1,474,000 in 2015 from approximately RMB283,000 in 2014 driven by the appreciation of US Dollars against RMB. During the Track Record Period, we recognised interest income on bank deposits, from carved-out subsidiaries and from Zhongshan Dongcheng Real Estate Industrial Limited for the amount of approximately RMB1,855,000 and RMB1,346,000, respectively. Moreover, we recognised sundry income of RMB739,000 in 2015 as interest payable of the same amount due to Ms. Lin, the spouse of Mr. Huang, was waived during the year. For details of the interest payable to Ms. Lin, please refer to note 22 in the Accountants' Report set out in Appendix I to this prospectus.

Distribution and selling expenses

Our distribution and selling expenses increased slightly by 1.2% to approximately RMB9,599,000 in 2015 from RMB9,485,000 in 2014, primarily due to higher commission to agents and distributors for after-sales services in Australia and the United Kingdom, partially offset by lower freight and transportation expenses on lower turnover and lower advertising and promotion expenses due to fewer domestic internet sales campaigns.

Administrative expenses

Our administrative expenses decreased by 9.4% to approximately RMB12,427,000 in 2015 from RMB13,711,000 in 2014, primarily due to lower depreciation and amortisation as the majority of the leasehold improvements have been fully depreciated in 2014, and we had lower bank charges in 2015 caused by lower handling fees from decrease in bank borrowings as compared with 2014.

Finance costs

Our finance costs decreased by 51.0% to approximately RMB724,000 in 2015 from RMB1,479,000 in 2014, primarily due to the reduction in the average level of bank borrowings and loans from related parties by repaying all of our outstanding loans and borrowings in 2015.

Income tax expenses

Our income tax expenses increased by 31.6% to approximately RMB3,174,000 in 2015 from RMB2,411,000 in 2014. Our effective tax rate for 2014 and 2015 was 29.5% and 30.1%, respectively. The increase in the effective tax rate in 2015 was primarily attributable to the non-deductible nature of listing expenses incurred in 2015.

FINANCIAL INFORMATION

Profit for the year and net profit margin

As a result of the foregoing, our profit for the year increased by 27.6% to approximately RMB7,362,000 in 2015 from RMB5,769,000 in 2014 and our net profit margin increased to 4.4% in 2015 from 3.3% in 2014.

Year ended 31 December 2016 compared to the year ended 31 December 2015

Turnover

Our turnover increased by 2.1% to approximately RMB172,347,000 for the year ended 31 December 2016 from approximately RMB168,802,000 for the corresponding period in 2015, mainly attributable to higher domestic sales of inflatable playgrounds with air blowers and PVC inflatable products contributed by our expanded sales channels and better collaboration with local manufacturers, partially offset by lower export sales to Australia and Oceania due to the slowdown in retail sales of our products in Australia as impacted by the depreciation of Australia Dollars against US Dollars. For further details, please refer to the paragraph headed “Financial Information – Revenue” in this prospectus.

Cost of sales

Our cost of sales decreased by 2.4% to approximately RMB133,426,000 for the year ended 31 December 2016 from approximately RMB136,775,000 for the corresponding period in 2015.

Our cost of raw materials remained stable at approximately RMB85,251,000 for the year ended 31 December 2016 as compared with approximately RMB85,169,000 for the corresponding period in 2015. During the year ended 31 December 2016, our Group had incurred higher cost on PVC films resulted from the increase in sales of PVC inflatable products to the other local manufacturers. Such increase was partially offset by the lower cost incurred on air blowers. The following table sets forth a breakdown of our Group’s cost of raw materials for the periods as indicated:

	Year ended		Year ended	
	31 December 2015		31 December 2016	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Materials				
– air blowers	30,391	35.7	25,821	30.3
– PVC laminated oxford and relevant raw materials (<i>note 1</i>)	30,994	36.4	27,573	32.4
– polyester cloth	3,927	4.6	3,693	4.3
– PVC coating materials	5,417	6.4	8,485	10.0
– packing materials	5,904	6.9	6,776	7.9
– others (<i>note 2</i>)	8,536	10.0	12,903	15.1
	<u>85,169</u>	<u>100.0</u>	<u>85,251</u>	<u>100.0</u>

FINANCIAL INFORMATION

Notes:

1. PVC laminated oxford and relevant raw materials include PVC laminated oxford, oxford cloth, PVC powder and polyurethane glue.
2. Others primarily include PVC films, mesh and other accessories.

Our costs of air blowers decreased from RMB30,391,000 for the year ended 31 December 2015 to RMB25,821,000 for the same period in 2016, mainly due to the introduction of more advanced series of air blowers, which cost less with comparable specifications attributable to the (i) the improvement of design of the air blowers, including a smaller size and a more advanced cooling system of the air blower; and (ii) the improvement of the technology in manufacturing of the air blower, including the injection molding process is gradually replaced by blow molding, which is more economical. In addition, the introduction of the new series of air blowers provided more models for our Group's selection in developing cost effective designs, as well as drove down the average price for the older versions of air blowers.

During the year ended 31 December 2016, the labour expenses included in our cost of sales decreased by approximately 33.6% to approximately RMB20,975,000 from approximately RMB31,581,000 for the corresponding period in 2015. Such decrease has mainly resulted from the reduction in our number of employees due to (i) higher staff turnover and attrition as a scalable garment factory nearby our production facility has offered highly competitive packages to recruit production workers during 2016; (ii) temporary increase in the outsourcing works, such as simple sewing function of accessories of our inflatable playgrounds, to our subcontractors; and (iii) decrease in labour work driven by production automation and improvement in efficiency.

Our subcontracting expenses increased by 127.0% to approximately RMB14,721,000 for the year ended 31 December 2016 from approximately RMB6,486,000, mainly due to the increase in demand of outsourcing work to fulfill the sales order to be delivered in 2016 under the reduction in our number of employees.

Other components of cost of sales remained relatively stable throughout the year ended 31 December 2016 when compared to that of 2015 as they were relatively fixed cost in nature.

Gross profit and gross profit margin

Our gross profit increased by 21.5% to approximately RMB38,921,000 for the year ended 31 December 2016 from approximately RMB32,027,000 for the corresponding period in 2015. Our gross profit margin has increased to approximately 22.6% for the year ended 31 December 2016 from approximately 19.0% for the corresponding in 2015. Such increase was primarily resulted from (i) the exchange rate impact on the continual depreciation of RMB against US Dollars. From mid 2015 to December 2016, RMB has depreciated against US Dollars by more than 10%, and therefore our US Dollars denominated export sales were translated into higher RMB equivalent amounts; and (ii) the decrease in cost of air blowers as explained above; partially offset by the increase in sales of other PVC inflatable products which were of lower gross profit margin.

FINANCIAL INFORMATION

Other income and gains

Our other income and gains decreased by 33.7% to approximately RMB2,647,000 for the year ended 31 December 2016 from approximately RMB3,995,000 for the corresponding period in 2015, primarily due to the recognition of income from a waiver of amount due to Ms. Lin, and interest income from loans to our curved-out subsidiaries and Zhongshan Dongcheng in 2015, partially offset by the net foreign exchange gains and government grants and subsidies in 2016. For details of the interest payable to Ms. Lin, please refer to note 22 in the Accountants' Report set out in Appendix I to this prospectus.

Distribution and selling expenses

Our distribution and selling expenses decreased slightly by 3.4% to approximately RMB9,269,000 for the year ended 31 December 2016 from approximately RMB9,599,000 for the corresponding period in 2015, primarily due to (i) lower after sales services expenses resulted from lower turnover with after sales services in Australia and Oceania; (ii) lower freight and transportation expenses of approximately RMB197,000 on lower sales volume; partially offset by (iii) higher advertising and promotion expenses for more exhibitions and promotional activities.

Administrative expenses

Our administrative expenses remained stable at approximately RMB12,268,000 for the year ended 31 December 2016 as compared with approximately RMB12,427,000 for the corresponding period in 2015, primarily due to (i) higher professional fees mainly on the disbursement expenses paid to the professional parties and the valuation fees in relation to the corporate reorganisation of the PRC operating subsidiaries; (ii) higher employee benefits expenses and directors' emoluments; offset by (iii) lower bank charges; and (iv) lower utilities and office expenses.

Finance costs

As our Group did not have any outstanding borrowings during the year ended 31 December 2016, our finance costs decreased to nil for the year ended 31 December 2016 from approximately RMB724,000 for the corresponding period in 2015.

Income tax expenses

Our income tax expenses increased to approximately RMB5,258,000 for the year ended 31 December 2016 from approximately RMB3,174,000 for the corresponding period in 2015. Our effective tax rate for each of the year ended 31 December 2015 and 2016 was 30.1% and 35.8%, respectively. The increase in effective tax rate for the year ended 31 December 2016 was primarily attributable to the non-deductible nature of listing expenses incurred in 2016.

FINANCIAL INFORMATION

Profit for the period

As a result of the foregoing, our profit for the year ended 31 December 2016 increased by 28.0% to approximately RMB9,425,000 from approximately RMB7,362,000 for the corresponding period in 2015. Our net profit margin increased to approximately 5.5% for the year ended 31 December 2016 from approximately 4.4% for the corresponding period in 2015, mainly attributable to the increase in gross profit margin as mentioned above, partially offset by the listing expenses incurred in the year ended 31 December 2016.

RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions

Set out in note 31 to the financial information in the Accountants' Report were our related party transactions during the Track Record Period. Our Directors confirm that all such transactions were conducted on an arm's length basis, on normal commercial terms, fair and reasonable and in the interest of the Shareholders as a whole.

(1) *Swan Group*

Purchase of inflatable playgrounds with air blowers by Swan Plastic from us

Swan Plastic was owned as to 9.5% and 9.5% by Mr. Huang and Mr. Tong Yat Keung ("**Mr. Tong**"), who resigned his director roles in Swiftech Company and Zhongshan Runhe in December 2014 for his other personal commitments, including taking an executive director role in a company engaging in designing and manufacturing lighting products. Each of Mr. Huang and Mr. Tong was a director of Swan Plastic at the material time. Swan Plastic is a toy and sports goods trading company located in Hong Kong and its line of business includes inflatable beach items, PVC; inflatable toys, and watersports equipment and toys and sports goods. For the two years ended 31 December 2014 and 2015, Swan Plastic procured inflatable products and related accessories of approximately RMB22,265,000 and RMB771,000, respectively, from us and resold them to its customers mainly located in Europe and the US. Since July 2015, Swan Plastic has no longer placed any sales orders with our Group, which, as our Directors considered, was because its production subsidiary (Zhongshan Horizon), together with its outsourced subcontracting arrangement, was able to meet its own requirement and demand. Mr. Huang resigned as director of Swan Plastic on 30 September 2015 and disposed of his 9.5% equity interest in Swan Plastic on 24 November 2015. Following the disposal of 9.5% equity interest and the resignation of directorship by Mr. Huang in Swan Plastic, Swan Plastic is no longer a related party to our Group. The contribution of revenue by the Swan Plastic was significantly reduced during the Track Record Period, amounting to only 0.5% of our total revenue for the year ended 31 December 2015. As such, although Swan Plastic has stopped placing orders with us since July 2015, our Directors are of the view that the cessation of Swan Plastic to be our related party since November 2015 would not have any adverse impact on our Group's financial performance. In addition, as the

FINANCIAL INFORMATION

gross margin of sales to Swan Group is comparatively low to our overall gross profit margin, the cessation of inflatable products purchase from our Group by Swan Plastic has a slightly positive impact on our Group's overall gross profit margin.

Purchase of raw materials for manufacturing of inflatable products by Zhongshan Horizon from us

Being a subsidiary indirectly owned and controlled by Swan Plastic, Zhongshan Horizon is a PRC manufacturer and processor of inflatable products. In the course of its operations, Zhongshan Horizon purchased intermediate materials, mainly PVC laminated oxford, for manufacturing inflatable products from our Group, accounting for approximately RMB7,217,000 and RMB15,503,000 for the two years ended 31 December 2014 and 2015, respectively. Having noted that our Group had excess production capacity of PVC laminated oxford and it is beneficial for our Group to achieve better buyer bargaining power by sourcing larger quantities of PVC and oxford cloth, it is desirable for our Group to sell PVC laminated oxford to Zhongshan Horizon in order to broaden our income source and maximise the utilisation of our production capacity of PVC laminated oxford. Following the disposal of 9.5% equity interest in Swan Plastic by Mr. Huang in November 2015, Zhongshan Horizon is no longer a related party to our Group while it continues to purchase PVC laminated oxford from our Group. For the year ended 31 December 2016, Zhongshan Horizon has purchased intermediate materials, mainly PVC laminated oxford amounted to RMB11,812,000 from our Group. It is our Group's intention to keep selling PVC laminated oxford to Zhongshan Horizon after the Listing.

Provision of subcontracting services by Zhongshan Horizon to us

In addition to purchasing raw materials from our Group, we subcontracted certain parts of our manufacturing work, such as sewing, to Zhongshan Horizon during our peak seasons. Please refer to the section headed "Business – Subcontracting" in this prospectus for further details. We consider that outsourcing parts of our work during peak seasons to Zhongshan Horizon will be an efficient and cost effective way to provide us with better flexibility on labour resources, and in turn will be beneficial to us. During the Track Record Period, our total subcontracting fees to Zhongshan Horizon amounted to approximately RMB2,747,000, RMB20,000 and RMB1,144,000, representing 1.9%, 0.0% and 0.9% of our total cost of sales, respectively. Depending on our level of resources, including labour availability and utilisation capacity, we may continue to engage Zhongshan Horizon to provide subcontracting services following the Listing.

Provision of subcontracting services by us to Zhongshan Horizon

Meanwhile, during the Track Record Period, Zhongshan Horizon subcontracted parts of its works, such as cutting of materials and sewing, with subcontracting fees amounted to approximately RMB1,208,000 and RMB1,900,000, respectively, to us. For the year ended 31 December 2016, Zhongshan Horizon has not subcontracted any parts

FINANCIAL INFORMATION

of its works to us. Depending on our level of resources, including labour availability and utilisation capacity, we may continue to provide subcontracting services to Zhongshan Horizon following the Listing.

(2) *SHD International*

Purchase of inflatable playgrounds with air blowers by SHD International from us

SHD International (74.4%, 12.8% and 12.8% of its share capital is beneficially owned by Nonton, Mr. Huang and Mr. Tong, respectively) is a toy and trading goods exporter based in Macau. During the Track Record Period, SHD International procured inflatable products of approximately RMB8,453,000 and RMB18,423,000, respectively, from us and resold them to its customers, who are mainly from Europe and the US. As part of the Reorganisation and in order to consolidate the control of the export and trading business of our Group, since then our export sales via SHD International had been gradually transferred to Swiftech International by redirecting SHD International's customers to place sales orders with our Group via Swiftech International after it was incorporated in March 2015. SHD International subsequently carried no business since all of our export sales via SHD International have been taken over by Swiftech International, and was dissolved in November 2015. After the dissolution of SHD International, all of SHD International's customers remained as recurring customers of our Group. Purchases including the purchase orders placed to our Group via SHD International before its dissolution in 2015 by such customers from our Group were approximately RMB36,654,000 and RMB32,140,000 for each of the years ended 31 December 2015 and 2016, respectively. As such, our Directors are of the view that the dissolution of SHD International would not have any adverse impact on our Group's financial performance.

During the Track Record Period, the gross margin of sales to Swan Group and SHD International are comparatively low. Nevertheless, having considered that (i) having a subsidiary (Zhongshan Horizon) engaging in the manufacturing of inflatable playgrounds, Swan Group had in-depth knowledge of the costs of manufacturing inflatable playgrounds and thus a greater bargaining power; (ii) being a trading company, Swan Plastic and SHD International would only place orders with our Group when there exists a reasonable layer of profit to be captured by them. To the Directors' best understandings, Swan Plastic and SHD International can normally capture a profit of approximately 5% to 10% for each purchase order; (iii) a significant portion of sales to Swan Group came from the sales of our Group's PVC laminated oxford, which has a lower margin than inflatable playgrounds, and our Group's spare production capacity of PVC laminated oxford could be utilized; (iv) our Directors consider that the bulk purchase discount offered to Swan Group and SHD International of approximately 3% to 5% as a whole during the Track Record Period are of the similar level that, our Group have sometimes provided to other major independent customers; (v) our Group were not responsible for the after-sales services for Swan Group's and SHD International's customers. For the years ended 31 December 2014 and 2015, our Group have incurred after-sales services expense amounted to approximately 6.4% of the relevant sales; (vi) the margin of sales to Swan Group and SHD International fell within the range of gross margin our Group achieved from sales to our Independent Third Parties customers; and (vii) the credit terms for Swan Group and SHD International were substantially the same

FINANCIAL INFORMATION

as our Group's sales to Independent Third Parties, our Directors are of the view, and the Sponsor concurs, that the lower gross margin for the sales to Swan Group and SHD International is justified, and that the corresponding sales are in accordance with prevailing market price and on normal commercial terms.

In addition, having considered that (i) the profit contributed from the sales to Swan Group and SHD International is reasonable; (ii) the sales of PVC laminated oxford to Swan Group has utilised part of our Group's spare production capacity of PVC laminated oxford; (iii) the delivery time and payment terms for the sales to Swan Group and SHD International are generally negotiable and relatively flexible, our Directors are of the view that the sales to Swan Group and SHD International can create considerable economic benefits to our Group and is therefore a reasonable arrangement.

(3) *Zhongshan Dongcheng Real Estate Industrial Limited ("Zhongshan Dongcheng")*

Lease of our production facilities by us from Zhongshan Dongcheng

During the Track Record Period, we leased various production facilities comprising three production workshops, ancillary offices, ancillary facilities, warehouse, and staff dormitory as our production facilities at Dongcheng Industrial Zone, Zhongshan City from Zhongshan Dongcheng (owned up to 45% of its equity interest by Allied Step Development Limited, whose in turn 40% share capital was owned by Mr. Huang and 20% share capital was owned by the spouse of Mr. Tong. On 29 July 2015, Mr. Huang disposed his 40% share capital of Allied Step Development Limited). For each of the years ended 31 December 2014, 2015 and 2016, the associated rental and building management expenses amounted to approximately RMB4,526,000, RMB4,736,000 and RMB4,811,000, respectively. According to the tenancy agreement dated 1 November 2014 entered into between Zhongshan Dongcheng and Swiftech Company, and the tenancy agreement dated 1 November 2014 entered into between Zhongshan Dongcheng and Zhongshan Runhe, our Group will continue to lease the said properties until 30 September 2019, with an option that we may terminate such rental agreement by serving one month's notice.

Provision of financial assistance by Zhongshan Dongcheng to us

During the Track Record Period, Zhongshan Dongcheng provided us with financial assistance, by pledging the properties leased to us for one of our bank facilities with a credit limit of RMB32,000,000.

Back in 2007, Zhongshan Dongcheng was under liquidity pressure while it was developing the production base at Dongcheng Industrial Zone. Our Group considered the location of the production base ideal for our operations, and therefore, our Group agreed, after discussions with Zhongshan Dongcheng, to pre-pay a rental in advance of approximately RMB4,294,000 and provided interest-bearing loans to Zhongshan Dongcheng.

FINANCIAL INFORMATION

In 2013, when we faced a liquidity pressure mainly due to the operation funding needs to Sunnytech and Humoled, it was suggested by the bank that more favourable terms could be offered if a collateral could be provided. As a friendly party of our Group, Zhongshan Dongcheng agreed to pledge its land and buildings to facilitate our Group in obtaining the bank loan at better terms, provided that our Group had to seek for approvals from Zhongshan Dongcheng prior to any loans to be drawn from the bank. Having considered that (i) our Group has previously offered assistance to Zhongshan Dongcheng in the form of rentals in advance and providing loans to ease its liquidity pressure; and (ii) our Group has had a solid financial position while the business was steadily growing, Zhongshan Dongcheng concluded that, the risk for the bank to seize the collateral was relatively low.

Upon the repayment of amounts due from Sunnytech and Humoled in 2015, the pressure on working capital has been relieved and the relevant bank loans were fully settled and the pledge was released in August 2015.

Our Directors confirmed that there was no condition imposed on our Group by Zhongshan Dongcheng in return for such financial assistance. We expect the provision of financial assistance by Zhongshan Dongcheng will not occur after the Listing.

(4) Zhongshan Dongjian Trading Company Limited (“Zhongshan Dongjian”)

Purchase of raw materials for manufacturing of inflatable products by Zhongshan Dongjian from us

Zhongshan Dongjian (which was owned up to 70% by Ms. Lin Limiao, spouse of Mr. Huang, and 15% by Mr. Xiao during the Track Record Period and up to January 2016) is a wholesale trading company mainly engaged in trading of raw materials for manufacturing of inflatable products. For the year ended 31 December 2014, Zhongshan Dongjian procured daily commodities, mainly PVC laminated oxford, of approximately RMB2,527,000 from us. Since November 2014, Zhongshan Dongjian has no longer entered into any business transaction with our Group and carried no business, until January 2016, when Ms. Lin Limiao and Mr. Xiao disposed of their respective equity interest in Zhongshan Dongjian to Independent Third Parties.

Purchase of raw materials for manufacturing of inflatable products by us from Zhongshan Dongjian

Meanwhile, for the year ended 31 December 2014, our Group had procured some raw materials for manufacturing inflatable products, which primarily included PVC laminated oxford and air blowers, amounting to approximately RMB5,180,000 from Zhongshan Dongjian.

Our Directors are of the view that the abovementioned transactions were conducted on normal commercial terms and our terms were not less favourable than the terms available from/to Independent Third Parties and our Directors consider them fair and reasonable and in the interest of our Shareholders and our Group as a whole.

FINANCIAL INFORMATION

Balances with related parties

Please refer to notes 17, 18, 20, 21 and 22 of the Accountants' Report in Appendix I to this prospectus for further details of balances with related parties.

As at the Latest Practicable Date, all of the amounts due from or to related parties had been fully settled.

INDEBTEDNESS

The following table sets forth our Group's borrowings and amounts due to related parties as at the dates indicated:

	As at 31 December 2014 <i>RMB'000</i>	As at 31 December 2015 <i>RMB'000</i>	As at 31 December 2016 <i>RMB'000</i>	As at 30 April 2017 <i>RMB'000</i> (unaudited)
Mr. Xiao	2,000	–	–	–
Ms. Lin (<i>note 1</i>)	9,374	–	–	–
Zhongshan Huanleyuan (<i>note 2</i>)	3,000	–	–	–
Ocean Union (<i>note 3</i>)	4,773	–	–	–
Secured bank borrowings	17,238	–	–	–
	<u>36,385</u>	<u>–</u>	<u>–</u>	<u>–</u>
Analysed for reporting purpose as:				
Current liabilities	30,612	–	–	–
Non-current liabilities	5,773	–	–	–
	<u>36,385</u>	<u>–</u>	<u>–</u>	<u>–</u>

Notes:

- The loans from Ms. Lin, spouse of Mr. Huang, were unsecured, interest-bearing at 6.9% per annum and repayable within twelve months with an amount of RMB1,000,000 was unsecured, interest-bearing at 6.9% per annum and repayable in February 2016. The loans were fully settled in 2015.

During the year ended 31 December 2015, owing to Ms. Lin's other personal investment opportunities arisen, she wanted to get back all her loans prior to the due date. After discussing with our management, she agreed to waive the outstanding interest payable to her amounting to approximately RMB739,000 in order for early redemption of the term loans resulting in a waiver of amount due to a related party of approximately RMB739,000 being recognised in profit or loss within "other income and gains" for the year ended 31 December 2015.

FINANCIAL INFORMATION

2. The loan from Zhongshan Huanleyuan was unsecured, interest-bearing at 6.9% per annum and repayable within twelve months.
3. Mr. Lee, the Controlling Shareholder has beneficial interest in Ocean Union through Nonton. The amount due was unsecured, interest-free and repayable in March 2016. The loan was fully settled in 2015.

Borrowings

As at 31 December 2015 and 2016 and 30 April 2017, we had no outstanding bank borrowings. As at 31 December 2014, we had bank borrowings of approximately RMB17,238,000 of which RMB12,238,000 were denominated in US Dollars, and RMB5,000,000 were denominated in RMB. Our bank borrowings bear interest at rates ranging from 1.9% to 7.5% per annum and will mature within one year and are therefore classified as current liabilities.

As at 31 December 2014, we had committed banking facilities of approximately RMB17,238,000 which bore interest at 1.9% to 7.5% per annum. As at 31 December 2015 and 30 April 2017, we had no committed banking facilities.

As at 31 December 2014, 2015 and 2016 and 30 April 2017, our unutilised and unrestricted banking facilities amounted to approximately RMB14,762,000, nil, nil and nil, respectively.

Amounts due from/to related parties

The following table set forth the details of amounts due from/to related parties as at 31 December 2014, 2015 and 2016.

Loans to a related company/carved-out subsidiaries

	As at 31 December 2014 RMB'000	As at 31 December 2015 RMB'000	As at 31 December 2016 RMB'000
Loan to a related company			
Zhongshan Dongcheng	26,820	—	—
Loans to carved-out subsidiaries			
Humoled	4,285	2	—
Sunnytech	5,570	—	—
	9,855	2	—

FINANCIAL INFORMATION

Loans from a director/related parties

	As at 31 December 2014 <i>RMB'000</i>	As at 31 December 2015 <i>RMB'000</i>	As at 31 December 2016 <i>RMB'000</i>
Loan from a director			
Mr. Xiao	2,000	–	–
	<u>2,000</u>	<u>–</u>	<u>–</u>
Loans from related parties			
Ms. Lin	9,374	–	–
Zhongshan Huanleyuan	3,000	–	–
Ocean Union	4,773	–	–
	<u>17,147</u>	<u>–</u>	<u>–</u>

Amounts due from/to related parties were non-trade nature, unsecured, had fixed terms of repayment and were denominated in RMB or US Dollars. Such amounts represented advances from Ms. Lin, Zhongshan Huanleyuan and Ocean Union for financing the daily operation of our Group. All amounts due have been settled prior to the Latest Practicable Date.

Contingent liabilities

We had no significant contingent liabilities as at 31 December 2014, 2015 and 2016 and 30 April 2017.

Our Directors confirm that (i) our Group has not experienced any difficulty in obtaining bank borrowings or any default in payment on bank borrowings or any breach of finance covenants during the Track Record Period and up to the Latest Practicable Date; (ii) there has not been any material change in our indebtedness and contingent liabilities since 30 April 2017 and up to the Latest Practicable Date; (iii) our Directors are not aware of any material defaults in payment of our trade and non-trade payables and bank borrowings during the Track Record Period and up to the Latest Practicable Date; (iv) the bank loans and bank facilities are subject to standard banking conditions; and (v) our Group has not received any notice from banks indicating that they might withdraw or downsize the bank loans or bank facilities and none of our Group's bank borrowings and facilities are subject to the fulfillment of covenants relating to financial ratio requirements or any other material covenants which would adversely affect our Group's ability to undertake additional debt or equity financings.

Save as disclosed in paragraph headed "Indebtedness" in this section, we did not have, at the close of business on 30 April 2017, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

FINANCIAL INFORMATION

COMMITMENTS

Our commitments relate to (a) capital commitments in relation to our purchases of fixed assets contracted but not provided for; and (b) future minimum lease payments under non-cancellable operating leases.

(a) Capital commitments

Capital commitments outstanding at each reporting date not provided for were as follows:

	As at 31 December 2014 <i>RMB'000</i>	As at 31 December 2015 <i>RMB'000</i>	As at 31 December 2016 <i>RMB'000</i>	As at 30 April 2017 <i>RMB'000</i> <i>(unaudited)</i>
Contracted but not provided for:				
– Property, plant and equipment	147	–	–	–

(b) Operating lease commitments – as lessee

At each statement of financial position date, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	As at 31 December 2014 <i>RMB'000</i>	As at 31 December 2015 <i>RMB'000</i>	As at 31 December 2016 <i>RMB'000</i>	As at 30 April 2017 <i>RMB'000</i> <i>(unaudited)</i>
Within one year	312	647	589	474
In the second to fifth years inclusive	–	245	–	–
	<u>312</u>	<u>892</u>	<u>589</u>	<u>474</u>

Operating leases relate to office premises with lease terms between 2 and 5 years. We do not have an option to purchase the leased asset at the expiry of the lease period. For details of our total future minimum lease payments under non-cancellable operating leases, please refer to note 30 in the Accountants' Report set out in Appendix I to this prospectus.

FINANCIAL INFORMATION

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our Shares and classified as shareholder's equity, or that are not reflected in our combined financial statements. We do not have any variable interests in any uncombined entity that provides financing, liquidity or credit support to us, or engages in leasing, hedging or research and development services with us.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Overview

Our principal liquidity and capital requirements primarily relate to capital expenditures for the purchase of property, plant and equipment. We have historically met our working capital and other liquidity requirements principally from cash generated from our operations, bank borrowings and equity contributions from shareholders. Going forward, we expect to fund our foreseeable working capital, capital expenditures and other capital requirements with a combination of various sources, including cash generated from our operations, bank borrowings and the Public Offer.

Cash flow

The following table sets forth the selected cash flow data from the combined statements of cash flows for the period as indicated. This information should be read together with the combined financial information contained in the Accountants' Report in Appendix I to this prospectus.

FINANCIAL INFORMATION

	Year ended 31 December		
	2014	2015	2016
	(RMB'000)	(RMB'000)	(RMB'000)
Net cash generated from operating activities before working capital changes	10,198	11,138	16,487
Net cash generated by/(used in) operating activities	6,937	(1,825)	4,459
Net cash (used in)/generated by investing activities	(22,457)	37,197	(449)
Net cash generated by/(used in) financing activities	1,519	(29,992)	(436)
Net (decrease)/increase in cash and cash equivalents	(14,001)	5,380	3,574
Cash and cash equivalents at the beginning of year	16,415	2,659	8,290
Effect of foreign exchange rate changes, net	245	251	(145)
Cash and cash equivalents at the end of year	2,659	8,290	11,719

Cash flow from operating activities

We derived our cash from operating activities generally from the receipt of payments in relation to our sales of inflatable products. Our cash outflow from operations mainly included purchases of raw materials, payments of manufacturing costs and overheads, labour expenses, distribution and selling expenses and administrative expenses.

Our cash from operating activities reflected profit before tax for the year, mainly adjusted for non-cash items such as depreciation of property, plant and equipment, amortisation of intangible assets, finance costs recognised in profit or loss, changes in working capital including inventories, trade and other receivables and trade and other payables and amounts due to/from related parties.

Our net cash generated by operating activities was approximately RMB4,459,000 in 2016. This net cash inflow primarily a result of (i) profit for the period in the amount of approximately RMB9,425,000; (ii) the adjustment of income tax expense amounting to approximately RMB5,258,000; (iii) the adjustment of amortisation and depreciation amounting to approximately RMB1,814,000; (iv) the adjustment of interest income of approximately RMB10,000; (v) an increase in inventories amounting to approximately RMB2,192,000 mainly on higher balance of finished goods to be delivered in the first quarter of 2017; (vi) an increase in trade and other receivables of approximately RMB7,251,000 mainly due to the strong fourth quarter sales near the end of 2016; and (vii) an increase in trade and other payables of approximately RMB1,538,000 mainly on higher purchases to support the production of the strong fourth quarter sales.

FINANCIAL INFORMATION

Our net cash used in operating activities was approximately RMB1,825,000 in 2015. This net cash outflow was primarily a result of (i) profit for the year in the amount of approximately RMB7,362,000; (ii) the adjustment of income tax expense amounting to RMB3,174,000; (iii) the adjustment of amortisation and depreciation amounting to approximately RMB1,963,000; (iv) the adjustment of the interest income, finance costs and other sundry income recognised amounting to approximately RMB1,361,000; (v) a decrease in inventories amounting to approximately RMB2,174,000; (vi) an increase in trade and other receivables amounting to approximately RMB14,249,000; (vii) an increase in trade and other payables amounting to approximately RMB8,360,000; (viii) a decrease in loan from a Director amounting to approximately RMB2,000,000; and (ix) a decrease in loan from a related company amounting to approximately RMB4,886,000. The decrease in cash flow from operating activities is primarily due to the increase in trade and other receivables driven by the strong fourth quarter sales in 2015. For additional information on the trade and other receivables, please refer to note 17 to the Accountants' Report set out in Appendix I to this prospectus.

Our net cash generated from operating activities was approximately RMB6,937,000 in 2014. This net cash inflow was primarily a result of (i) profit for the year in the amount of approximately RMB5,769,000; (ii) the adjustment of income tax expense amounting to approximately RMB2,411,000; (iii) the adjustment of amortisation and depreciation amounting to approximately RMB2,392,000; (iv) the adjustment of the interest income amounting to approximately RMB1,855,000; (v) the adjustment of finance costs amounting to approximately RMB1,479,000; (vi) the adjustment of loss on disposal of property, plant and equipment recognised amounting to approximately RMB2,000; (v) a decrease in inventories amounting to approximately RMB6,978,000; (vi) a decrease in trade and other receivables amounting to approximately RMB2,100,000; and (vii) a decrease in trade and other payables amounting to approximately RMB10,702,000; (viii) a decrease in loan from a director amounting to approximately RMB1,000,000; and (ix) an increase in loan from a related company amounting to approximately RMB2,063,000.

Cash flow from investing activities

Our net cash used in investing activities was approximately RMB449,000 in 2016. This net cash outflow primarily reflected (i) payments for additions of plant and machinery, motor vehicles and computer equipment of approximately RMB461,000; partially offset by (ii) interest received from bank deposits of approximately RMB10,000; and (iii) repayment of loan to a carved-out subsidiary of approximately RMB2,000.

Our net cash generated from investing activities was approximately RMB37,197,000 in 2015. This net cash inflow primarily reflected (i) a decrease in amount due from a related company amounting to approximately RMB26,820,000; (ii) a decrease in loans to carved-out subsidiaries amounting to approximately RMB9,700,000; (iii) interest received amounting to approximately RMB1,499,000; (iv) proceeds from disposal of property, plant and equipment amounting to approximately RMB354,000; partially offset by (v) the payments made for the purchase of property, plant and equipment amounting to approximately RMB1,087,000 mainly with respect to our expansion of production capacity; and (vi) payments for intangible assets amounting to approximately RMB89,000.

FINANCIAL INFORMATION

Our net cash used in investing activities was approximately RMB22,457,000 in 2014. This net cash outflow primarily reflected (i) the increase in amount due from a related company amounting to RMB14,800,000; (ii) the capital contribution into a carved-out subsidiary amounting to approximately RMB5,000,000; (iii) the increase in amount due from carved-out subsidiaries amounting to RMB4,221,000; (iv) the payments made for the purchase of property, plant and equipment of approximately RMB613,000 to expand the production capacity; (v) payments for intangible assets amounting to approximately RMB204,000; partially offset by (vi) interest received amounting to approximately RMB2,189,000 and (vii) proceeds from disposal of property, plant and equipment amounting to approximately RMB192,000.

Cash flow from financing activities

Our net cash used in financing activities was approximately RMB436,000 in 2016, representing primarily (i) prepayments of listing expenses amounting to approximately RMB502,000; partially offset by (ii) proceeds from issue of shares of Silver Bliss to Nonton amounting to approximately RMB66,000 pursuant to the Reorganisation.

Our net cash used in financing activities was approximately RMB29,992,000 in 2015, resulting from primarily (i) the net repayment of bank borrowings of approximately RMB17,361,000; (ii) the net repayment of loans from related parties of approximately RMB11,480,000; (iii) interest payment of approximately RMB879,000; and (iv) prepayments of listing expenses of approximately RMB272,000.

Our net cash generated from financing activities was approximately RMB1,519,000 in 2014, representing primarily (i) the increase in loans from related parties amounting to approximately RMB2,883,000; partially offset by (ii) net repayment of bank borrowings of approximately RMB194,000 and (iii) interest payment of approximately RMB1,170,000.

Financial resources

Prior to the completion of the Public Offer, our Group's operations and investments will be financed principally by revenues generated from business operation. As at 31 December 2016, we had cash and cash equivalents of approximately RMB11,719,000.

We intend to finance our Group's future operations, capital expenditures and other capital requirements with the revenues generated from business operations, existing bank balances available and the net proceeds from the Public Offer.

FINANCIAL INFORMATION

WORKING CAPITAL

The following table sets forth the breakdown of our Group's current assets and current liabilities as of the dates indicated below:

	As at 31 December 2014 <i>RMB'000</i>	As at 31 December 2015 <i>RMB'000</i>	As at 31 December 2016 <i>RMB'000</i>	As at 30 April 2017 <i>RMB'000</i> <i>(unaudited)</i>
Current assets				
Inventories	15,334	13,160	15,352	22,012
Trade and other receivables	24,110	38,631	46,432	33,082
Loan to a related company	26,820	–	–	–
Loans to carved-out subsidiaries	9,855	2	–	–
Cash and bank balances	<u>2,659</u>	<u>8,290</u>	<u>11,719</u>	<u>16,056</u>
	<u>78,778</u>	<u>60,083</u>	<u>73,503</u>	<u>71,150</u>
Current liabilities				
Trade and other payables	34,129	42,489	44,027	37,979
Loan from a Director	2,000	–	–	–
Loans from related parties	11,374	–	–	–
Bank borrowings	17,238	–	–	–
Current tax liabilities	<u>98</u>	<u>967</u>	<u>1,881</u>	<u>1,596</u>
	<u>64,839</u>	<u>43,456</u>	<u>45,908</u>	<u>39,575</u>
Net current assets	<u>13,939</u>	<u>16,627</u>	<u>27,595</u>	<u>31,575</u>

Our net current assets represent the difference between our total current assets and total current liabilities.

Our current assets comprised mainly inventories, trade and other receivables, loan to a related company, loans to carved-out subsidiaries, and cash and bank balances. Our current liabilities mainly included trade and other payables, loan from a Director, loans from related parties, bank borrowings and current tax liabilities.

FINANCIAL INFORMATION

As at 30 April 2017, being the latest practicable date for our Group's net current assets position in this prospectus before the Listing, our Group had net current assets of approximately RMB31,575,000 as compared to approximately RMB27,595,000 as at 31 December 2016.

Taking into consideration our Group's cash resources, cash flow from its operations, unutilised banking facilities and estimated net proceeds from the Public Offer, our Directors are of the opinion and the Sole Sponsor concurs, after due and careful inquiry, that our Group has sufficient working capital for at least 12 months commencing from the date of this prospectus.

CERTAIN BALANCE SHEET ITEMS

Trade and other receivables

Our trade and other receivables as at 31 December 2014, 2015 and 2016 were approximately RMB24,470,000, RMB38,991,000 and RMB46,792,000 respectively. A breakdown of the trade and other receivables is set out below:

	As at 31 December 2014 <i>RMB'000</i>	As at 31 December 2015 <i>RMB'000</i>	As at 31 December 2016 <i>RMB'000</i>
Trade receivables	17,014	32,862	36,871
Value-added tax refundable	5,336	3,871	6,144
Prepaid listing expenses	–	272	822
Deposits paid	809	1,035	1,117
Other receivables and prepayment	<u>1,311</u>	<u>951</u>	<u>1,838</u>
	<u>24,470</u>	<u>38,991</u>	<u>46,792</u>
Analysed for reporting purposes:			
Current assets	24,110	38,631	46,432
Non-current assets	<u>360</u>	<u>360</u>	<u>360</u>
	<u>24,470</u>	<u>38,991</u>	<u>46,792</u>

Our trade receivables increased from approximately RMB17,014,000 as at 31 December 2014 to RMB32,862,000 as at 31 December 2015. The increase in trade receivables was primarily the result of the higher sales towards the year end of 2015 when compared to 2014. Our sales in the last quarter of 2015 was approximately RMB47,631,000, representing an increase of approximately 62.3% when compared to that of 2014. Such increase was mainly driven by the strong improvement of sales in Europe and Australia markets in the last quarter of 2015, when these markets showed signs of economic recovery. We generally grant a credit period of 0 to 120 days to our customers. Our trade receivables increased further to approximately RMB36,871,000 as at 31 December 2016, primarily

FINANCIAL INFORMATION

because our sales in the last quarter in 2016 remained strong and with a higher sales towards year end as compared to that in 2015. As at the Latest Practicable Date, approximately 99.6% of our trade receivables as at 31 December 2016 were subsequently settled.

Our average trade receivables turnover days, calculated as the average trade receivables at the beginning and end of the period divided by turnover of the period and multiplied by 365 days for each of the years ended 31 December 2014, 2015 and 2016, increased from 36.5 days for 2014 to 53.9 days for 2015 and to 73.8 days for 2016. The change in trade receivables turnover days from 2014 to 2015 was mainly due to the higher balance of trade receivables at year end of 2015 with reasons mentioned above. The average trade receivables turnover days for 2016 increased further as it was derived from a higher average trade receivables balance due to the strong fourth quarter sales in 2015 and 2016 as compared to the previous year. Our average trade receivables turnover days as calculated were within our credit terms generally offered to our customers.

The table below sets forth the ageing analysis of trade receivables by age, presented based on the invoice date, which approximates the respective revenue recognition dates:

	As at 31 December 2014 <i>RMB'000</i>	As at 31 December 2015 <i>RMB'000</i>	As at 31 December 2016 <i>RMB'000</i>
0 – 30 days	10,442	16,824	26,236
31 – 60 days	1,747	8,000	3,609
61 – 90 days	516	7,093	5,315
91 – 120 days	–	298	1,393
121 – 365 days	4,293	631	318
Over 365 days	<u>16</u>	<u>16</u>	<u>–</u>
	<u><u>17,014</u></u>	<u><u>32,862</u></u>	<u><u>36,871</u></u>

FINANCIAL INFORMATION

The table below sets forth the breakdown of our trade receivables of over 90 days during the Track Record Period:

	As at 31 December 2014 <i>RMB'000</i>	As at 31 December 2015 <i>RMB'000</i>	As at 31 December 2016 <i>RMB'000</i>
SHD International	2,092	–	–
Zhongshan Horizon	2,001	–	–
A local manufacturer for subcontracting work	–	623	–
A local manufacturer for sales of inflatable playgrounds under ODM arrangement	–	–	790
A toy distribution company	–	–	603
Others	216	322	318
	<u>216</u>	<u>322</u>	<u>318</u>
Total	<u>4,309</u>	<u>945</u>	<u>1,711</u>

Trade receivables due within 0 to 30 days, 31 to 60 days and 61 to 90 days generally increased as at 31 December 2015 when compared to 2014 primarily due to increase in our sales in the fourth quarter of 2015 as explained above. As at 31 December 2015, a small proportion of the trade receivables had been due over 90 days. Our trade receivables balance as at 31 December 2016 increased as compared to that as at 31 December 2015, mainly on trade receivables due within 30 days resulted from the strong fourth quarter sales near the year end of 2016. Our Directors expect that these trade receivables will be settled and our Directors will closely monitor the credit exposure and repayment conditions of the customers. Our Group did not recognise any allowance for doubtful debts during the Track Record Period as there were subsequent settlements or no historical default of payments by our customers and the amounts are still considered recoverable.

Value-added tax refundable, which represented the excess of input value-added tax paid over output value-added tax generated from the sale of goods or services by our Group entities, decreased from approximately RMB5,336,000 in 2014 to RMB3,871,000 in 2015 and increased to RMB6,144,000 as at 31 December 2016. The balance fluctuates subject to the changes in our overseas sales eligible for tax refund near the year end in the Track Record Period.

Other receivables and prepayment as at 31 December 2015 decreased compared to 2014 as raw materials were delivered in the fourth quarter in 2015 for our production. Other receivables and prepayment as at 31 December 2016 increased as compared to that as at 31 December 2014 and 2015 mainly due to higher prepayment to professional parties in relation to Listing.

FINANCIAL INFORMATION

Trade and other payables

The table below sets forth our trade and other payables as of the dates indicated:

	As at 31 December 2014 <i>RMB'000</i>	As at 31 December 2015 <i>RMB'000</i>	As at 31 December 2016 <i>RMB'000</i>
Trade payables	20,368	27,400	30,360
Receipt in advance	1,990	2,992	2,768
Accrued salaries and other benefits	9,802	9,798	7,240
Other payables and accruals	<u>1,969</u>	<u>2,299</u>	<u>3,659</u>
	<u>34,129</u>	<u>42,489</u>	<u>44,027</u>

Our trade payables are primarily from payables relating to purchases of raw materials (including packaging materials), principally including air blowers, PVC laminated oxford and relevant raw materials, polyester cloth and PVC coating materials. The average credit period granted to us by our suppliers was from 30 to 75 days. Our trade payables were approximately RMB20,368,000, RMB27,400,000 and RMB30,360,000 as at 31 December 2014, 2015 and 2016 respectively. The increase in our trade payables in 2015 and 2016 was primarily the result of the higher purchase of raw materials in the fourth quarter to support the higher demand from manufacturing for sales in the fourth quarter. As at the Latest Practicable Date, approximately 96.7% of our trade payables as at 31 December 2016 were subsequently settled.

Our average trade payables turnover days, calculated as the average of trade payables at the beginning of the year and trade payables at the end of the year divided by the cost of sales for the same period and multiplied by 365 days for each of the years ended 31 December 2014, 2015 and 2016, increased from 58.2 days for the year ended 31 December 2014 to 63.7 days for the year ended 31 December 2015 and further increased to 79.0 days for the year ended 31 December 2016. Such increase was mainly due to the larger amount of trade payables at year end with the reasons as discussed above.

Increase in receipt in advance and other payables and accruals in 2015 as compared with 2014 was generally due to higher deposits from customers on higher sales orders to be delivered in early 2016, and higher tax payable on higher sales in the fourth quarter in 2015, respectively. Our other payables and accruals as at 31 December 2016 increased as compared to that as at 31 December 2015 mainly due to higher accruals for after-sales services.

FINANCIAL INFORMATION

Inventories

The table below sets forth a summary of our inventories as at the dates indicated and average inventory turnover days for the periods indicated:

	As at 31 December 2014 <i>RMB'000</i>	As at 31 December 2015 <i>RMB'000</i>	As at 31 December 2016 <i>RMB'000</i>
Raw materials	11,519	7,541	4,977
Work in progress	1,297	1,100	1,927
Finished goods	<u>2,518</u>	<u>4,519</u>	<u>8,448</u>
	<u>15,334</u>	<u>13,160</u>	<u>15,352</u>

Our total inventories decreased from approximately RMB15,334,000 as at 31 December 2014 to RMB13,160,000 as at 31 December 2015, which was reflected in the decreased balance of raw materials, work-in-progress partially offset by the increased balance of finished goods as at 31 December 2015 as compared to 31 December 2014. Decrease in the balance of raw materials was primarily due to the relatively large consumption of raw materials for production in the last quarter of 2015. Balance of finished goods as at 31 December 2015 was relatively higher as compared with 31 December 2014 to fulfil the sales orders for delivery in January 2016. As at 31 December 2016, the inventory balance increased to approximately RMB15,352,000, mainly on higher balance of finished goods to be delivered in the first quarter of 2017.

Our average inventory turnover days, calculated as the average of inventory at the beginning of the period and inventory at the end of the period divided by the cost of sales for the same period and multiplied by 365 days for each of the years ended 31 December 2014, 2015 and 2016, decreased from 47.6 days in 2014 to 38.0 days in 2015. The decrease partly indicates our more efficient production and faster sales of products to fulfil the demand from our customers and is partly due to the decreased inventory balance as at 31 December 2015. During the Track Record Period, we did not make any provision to the value of our inventories. Our inventory turnover days as for the year ended 31 December 2016 was 39.0 days, which was in line with that for the year ended 31 December 2015.

As at the Latest Practicable Date, subsequent usage of inventories amounted to approximately 78.3% of the inventory balance as at 31 December 2016.

FINANCIAL INFORMATION

SELECTED KEY FINANCIAL RATIOS

The following table sets out the selected key financial ratios of our Group during the Track Record Period:

	Year ended or as of 31 December		
	2014	2015	2016
Profitability ratios			
Return on assets (<i>note 1</i>)	6.3%	10.3%	11.2%
Return on equity (<i>note 2</i>)	27.8%	26.2%	24.7%
Liquidity ratios			
Current ratio (<i>note 3</i>)	1.2	1.4	1.6
Quick ratio (<i>note 4</i>)	1.0	1.1	1.3
Capital adequacy ratios			
Gearing ratio (<i>note 5</i>)	175.4%	N/A	N/A
Interest coverage (<i>note 6</i>)	6.5	15.6	N/A

Notes:

1. Return on assets is calculated based on the net profit for the period divided by the total assets at the end of the respective period, multiplied by 100% for each of the years ended 31 December 2014, 2015 and 2016.
2. Return on equity is calculated based on the net profit attributable to the owners of our Company for the period divided by the total equity attributable to the owners of our Company at the end of the respective period, multiplied by 100% for each of the years ended 31 December 2014, 2015 and 2016.
3. Current ratio is calculated based on the total current assets at the end of the period divided by the total current liabilities at the end of the respective period.
4. Quick ratio is calculated based on the total current assets (less inventory) at the end of the period divided by the total current liabilities of the respective period.
5. Gearing ratio is calculated based on the total debt at the end of the period divided by total equity at the end of the respective period. Total debt represents bank and other borrowings and amounts due to related parties.
6. Interest coverage is calculated based on the net profit before interest and tax for the period divided by the interest expenses for the respective period.

Return on assets

Return on assets for the two years ended 31 December 2014 and 2015 was approximately 6.3% and 10.3%, respectively. The increase was mainly due to (i) the increase in net profit for the year ended 31 December 2015 by approximately 27.6 % as discussed

FINANCIAL INFORMATION

above in this section and (ii) the reduction in our total assets from approximately RMB91,360,000 to approximately RMB71,707,000 due to the repayment of all of our outstanding loans and debts during the financial year 2015. Return on assets for the year ended 31 December 2016 was 11.2% which was in line with that for the year ended 31 December 2015.

Return on equity

Return on equity was approximately 27.8% and 26.2% for the two years ended 31 December 2014 and 2015 respectively. The slight decrease was mainly due to the increase in equity base in 2015 by approximately 35.5% resulting from the contribution of net profit for the year ended 31 December 2015 to the retained earnings being faster than the increase in the profit for the year 2015 of approximately 27.6% as compared to 2014. Return on equity for the year ended 31 December 2016 was 24.7% which was in line with that for each of the years ended 31 December 2014 and 2015.

Current ratio

As of 31 December 2014 and 2015, current ratio was approximately 1.2 and 1.4 respectively. The improvement in current ratio was resulted from the reduction in both current asset and current liabilities, by repaying loans from a Director, related parties and bank borrowings while receiving repayment from loan to a related company and carved-out subsidiaries in 2015. The reduction in current assets was in a smaller extent due to the increase of trade receivables and cash and bank balances from our business operations in 2015. Our current ratio was 1.6 as at 31 December 2016, with no significant change as compared to the current ratio as at 31 December 2015.

Quick ratio

As of 31 December 2014, 2015 and 2016, quick ratio was approximately 1.0, 1.1 and 1.3 respectively. There was no significant change in the ratio throughout the Track Record Period.

Gearing ratio

Gearing ratio as at 31 December 2014 and 2015 was approximately 175.4% and nil respectively. Our Group has repaid all of the outstanding debt in 2015 and there was no new debt raised throughout the year ended 31 December 2016.

Interest coverage

Our Group's interest coverage was approximately 6.5 and 15.6 times for each of the years ended 31 December 2014, 2015 and 2016 respectively. The increase of interest coverage ratio in 2015 was mainly due to increase of profit before tax and the reduction in average level of borrowings and hence our finance costs in 2015 was almost halved the level of 2014. As our Group has repaid all of the outstanding debt in 2015 and there was no new debt raised throughout 2016, our Group did not incur any interest expenses for the year ended 31 December 2016.

FINANCIAL INFORMATION

MARKET RISKS

We are exposed to a variety of market risks in the normal course of business, including foreign exchange risk, credit risk, liquidity risk and interest rate risk, as set out below. We regularly monitor our exposure to these risks and as at the Latest Practicable Date, we did not hedge or consider necessary to hedge any of these risks. However, our overall risk management strategy seeks to minimise adverse effects from the unpredictability of financial markets on our financial performance. Our Board is responsible for setting the objectives and underlying principles of financial risk management.

Foreign exchange risk

Foreign exchange rate risk refers to the risk that movement in foreign currency exchange rates will affect our financial results and cash flows. For each of the years ended 31 December 2014, 2015 and 2016, approximately 92%, 83% and 68% of our revenue were denominated in US Dollars respectively. As a result of our business expansion to overseas market, we will continue to generate a significant amount of sales, assets and liabilities denominated in a currency other than RMB. In this case, we would be exposed to risks related to the exchange rate and the currency in which our assets and liabilities are denominated. A depreciation of RMB would require us to use more RMB funds to service the same amount of foreign currency liabilities, or a depreciation of foreign currency against RMB would result in receipts from receivables substantially less than the contractual amounts in terms of RMB at the settlement date.

The sensitivity analysis below illustrates the impact of hypothetical fluctuations in the exchange rate of US Dollars against RMB during the Track Record Period.

**Hypothetical fluctuations in the
exchange rate of US Dollars
against RMB**

	+250 bps (RMB'000)	+500 bps (RMB'000)	-250 bps (RMB'000)	-500 bps (RMB'000)
Change in profit before tax				
For the year ended 31 December 2014	657	1,313	(657)	(1,313)
For the year ended 31 December 2015	566	1,131	(566)	(1,131)
For the year ended 31 December 2016	439	878	(439)	(878)

In addition, as the proceeds of the Public Offer will be in Hong Kong Dollars, any appreciation of the RMB against the Hong Kong Dollars will adversely affect the amount of proceeds we receive in terms of RMB.

FINANCIAL INFORMATION

Having considered the cost effectiveness with reference to our business model, we currently do not have a formal foreign currency hedging policy or engage in hedging activities designed or intended to manage such exchange rate risk during the Track Record Period. Because RMB is not freely convertible, our ability to reduce foreign exchange rate risk is limited.

Credit risk

We are exposed to credit risk primarily arising from trade receivables and bank deposits. Trade receivables are substantially from overseas customers with good collection track records with us. For trade receivables, we adopt the policy of dealing only with customers of appropriate credit history to mitigate credit risks. We are subject to concentration of credit risk with respect to trade receivables as 24.5%, 47.1% and 30.1% of these receivables were due from our largest five customers as at 31 December 2014, 2015 and 2016 respectively. No provision for doubtful debts was recognised during the Track Record Period because there were subsequent settlements or no historical default of payments by the respective customers and the amounts are still considered recoverable.

Bank deposits are mainly deposits with banks with good credit ratings assigned by international credit-rating agencies or with good reputation. For bank deposits, we adopt the policy of dealing only with high credit quality counterparties.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as of the end of each reporting period in relation to each class of recognised financial assets was the carrying amounts of those assets as stated on our statements of financial position.

Liquidity risk

91.8%, 99.7% and 98.6% of our financial liabilities are due within the next 12 months from the end of each reporting period for each of the years ended 31 December 2014, 2015 and 2016, respectively. We manage the liquidity risk by maintaining sufficient cash and banking facilities to enable us to meet our normal operating and capital commitments.

Interest rate risk

Our interest rate risk relates primarily to our bank deposits and bank borrowings. We currently have not entered into interest rate swaps to hedge against our exposure to changes in fair values of our borrowings. It is our policy to maintain an appropriate level between our deposits and borrowings so as to balance the fair value and cash flow interest rate risk. In addition, to the extent that we may need to raise debt financing in the future, upward fluctuations in interest rates will increase the cost of new debts. Fluctuations in interest rates can also lead to significant fluctuations in the fair values of our debt obligations. We currently do not use any derivative instruments to manage our interest rate risk. To the extent we decide to do so in the future, there can be no assurance that any future hedging activities will protect us from fluctuations in interest rates.

FINANCIAL INFORMATION

PROPERTY INTERESTS

As at 31 December 2014, 2015 and 2016, our Group did not own any properties. Please also refer to the section headed “Business – Properties” in this prospectus.

DIVIDEND AND DISTRIBUTABLE RESERVES

During the Track Record Period, our Company and its subsidiaries did not declare or pay any dividends to the shareholders. In June 2017, we declared a dividend in an amount of HK\$7.0 million to the then shareholders to be settled by cash by internal resources before Listing. Our Company does not have any predetermined dividend payout ratio. The payment and the amount of any future dividends will be at the discretion of our Directors and will depend on the future operations and earnings, capital requirements and surplus, general financial condition and other factors that our Directors deem relevant. Investors should note that historical dividend distributions are not indicative of our Company’s future dividend distribution.

LISTING EXPENSES AND FINANCIAL PERFORMANCE FOR THE YEAR ENDING 31 DECEMBER 2017

Our Group’s financial performance for the year ending 31 December 2017 will be affected by the non-recurring expenses incurred in relation to the Listing. The listing expenses are estimated to be approximately RMB21,993,000, of which RMB8,797,000 will be borne by the Vendor and approximately RMB13,196,000 will be borne by our Group (assuming an Offer Price of HK\$0.275, being the midpoint of the indicative Offer Price range of HK\$0.20 to HK\$0.35 per Offer Share). Out of the portion of listing expense to be borne by our Group, (i) approximately RMB3,784,000 is directly attributable to the issue of Offer Shares which is to be accounted for as a deduction from equity; (ii) approximately RMB2,736,000 and RMB5,348,000 have been charged to profit or loss of our Group for the year ending 31 December 2015 and 2016 respectively; and approximately RMB1,328,000 is to be charged to profit or loss of our Group for the year ending 31 December 2017. Such cost is a current estimate and for reference only. The final amount to be recognised to the profit or loss of our Group or to be capitalised is subject to adjustment based on audit and the changes in variables and assumptions.

In addition, there will be an expected increase in administrative expenses which is primarily attributable to the increase in Directors’ remuneration and other professional fees for the year ending 31 December 2017 arising from the increase in remuneration of our Directors and the appointment of the new independent non-executive Directors and professional parties prior to and after the Listing.

Our Directors are of the opinion that there has been no fundamental deterioration in the commercial and operational viability in our Group’s business despite the expected increase in our Directors’ remuneration and professional fees and the non-recurring listing expenses.

FINANCIAL INFORMATION

MATERIAL ADVERSE CHANGE

Save as disclosed above, our Directors have confirmed that, up to the date of this prospectus, there had been no material adverse change in the financial or trading positions or prospect of our Company or its subsidiaries since 31 December 2016 (being the date of which our Group's latest audited combined financial statements were made up as set out in the Accountants' Report in Appendix I to this prospectus) and there had been no event since 31 December 2016 which would materially affect the information shown in the Accountants' Report in Appendix I to this prospectus.

DISCLOSURE REQUIRED UNDER CHAPTER 17 OF THE GEM LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances that would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted combined net tangible assets of our Group attributable to the owners of our Company which has been prepared for the purpose of illustrating the effect of the Public Offer as if it had been taken place on 31 December 2016 and based on the audited combined net assets of our Group as at 31 December 2016 as shown in the Accountants' Report set forth in Appendix I to this prospectus and is adjusted as follows:

	Audited combined net tangible assets of our Group attributable to owners of our Company as at 31 December 2016 <i>RMB'000</i> <i>(note 1)</i>	Add: Estimated net proceeds from the Public Offer <i>RMB'000</i> <i>(note 2)</i>	Unaudited pro forma adjusted combined net tangible assets <i>RMB'000</i>	Unaudited pro forma adjusted combined net tangible assets per Share	
				<i>RMB</i> <i>(note 3)</i>	<i>HK\$</i> <i>(note 5)</i>
Based on the Offer Price of HK\$0.20 per Share	37,005	17,055	54,060	0.07	0.08
Based on the Offer Price of HK\$0.35 per Share	37,005	32,121	69,126	0.09	0.10

Notes:

- The audited combined net tangible assets of our Group attributable to owners of our Company as at 31 December 2016 are based on audited combined net assets of our Group attributable to owners of our Company as at 31 December 2016 of approximately RMB37,421,000 with adjustment for intangible assets of approximately RMB416,000 as at 31 December 2016 as shown in the financial information section of the Accountants' Report set out in Appendix I to this prospectus.

FINANCIAL INFORMATION

2. The estimated net proceeds from the Public Offer are based on the Offer Price of HK\$0.20 and HK\$0.35 per Share respectively, after deduction of relevant estimated underwriting fees and other related fees and expenses to be borne by our Group (excluding approximately RMB8,084,000 listing-related expenses which have been accounted for prior to 31 December 2016).
3. The unaudited pro forma adjusted combined net tangible assets per Share is determined after the adjustments as described in Notes 1 and 2 above and on the basis that 800,000,000 Shares are issued and outstanding as set out in the section headed “Share Capital” in this prospectus.
4. The unaudited pro forma net adjusted combined tangible assets of our Group does not take into account the dividend of approximately HK\$7,000,000 declared by the Group in June 2017. The unaudited pro forma adjusted combined net tangible assets per Share would have been HK\$0.07 and HK\$0.09 per Share based on the Offer Price of HK\$0.20 and HK\$0.35 respectively, after taking into account the declaration of dividend in the sum of approximately HK\$7,000,000.
5. The unaudited pro forma adjusted combined net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of RMB0.90 to HK\$1.00. No representation is made that the RMB amounts have been, could have been or may be converted into HK\$, or vice versa, at that rate.
6. The unaudited pro forma financial information presented above does not take account of any trading results or other transactions subsequent to the date of the financial statements included in the unaudited pro forma financial information (i.e. 31 December 2016).

UNDERWRITING

JOINT LEAD MANAGERS AND UNDERWRITERS

Frontpage Capital Limited
Ping An Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

Pursuant to the Underwriting Agreement, our Company and the Vendor are offering the Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions set out in this prospectus, the Application Forms and the Underwriting Agreement at the Offer Price.

Subject to, among other conditions, the Listing Division granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and certain other conditions under the Underwriting Agreement being satisfied or waived on or before the dates and times as specified therein or such other dates as the Sole Sponsor and the Joint Lead Managers (for themselves and on behalf of the Underwriters) may agree and in any event not later than the 30th day after the date of this prospectus, the Underwriters have severally agreed to subscribe or procure subscribers for, their respective applicable proportions of the Offer Shares on the terms and conditions set out in this prospectus and the Underwriting Agreement.

Grounds for termination

The Sole Sponsor and the Joint Lead Managers (for themselves and on behalf of the Underwriters) may in their sole and absolute discretion, upon giving written notice to our Company (for ourselves and on behalf of the Vendor), terminate the Underwriting Agreement with immediate effect if any of the following events occurs at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (which is expected to be on Wednesday, 12 July 2017):

- (a) there has come to the notice of the Sole Sponsor and the Joint Lead Managers:
 - (i) any statement contained in this prospectus, the formal notice, any submission(s), document(s) or information provided to the Sole Sponsor and the Joint Lead Managers, any announcement(s) or document(s) issued by our Company in connection with the Public Offer (including any supplement(s) or amendment(s) thereto) (the “**Public Offer Documents**”), considered by any of the Sole Sponsor or the Joint Lead Managers in its opinion was, when it was issued, or has become, or has been discovered to be untrue, incorrect, inaccurate or misleading in any material respect, or any forecasts, expressions of opinion, intention or expectation expressed in any of the Public Offer Documents are not, in the opinion of the Sole Sponsor and the Joint Lead Managers, fair, honest and made in good faith and based on reasonable assumptions, when taken as a whole;

UNDERWRITING

- (ii) any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the date of this prospectus and not having been disclosed in this prospectus, constitute a material omission therefrom;
- (iii) any material breach of any of the warranties, obligations or undertakings given by or imposed upon any party to the Underwriting Agreement (other than any of the Underwriters) or any matter or event showing any of such warranties, obligations or undertakings to be untrue, incorrect, inaccurate or misleading or having been breached in any material respect when given or repeated;
- (iv) any matter, event, act or omission which gives or is likely to give rise to any liability of any of our Company, our executive Directors and Controlling Shareholders pursuant to the indemnity provisions under the Underwriting Agreement;
- (v) any event, series of events, matter or circumstance occurs or arises on or after the date of this prospectus and prior to 8:00 a.m. on the Listing Date, would have rendered any of the representations, warranties or undertakings contained in the Underwriting Agreement, in the opinion of the Sole Sponsor and the Joint Lead Managers, untrue, incorrect, inaccurate or misleading in any material respect;
- (vi) approval by the Stock Exchange of the listing of, and permission to deal in, the Shares in issue and to be issued or sold under the Public Offer is refused or not granted on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld;
- (vii) our Company withdraws the Public Offer Documents or the Public Offer;
- (viii) any material adverse change or development involving a prospective change or development (whether or not permanent) in the earnings, business, operations, assets, liabilities, conditions, business affairs, prospects, profits, losses, results of operations or in the financial or trading position or performance of any member of our Group or the industry the Group is operating in or the macroeconomics relevant to the Group's operations; or
- (ix) any information, matter or event which in the absolute opinion of the Sole Sponsor and the Joint Lead Managers (for themselves and on behalf of the Underwriters) (A) is inconsistent in any material respect with any information or declaration provided by any Director in the relevant Director's declaration, undertaking and acknowledgment (Appendix 6, Form A of the GEM Listing Rules), or (B) would cast any serious doubt on the integrity or reputation of any Director or the reputation of our Group.

UNDERWRITING

- (b) there shall develop, occur, happen, exist or come into effect:
- (i) any change or development involving a prospective change, or any event or series of events, matters or circumstances likely to result in or represent any change or development involving a prospective change or development, in Hong Kong financial, political, military, industrial, fiscal, legal, regulatory, economic or market conditions, stock or financial market conditions; or
 - (ii) any event, or series of events, in the nature of force majeure including, without limitation, acts of government or orders of any court, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not was is or has been declared) or other states of emergency or calamity or crisis, acts of terrorism (whether or not responsibility has been claimed), declaration of a national or international emergency, epidemics, pandemics, outbreak of diseases (including, without limitation, SARS, H1N1, H5N1 and other related/mutated forms), labour disputes, strikes, lock-outs (whether or not covered by insurance), acts of God, fire, explosion, flooding, accident, interruption or delay in transportation in or affecting any Relevant Jurisdiction; or
 - (iii) 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;
 - (iv) the change or development involving a prospective change in taxation or exchange control, currency exchange rates or foreign investment laws or regulations or the implementation of any exchange control in any of the Relevant Jurisdictions;
 - (v) any change or development involving a prospective change, or a materialization of, any of the risks set out in the section headed “Risk Factors” of this prospectus;
 - (vi) any litigation, legal action, or claim or legal proceeding of any third party being threatened or instigated against any member of our Group, any Director or any of the Controlling Shareholders;
 - (vii) any Director being charged with an indictable offence or prohibited by operation of law or regulation or otherwise disqualified from taking part in the management of a company;
 - (viii) the commencement by any governmental, judicial or regulatory or political body or organisation of any action against any Director or member of our Group or an announcement by any governmental, judicial or regulatory or political body or organisation of any intention to take any such action;

UNDERWRITING

- (ix) any contravention by any member of our Group of the Companies Ordinance, the Companies (WUMP) Ordinance, the Cayman Companies Law, the GEM Listing Rules, the SFO or any applicable law(s) and regulation(s);
- (x) any prohibition on our Company and/or the Vendor from allotting or selling the Offer Shares pursuant to the terms of the Public Offer for whatever reason;
- (xi) non-compliance of this prospectus (and/or any other documents used in connection with the subscription of the Offer Shares) or any aspect of the Public Offer with the GEM Listing Rules or any other applicable law(s) and regulation(s);
- (xii) other than with the written approval of the Sole Sponsor and the Joint Lead Managers, the issue or requirement to issue by our Company of a supplement or amendment to any of the Public Offer Documents (and/or any other documents used in connection with the subscription or sale of the Offer Shares) pursuant to the Companies (WUMP) Ordinance, the Cayman Companies Law, the GEM Listing Rules, the SFO or any applicable law(s) and regulation(s), or any requirement or request of the Stock Exchange and/or the SFC;
- (xiii) a valid demand by any creditor for repayment or payment of any indebtedness of any member of our Group or any of the Controlling Shareholders or in respect of which any member of our Group or any of the Controlling Shareholders is liable prior to its stated maturity;
- (xiv) any loss or damage sustained by any member of our Group or any of the Controlling Shareholders (howsoever caused and whether or not the subject of any insurance or claim against any person);
- (xv) any change or prospective change in the earnings, results of operations, business, business prospects, financial or trading position, conditions or prospects (financial or otherwise) of our Group taken as a whole;
- (xvi) any petition or order is presented for the winding up or liquidation of any member of our Group or any of the Controlling Shareholders or any composition or arrangement made by any member of our Group or any of the Controlling Shareholders with its creditors or any scheme of arrangement entered into by any member of our Group or any of the Controlling Shareholders, or any resolution being or having been passed for the winding-up of any member of our Group or any of the Controlling Shareholders or the appointment of any provisional liquidator, receiver or manager over all or part of any material assets or undertaking of any member of our Group or any of the Controlling Shareholders, or anything analogous thereto having occurred in respect of any member of our Group or any of the Controlling Shareholders;

UNDERWRITING

- (xvii) a disruption in or any general moratorium on commercial banking activities or foreign exchange trading or securities settlement, or payment or clearance services or procedures in or affecting any of the Relevant Jurisdictions or any jurisdiction where any of the stock exchanges referred to in paragraph (i) above is located; or
- (xviii) the imposition of any moratorium, suspension, limitation or restriction on trading in shares or securities generally on the Stock Exchange, due to exceptional financial circumstance, or minimum prices having been established for securities traded in general thereon;

which each case or in aggregate in the opinion of the Sole Sponsor and the Joint Lead Managers (for themselves and on behalf of the Underwriters):

- (A) has or will or may have an adverse effect on the business, results of operations, financial, trading or other condition or prospects of the Company or the Group as a whole;
- (B) has or will have or may have an adverse effect on the success of the Public Offer or the level of applications under the Public Offer;
- (C) makes or will or may make it inadvisable, inexpedient or impracticable to proceed with or to market the Public Offer or the delivery of the Offer Shares on the terms and in the manner contemplated in this prospectus; or
- (D) has or will or may have the effect of making any part of the Underwriting Agreement incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Public Offer or pursuant to the Underwriting Agreement.

Undertakings to the Stock Exchange pursuant to the GEM Listing Rules

Undertaking by our Company

Pursuant to Rule 17.29 of the GEM Listing Rules, we have undertaken to the Stock Exchange that during the period commencing from the Listing Date up to the date falling six months from the Listing Date, no further Shares or securities convertible into equity securities (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue (whether or not such issue of Shares or securities will be completed within six months from the Listing Date), except for the prescribed circumstances as stated in Rule 17.29 of the GEM Listing Rules.

UNDERWRITING

Undertaking by Controlling Shareholders

Pursuant to Rule 13.16A(1) of the GEM Listing Rules, our Controlling Shareholders have undertaken to the Stock Exchange and our Company that he/it shall not and shall procure that the relevant registered Shareholder(s) shall not:

- (a) during the period commencing on the date by reference to which disclosure of his/its shareholding 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 those Shares in respect of which he/it is shown by this prospectus to be the beneficial owners; or
- (b) during the period of six months commencing on the date on which the period referred to in 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 paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease either individually or taken together to be a Controlling Shareholder.

In addition to the undertakings pursuant to Rule 13.16A of the GEM Listing Rules, our Controlling Shareholders have further voluntarily and irrevocably undertaken to the Company for a thirty-six months commencing on the Listing Date, not to offer, pledge, charge, sell, contract to 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, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, any of the Shares or debt 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 capital or securities or any interest therein) whether now owned or hereinafter acquired, owned directly or indirectly by the Controlling Shareholders (including holding as a custodian) or in respect of which he/it is shown by the Prospectus or otherwise to be the beneficial owner if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interest or encumbrances, he/it would cease to be a Controlling Shareholder. The above undertakings are irrevocable and cannot be waived by the consent (whether written or not) of our Company. For details, please refer to the paragraphs headed “Undertakings pursuant to the Underwriting Agreement – Undertaking by our Controlling Shareholders” in this section below.

Our Controlling Shareholders have also undertaken to the Stock Exchange and our Company respectively that in the event that any of them:

- (1) pledge or charge any direct or indirect interest in relevant securities under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rules 13.18(4) of the GEM Listing Rules, at any

UNDERWRITING

time during the period which is twelve months from the Listing Date, he/it must inform our Company immediately thereafter, disposing the details specified in Rules 17.43(1) to (4) of the GEM Listing Rules; and

- (2) having pledged or charged any interest in securities under sub-paragraph (1) above, he/it must inform our Company immediately in event that he/it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of securities affected.

Our Company will inform the Stock Exchange in writing as soon as we have been informed of matters referred in above by any of our Controlling Shareholders and disclose such matters by way of announcement pursuant to the requirements under the GEM Listing Rules as soon as possible.

Undertakings pursuant to the Underwriting Agreement

Undertaking by our Company

Pursuant to the Underwriting Agreement, our Company has undertaken to and covenanted with each of the Sole Sponsor, the Joint Lead Managers and the Underwriters that our Company shall not, and each of our executive Directors and Controlling Shareholders has undertaken to the Sole Sponsor, the Joint Lead Managers and the Underwriters that it/he will procure our Company not to, without the prior written consent of Sole Sponsor and the Joint Lead Managers (for themselves and on behalf of the Underwriters) and unless in compliance with the requirements of the GEM Listing Rules (including but not limited to Rule 17.29 of the GEM Listing Rules), except for the issue of Shares under the Public Offer, the Capitalisation Issue or the grant of any option under the Share Option Scheme:

- (a) at any time within the period of six months from the Listing Date (the “**First Six-month Period**”), accept subscription for, pledge, mortgage, charge, offer, allot, issue, agree to allot or issue, sell, lend, 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 disposal of, either directly or indirectly, conditionally or unconditionally, or repurchase any of the share capital or other securities of the Company or any interest therein (including, but not limited to, any securities 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
- (b) enter into any swap, derivative, repurchase, lending, pledge or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such share capital, including but not limited to rights as to voting, dividend or distribution, in cash or otherwise; or
- (c) enter into any transaction with the same economic effect as any of the above transactions; or

UNDERWRITING

- (d) publicly disclose or announce any intention to enter into any of the foregoing transactions (whether or not such transaction will be completed in the aforesaid period);

whether any of the foregoing transactions described in (a), (b) or (c) above is to be settled by delivery of the Shares or other securities, in cash or otherwise and in the event of our 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, our 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 our Company.

Undertaking by our Controlling Shareholders

Each of our Controlling Shareholders has irrevocably undertaken to and covenanted with each of our Company, the Sole Sponsor, the Joint Lead Managers and the Underwriters that, unless in compliance with the requirements of the GEM Listing Rules, it/he shall not, and will procure that none of its/his/her associates or companies controlled by it/him or any nominee or trustee holding in trust for it/him not to:

- (a) at any time from the date of the Underwriting Agreement until the expiry of the First Six-month Period:
 - (i) offer, pledge, charge, sell, contract to 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, 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), either directly or indirectly, conditionally or unconditionally, any Shares or debt capital or other securities of our 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 capital or securities or any interest therein) whether now owned or hereinafter acquired, directly or indirectly by any of our Controlling Shareholders (including holding as a custodian) or with respect to which any of our Controlling Shareholders has beneficial interest or any interest therein or any of the rights attaching to any such share capital, including but not limited to rights as to voting, dividend or distribution; 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 any of the rights attaching to any such share capital, including but not limited to rights as to voting, dividend or distribution; or
 - (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or

UNDERWRITING

- (iv) offer or agree or contract to, or publicly announce any intention to enter into, any transaction described in paragraph (i) or (ii) or (iii) above, whether any such transaction described in paragraph (i) or (ii) or (iii) above is to be settled by delivery of Shares or such other securities, in cash or otherwise;
- (b) at any time during the period of thirty months after the First Six-month Period (the “**Thirty-month Period**”), enter into any of the foregoing transactions in paragraphs (a)(i) or (a)(ii) or (a)(iii) or (a)(iv) above or agree or contract to or publicly announce any intention to enter into any such transaction if, immediately following such sale, transfer or disposal, or upon the exercise or enforcement of such offer, pledge, charge, option, right, interests or encumbrances, our Controlling Shareholders (or any of them) will cease to be a Controlling Shareholder of our Company; and
- (c) until the expiry of the Thirty-month Period, in the event that any of our Controlling Shareholders enters into the foregoing transactions or agrees or contracts to, or publicly announces any intention to enter into any such transactions, it/he will take all reasonable steps to ensure that it/he will not create a disorderly or false market in the Shares or other securities of our Company.

The above undertakings are irrevocable and cannot be waived by the consent (whether written or not) of our Company, the Sponsor, the Joint Lead Managers or the Underwriters.

Each of our Controlling Shareholders further undertakes to and covenants with each of our Company, the Sole Sponsor, the Joint Lead Managers and the Underwriters that:

- (i) in the event that it/he pledges or charges any of its/his direct or indirect interest in the Shares or other securities of our Company or interests or any of the rights attaching to any such share capital, including but not limited to rights as to voting, dividend or distribution in the securities of the Company pursuant to Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange under Rule 13.18(4) of the GEM Listing Rules at any time before the expiry of the Thirty-month Period, it/he must inform our Company, the Sole Sponsor, the Joint Lead Managers and the Underwriters in writing immediately, disclosing the details specified in Rule 17.43(1) to (4) of the GEM Listing Rules; and
- (ii) if and when it/he receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in or rights attaching to the securities of the Company will be sold, transferred or disposed of, or it/he becomes aware that such pledgee or chargee has disposed of or intends to dispose such interest, it/he shall immediately inform the Company, the Sole Sponsor, the Joint Lead Managers and the Underwriters in writing of such indications or disposal and the number of Shares or other securities of the Company so involved.

UNDERWRITING

Our Company will also inform the Stock Exchange as soon as our Company has been informed of the above matters (if any) by any of our Controlling Shareholders and disclose such matters by way of announcement in accordance with Rule 17.43 of the GEM Listing Rules as soon as possible after being so informed by any of our Controlling Shareholders.

Our Company, our Controlling Shareholders and our executive Directors have agreed to indemnify the Sole Sponsor, the Joint Lead Managers and the Underwriters from certain losses which they may suffer, including losses arising from their performance of their obligations under the Underwriting Agreement and any breach by our Company or our Controlling Shareholders or our executive Directors of the Underwriting Agreement.

Commission and Expenses

The Underwriters will receive an underwriting commission at the rate of 7.0% of the aggregate Offer Price payable for the Offer Shares, out of which sub-underwriting commission and other fees will be paid, and the Sole Sponsor will receive sponsorship fees in relation to the Listing and will be reimbursed for their expenses. Our Company and the Vendor will bear the underwriting commissions, SFC transaction levy and Stock Exchange trading fee payable by us in connection with the issue of the Offer Shares together with any applicable fees relating to the Public Offer, with reference to the number of New Shares and Sales Shares under the Public Offer, respectively.

JOINT LEAD MANAGERS' AND UNDERWRITERS' INTERESTS IN OUR COMPANY

Save as provided for under the Underwriting Agreement and save as disclosed in this prospectus, none of the Joint Lead Managers and the Underwriters has any shareholding interests in any member of our Group nor has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any share in any member of our Group.

SOLE SPONSOR'S INTERESTS AND INDEPENDENCE

Save as provided for under the Underwriting Agreement and save as disclosed in this prospectus, neither the Sole Sponsor nor any of its directors, employees and close associates is interested legally or beneficially in the shares of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any member of our Group nor any interest in the Public Offer or has any other business relationship with our Group.

Neither the Sole Sponsor nor any of its directors, employees and close associates has accrued any material benefit as a result of the successful outcome of the Public Offer, other than the following:

- (a) by way of documentation and financial advisory fee to be paid to the Sole Sponsor for acting as the sponsor of the Public Offer;

UNDERWRITING

- (b) certain close associates of the Sole Sponsor whose usual and ordinary courses of businesses involved trading of and dealing in securities may derive commissions from the trading of and dealing in securities of our Company or provide margin financing in connection thereto or purchase or sell securities of our Company or hold securities of our Company for investment purposes after the Listing;
- (c) in taking up the underwriting obligation under the Underwriting Agreement; and
- (d) by way of an underwriting commission to be paid to the Joint Lead Managers for acting as the Underwriters to the Public Offer pursuant to the Underwriting Agreement.

None of the directors and employees of the Sole Sponsor has any directorship in our Company or any other companies comprising our Group.

The Sole Sponsor satisfies the independence criteria applicable to the Sole Sponsor as set out in Rule 6A.07 of the GEM Listing Rules.

STRUCTURE AND CONDITIONS OF THE PUBLIC OFFER

THE PUBLIC OFFER

This prospectus is published in connection with the Public Offer. The listing of the Shares on the Stock Exchange is sponsored by the Sole Sponsor. The Sole Sponsor has made an application on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus.

200,000,000 Offer Shares will be made available under the Public Offer.

The Offer Shares will represent approximately 25.0% of the total Shares in issue immediately following the completion of the Public Offer.

References in this prospectus to applications, Application Forms, application monies or the procedure for applications relate solely to the Public Offer.

Number of Offer Shares offered

We are offering 200,000,000 Shares (comprising 120,000,000 New Shares and 80,000,000 Sale Shares) for subscription by the public in Hong Kong at the Offer Price, representing 100% of the total number of Offer Shares available under the Public Offer.

The Public Offer is open to members of the public in Hong Kong as well as to professional, institutional and other 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 that regularly invest in shares and other securities.

Completion of the Public Offer is subject to the conditions set out in the paragraph headed “Conditions of the Public Offer” below in this section.

Allocation

Allocation of Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which could mean that some applicants may receive a higher allocation than others who have applied for the same number of Offer Shares, and those applicants who are not successful in the ballot may not receive any Offer Shares.

The total number of Offer Shares available for subscription under the Public Offer is to be divided into two pools for allocation purposes: pool A and pool B. The Offer Shares in pool A will consist of 100,000,000 Offer Shares (being 50% of the total number of Offer Shares available under the Public Offer) and will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate subscription price of HK\$5.0 million or less (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable). The Offer Shares in pool B will consist of 100,000,000 Offer Shares (being 50% of the total number of Offer Shares available under the Public Offer) and

STRUCTURE AND CONDITIONS OF THE PUBLIC OFFER

will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate subscription price of more than HK\$5.0 million and up to the total value of pool B (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable). Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the “subscription price” for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications within either pool or between pools and any application for more than 100,000,000 Offer Shares, being the number of Offer Shares allocated to each pool, are liable to be rejected.

Applications

The Joint Lead Managers (for themselves and on behalf of the Underwriters) may require any investor who has made an application under the Public Offer to provide sufficient information to the Joint Lead Managers so as to allow them to identify the relevant applications under the Public Offer.

PRICING AND ALLOCATION

Pricing for the Offer Shares for the purpose of the Public Offer will be fixed on the Price Determination Date, which is expected to be on or about Thursday, 6 July 2017 and, in any event, not later than Monday, 10 July 2017, by agreement among the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Vendor).

The Offer Price will not be more than HK\$0.35 per Offer Share and is expected to be not less than HK\$0.20 per Offer Share, unless otherwise announced, as further explained below. Applicants under the Public Offer must pay, on application, the maximum Offer Price of HK\$0.35 per Offer Share plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, amounting to a total of HK\$3,535.27 for one board lot of 10,000 Shares. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the minimum Offer Price stated in this prospectus.

The Joint Lead Managers (for themselves and on behalf of the Underwriters) may, where they deem appropriate, based on the level of applications in the Public Offer, and with the consent of our Company (for ourselves and on behalf of the Vendor), reduce the number of Offer Shares offered and/or the Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Public Offer (the “**Acceptance Date**”). 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

STRUCTURE AND CONDITIONS OF THE PUBLIC OFFER

the morning of the last day for lodging applications under the Public Offer, cause to be published on the websites of our Company and the Stock Exchange at www.alpha-era.co and www.hkexnews.hk, respectively, notices of the reduction. Upon the issue of such a notice, the revised number of Offer Shares and/or the Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Vendor), will be fixed within such revised Offer Price range. In addition, we will:

- i) issue a supplemental prospectus updating investors of the change in the indicative offer price together with an update of all financial and other information in connection with such change;
- ii) extend the period under which the offer was open for acceptance to allow potential investors sufficient time to consider their subscriptions or reconsider their existing subscriptions; and
- iii) give potential investors who had applied for the Offer Shares the right to withdraw their applications given the change in circumstances.

Before submitting applications for the Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the Offer Price range may not be made until the last day for lodging applications under the Public Offer. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the use of proceeds and the Share Offer statistics as currently set out in this prospectus and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Vendor), will under no circumstances be set outside the Offer Price range as stated in this prospectus. If the number of Offer Shares and/or the indicative Offer Price range is reduced, applicants who have submitted an application under the Public Offer will be entitled to withdraw their applications unless positive confirmations from the applicants to proceed are received.

The final Offer Price, the level of applications in the Public Offer, the basis of allocations of the Offer Shares and the results of allocations in the Public Offer are expected to be made available through a variety of channels in the manner described in the section headed “How to Apply for the Offer Shares – 10. Publication of Results” in this prospectus.

UNDERWRITING

The Public Offer is fully underwritten by the Underwriters under the terms and conditions of the Underwriting Agreement and is subject to the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Vendor) agreeing on the Offer Price.

The underwriting arrangements, including the Underwriting Agreement, are summarised in the section headed “Underwriting” in this prospectus.

STRUCTURE AND CONDITIONS OF THE PUBLIC OFFER

CONDITIONS OF THE PUBLIC OFFER

Acceptance of all applications for Offer Shares will be conditional on, among other things:

- (a) the Stock Exchange granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued as described in this prospectus;
- (b) the Offer Price having been agreed between the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Vendor) on or before the Price Determination Date; and
- (c) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not having been terminated in accordance with the terms of the agreement,

in each case on or before the dates and times specified in the Underwriting Agreement (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.

If, for any reason, the Offer Price is not agreed between the Joint Lead Managers (for themselves and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Vendor) on or before Monday, 10 July 2017, the Public Offer will not proceed and will lapse.

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Public Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Public Offer will be published by our Company on the websites of our Company and the Stock Exchange at www.alpha-era.co 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 the section headed “How to Apply for the Offer Shares” in this prospectus. 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).

Share certificates for the Offer Shares will only become valid at 8: 00 a.m. on Wednesday, 12 July 2017, provided that the Public Offer has become unconditional in all respects at or before that time.

DEALINGS IN THE SHARES

Assuming that the Public Offer becomes unconditional at or before 8: 00 a.m. in Hong Kong on Wednesday, 12 July 2017, it is expected that dealings in our Shares on the Stock Exchange will commence at 9: 00 a.m. on Wednesday, 12 July 2017.

The Shares will be traded in board lots of 10,000 Shares each and the stock code of the Shares will be 8406.

STRUCTURE AND CONDITIONS OF THE PUBLIC OFFER

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 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.

Investors should seek the advice of their stockbrokers or other professional advisers for details of the settlement arrangements as such arrangements will affect their rights and interests.

HOW TO APPLY FOR THE OFFER SHARES

1. HOW TO APPLY

To apply for Offer Shares, you may:

- use a **WHITE** Application Form or **YELLOW** Application Form; or
- 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. Our Company, the Joint Lead Managers and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Offer Shares on a **WHITE** Application Form or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a U.S. person (as defined in Regulation S); and
- are not a legal or natural person of the PRC.

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/her representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Lead Managers, may accept 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 for the Offer Shares.

Unless permitted by the GEM Listing Rules, you cannot apply for any Offer Shares if you:

- are an existing beneficial owner of Shares in our Company and/or any of its subsidiaries;
- are a Director or chief executive officer of our Company and/or any of its subsidiaries;
- are an associate or a close associate (as defined in the GEM Listing Rules) of any of the above;

HOW TO APPLY FOR THE OFFER SHARES

- are a connected person or a core connected person (as defined in the GEM Listing Rules) of our Company or will become a connected person or a core connected person of our Company immediately upon completion of the Public Offer

3. APPLYING FOR OFFER SHARES

Which Application Channel to Use

For Offer Shares to be issued in your own name, use a **WHITE** Application Form.

For 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 copy of this prospectus during normal business hours from 9:00 a.m. on Friday, 30 June 2017 until 12:00 noon on Wednesday, 5 July 2017 from:

- (a) any of the following offices of the Joint Lead Managers:

Name	Address
Frontpage Capital Limited	26/F, Siu On Centre 188 Lockhart Road Wanchai Hong Kong
Ping An Securities Limited	Ping An Securities Limited Unit 02, 2/F China Merchants Buildings 152-155 Connaught Road Central Hong Kong

HOW TO APPLY FOR THE OFFER SHARES

(b) any of the following branches of the following receiving bank:

District	Branch Name	Address
Hong Kong Island	North Point (King's Centre) Branch	193-209 King's Road, North Point
Kowloon	Prince Edward Branch	774 Nathan Road, Kowloon
	Chuk Yuen Estate Branch	Shop S1, Chuk Yuen Shopping Centre, Chuk Yuen South Estate
New Territories	Sheung Shui Branch Securities Services Centre	136 San Fung Avenue, Sheung Shui

You can collect a **YELLOW** Application Form and this prospectus during normal business hours from 9:00 a.m. on Friday, 30 June 2017 until 12:00 noon on Wednesday, 5 July, 2017 from:

- the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong; or
- your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** Application Form or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "**Bank of China (Hong Kong) Nominees Limited – Alpha Era 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:

Friday, 30 June 2017 – 9:00 a.m. to 5:00 p.m.
Monday, 3 July 2017 – 9:00 a.m. to 5:00 p.m.
Tuesday, 4 July 2017 – 9:00 a.m. to 5:00 p.m.
Wednesday, 5 July 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, 5 July 2017, the last application day or such later time as described in the paragraph headed "9. Effect of Bad Weather on the Opening of the Application Lists" in this section below.

HOW TO APPLY FOR THE OFFER SHARES

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Forms carefully; otherwise, your application may be rejected.

By submitting an Application Form, among other things, you (or if you are joint applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person for whom you act:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Joint Lead Managers (or its agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Law and the Articles of Association;
- (iii) 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;
- (iv) 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;
- (v) confirm that you are aware of the restrictions on the Public Offer in this prospectus;
- (vi) agree that none of our Company, the Vendor, the Sole Sponsor, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Public Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) agree to disclose to our Company, the Vendor, the Hong Kong Branch Share Registrar, receiving bank, 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;
- (viii) 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 our Company, the Vendor, 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

HOW TO APPLY FOR THE OFFER SHARES

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;

- (ix) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (x) agree that your application will be governed by the laws of Hong Kong;
- (xi) represent, warrant and undertake that (i) you understand that the 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 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;
- (xii) warrant that the information you have provided is true and accurate;
- (xiii) agree to accept the Offer Shares applied for, or any lesser number allocated to you under the application;
- (xiv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Hong Kong branch share register of members as the holder(s) of any Offer Shares allocated to you, and our Company (for itself and on behalf of the Vendor) and/or its agents to send any Share certificate(s) 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 are eligible to collect the Share certificate(s) and/or refund cheque(s) in person;
- (xv) 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;
- (xvi) understand that our Company and the Joint Lead Managers will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xvii) (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** Application Form or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC by you or by anyone as your agent or by any other person; and
- (xviii) (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** Application Form or **YELLOW** Application Form or

HOW TO APPLY FOR THE OFFER SHARES

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.

5. 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 (852) 2979 7888 or through the CCASS Internet System (<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 Center
1/F, One & Two Exchange Square
8 Connaught Place
Central, Hong Kong

and complete an input request form.

You can also collect a copy of this 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 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 our Company, the Joint Lead Managers and the Hong Kong Branch Share Registrar.

HOW TO APPLY FOR THE OFFER SHARES

Giving electronic application instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the 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;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the 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 Offer Shares applied for or any lesser number allocated;
 - (if the electronic instructions are given for your benefit) 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 our Company, the Vendor, our Directors and the Joint Lead Managers will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Offer Shares to you and that you may be prosecuted if you make a false declaration;
 - authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the 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;

HOW TO APPLY FOR THE OFFER SHARES

- 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 our Company, the Vendor, the Sole Sponsor, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Public 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 our Company, the Vendor, the Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents;
- 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 our Company agreeing that it will not offer any 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 (Winding Up and Miscellaneous Provisions) 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 our Company's announcement of the Public Offer results;

HOW TO APPLY FOR THE OFFER SHARES

- 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 Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our 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 Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Law and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

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 our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the 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 Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- 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 10,000 Offer Shares. Instructions for more than 10,000

HOW TO APPLY FOR THE OFFER SHARES

Offer Shares must be in one of the numbers set out in the table in the relevant Application Forms. No application for any other number of 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:

Friday, 30 June 2017 – 9:00 a.m. to 8:30 p.m.⁽¹⁾
Monday, 3 July 2017 – 8:00 a.m. to 8:30 p.m.⁽¹⁾
Tuesday, 4 July 2017 – 8:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, 5 July 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.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, 30 June 2017 until 12:00 noon on Wednesday, 5 July 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, 5 July 2017, the last application day or such later time as described in the paragraph headed “9. Effect of bad weather on the opening of the application lists” in this section below.

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 Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of 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 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, our 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 (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

HOW TO APPLY FOR THE OFFER SHARES

Personal data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Vendor, the Hong Kong Branch Share Registrar, the receiving bank, 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.

6. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Such facility is 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. Our Company, the Vendor, our Directors, the Sole Sponsor, the Joint Lead Managers, and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant will be allotted any 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** Application Form 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, 5 July 2017.

7. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the 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** Application Form or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC, 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:

HOW TO APPLY FOR THE OFFER SHARES

- the principal business of that company is dealing in securities; and
- 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; or
- 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).

8. HOW MUCH ARE THE OFFER SHARES

The **WHITE** Application Form and **YELLOW** Application Form have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the 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** Application Form or **YELLOW** Application Form in respect of a minimum of 10,000 Offer Shares. Each application or **electronic application instruction** in respect of more than 10,000 Offer Shares must be in one of the numbers set out in the table in the relevant Application Form.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the 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).

HOW TO APPLY FOR THE OFFER SHARES

For further details on the Offer Price, see the section headed “Structure and Conditions of the Public Offer – Pricing and allocation” in this prospectus.

9. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 5 July 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, 5 July 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” in this prospectus, an announcement will be made in such event.

10. PUBLICATION OF RESULTS

Our Company expect to announce the final Offer Price, the level of applications in the Public Offer and the basis of allocation of the Offer Shares on Tuesday, 11 July 2017 and on our website at www.alpha-era.co and the website of the Stock Exchange at www.hkexnews.hk.

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:

- in the announcement to be posted on our Company’s website at www.alpha-era.co and the Stock Exchange’s website at www.hkexnews.hk by no later than 8:00 a.m. on Tuesday, 11 July 2017;
- 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 Tuesday, 11 July 2017 to 12:00 midnight on Monday, 17 July 2017;
- by telephone enquiry line by calling (852) 3691 8488 between 9:00 a.m. and 6:00 p.m. from Tuesday, 11 July 2017 to Friday, 14 July 2017;
- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, 11 July 2017 to Thursday, 13 July 2017 at all the receiving bank’s designated branches.

HOW TO APPLY FOR THE OFFER SHARES

If our Company accept your offer to purchase (in whole or in part), which it 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 Offer Shares if the conditions of the Public Offer are satisfied and the Public Offer is not otherwise terminated. Further details are contained in the section headed “Structure and Conditions of the Public 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.

11. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an **Application Form** or giving **electronic application instructions** to HKSCC, 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 our Company.

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 (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) 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 or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

HOW TO APPLY FOR THE OFFER SHARES

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Joint Lead Managers 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.

(iii) If the allotment of Offer Shares is void:

The allotment of Offer Shares will be void if the Listing Division of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Division notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or are suspected of making multiple applications;
- 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) Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreement does not become unconditional or is terminated;
- our Company or the Joint Lead Managers believes that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Offer Shares initially offered under the Public Offer.

HOW TO APPLY FOR THE OFFER SHARES

12. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$0.35 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with “Structure and Conditions of the Public Offer – Conditions of the Public 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 the 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 Tuesday, 11 July 2017.

13. 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 Form 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** Application Form 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:

- Share certificate(s) for all the Offer Shares allotted to you (for **YELLOW** Application Form, Share certificates will be deposited into CCASS as described below); and
- 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 Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). 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).

HOW TO APPLY FOR THE OFFER SHARES

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 Tuesday, 11 July 2017. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Wednesday, 12 July 2017 provided that the right of termination described in the section headed "Underwriting" in this prospectus has not been exercised and the Public Offer has become unconditional. 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

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more 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 the Hong Kong Branch Share Registrar at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 11 July 2017 or such other date as notified by us at www.hkexnews.hk.

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 our 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 Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on Tuesday, 11 July 2017, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Offer Shares or more, please follow the same instructions as described above for collection of refund cheque(s). If you have applied for less than 1,000,000 Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Tuesday, 11 July 2017, by ordinary post and at your own risk.

HOW TO APPLY FOR THE OFFER SHARES

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 Tuesday, 11 July 2017, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS participant (other than a CCASS investor participant)

For 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.

If you are applying as a CCASS Investor Participant

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in the paragraph headed "10. Publication of results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 11 July 2017 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply via electronic application instructions to HKSCC

Allocation of Offer Shares

For the purposes of allocating 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 Tuesday, 11 July 2017, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our 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 in the manner

HOW TO APPLY FOR THE OFFER SHARES

specified in the paragraph headed “10. Publication of results” above on Tuesday, 11 July 2017. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 11 July 2017 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 Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of 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 Tuesday, 11 July 2017. Immediately following the credit of the 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 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 the 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 Tuesday, 11 July 2017.

14. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company 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.

HOW TO APPLY FOR THE OFFER SHARES

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements 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, prepared for the sole purpose of incorporation in this prospectus, received from the independent reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong.



國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

30 June 2017

The Directors
Alpha Era International Holdings Limited
Frontpage Capital Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) regarding Alpha Era International Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the years ended 31 December 2014, 2015 and 2016 (the “Relevant Periods”), for inclusion in the prospectus of the Company dated 30 June 2017 (the “Prospectus”) in connection with the proposed listing of the Company’s shares on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated in the Cayman Islands under the Companies Law of the Cayman Islands as an exempted company with limited liability on 3 November 2015. Through a corporate reorganisation as more fully explained in the paragraph headed “Reorganisation” under the section headed “History, Development and Reorganisation” to the Prospectus (the “Corporate Reorganisation”), the Company became the holding company of the companies now comprising the Group on 20 June 2017.

As at the date of this report, the Company has the following subsidiaries, all of which are private limited liability companies, particulars of which are set out as below:

Name of company	Date and place of incorporation/ establishment/ operations	Issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Silver Bliss Holdings Limited ("Silver Bliss")	15 December 2014, the British Virgin Islands (the "BVI")	United States dollar 10,000	100% (direct)	Investment holding
Swiftech International Limited ("Swiftech International")	26 March 2015, Hong Kong	Hong Kong dollar ("HK\$") 1	100% (indirect)	Trading and export business of inflatable products
中山新宏達日用製品有限公司 Swiftech Company Limited* ("Swiftech Company")	5 June 2003, the People's Republic of China (the "PRC")	HK\$28,000,000	100% (indirect)	Manufacturing of inflatable products in the PRC
中山市潤和高分子材料製造有限公司 Zhongshan Runhe Macromolecular Materials Manufacture Limited* ("Zhongshan Runhe")	22 June 2009, the PRC	Renminbi ("RMB") 7,000,000	100% (indirect)	Manufacturing of PVC coating, PVC laminated oxford and plastic products in the PRC

* English names are translated for identification purpose only.

All companies now comprising the Group have adopted 31 December as their financial year end date.

No audited statutory financial statements have been prepared for the Company since its date of incorporation as it was incorporated in a country where there is no statutory audit requirement and the Company has not carried out any business other than those transactions relating to the Corporate Reorganisation.

No audited statutory financial statements have been prepared for Silver Bliss since its date of incorporation as it was incorporated in a country where there is no statutory audit requirement.

The statutory financial statements of Swiftech International for the period from 26 March 2015 (date of incorporation) to 31 December 2015 and for the year ended 31 December 2016 were prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and were audited by us.

The statutory financial statements of the Company’s subsidiaries established in the PRC were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by:

Name of company	Financial year	Auditors
Swiftech Company	Years ended 31 December 2014, 2015 and 2016	中山市中正聯合會計師事務所有限公司 Zhongshan Zhongzheng Union CPA Co., Ltd.*
Zhongshan Runhe	Years ended 31 December 2014, 2015 and 2016	中山市中正聯合會計師事務所有限公司 Zhongshan Zhongzheng Union CPA Co., Ltd.*

* English names are translated for identification purpose only.

For the purpose of this report, the directors of the Company have prepared the combined financial statements of the Group for the Relevant Periods (the “Underlying Financial Statements”) in accordance with HKFRSs issued by the HKICPA.

We have undertaken an independent audit on the Underlying Financial Statements for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA. We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information of the Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements, on the basis set out in Note 1 of Section A below and no adjustments to the Underlying Financial Statements are considered necessary in the preparation of this report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in Note 1 of Section A below, the Financial Information gives, for the purpose of this report, a true and fair view of the financial position of the Group as at 31 December 2014, 2015 and 2016 and of the Company as at 31 December 2015 and 2016, and of the combined financial performance and combined cash flows of the Group for the Relevant Periods.

A. FINANCIAL INFORMATION

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<i>Notes</i>	Year ended 31 December		
		2014	2015	2016
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	5	174,809	168,802	172,347
Cost of sales		<u>(144,476)</u>	<u>(136,775)</u>	<u>(133,426)</u>
Gross profit		30,333	32,027	38,921
Other income and gains	6	2,522	3,995	2,647
Distribution and selling expenses		(9,485)	(9,599)	(9,269)
Administrative expenses		(13,711)	(12,427)	(12,268)
Listing expenses		–	(2,736)	(5,348)
Finance costs	7	<u>(1,479)</u>	<u>(724)</u>	<u>–</u>
Profit before tax		8,180	10,536	14,683
Income tax expense	8	<u>(2,411)</u>	<u>(3,174)</u>	<u>(5,258)</u>
Profit for the year	9	<u>5,769</u>	<u>7,362</u>	<u>9,425</u>
Other comprehensive expense, net of income tax				
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Exchange differences on translating foreign operations		<u>–</u>	<u>(4)</u>	<u>(176)</u>
Other comprehensive expense for the year, net of income tax		<u>–</u>	<u>(4)</u>	<u>(176)</u>
Profit and total comprehensive income for the year attributable to owners of the Company		<u>5,769</u>	<u>7,358</u>	<u>9,249</u>
		<i>RMB cents</i>	<i>RMB cents</i>	<i>RMB cents</i>
Earnings per share				
– Basic and diluted	13	<u>0.85</u>	<u>1.08</u>	<u>1.36</u>

Details of dividends are disclosed in Note 12 to the Financial Information.

COMBINED STATEMENTS OF FINANCIAL POSITION

	<i>Notes</i>	As at 31 December		
		2014 <i>RMB'000</i>	2015 <i>RMB'000</i>	2016 <i>RMB'000</i>
Non-current assets				
Property, plant and equipment	14	11,289	10,164	8,912
Intangible assets	15	527	514	416
Deposit	17	360	360	360
Deferred tax assets	24	406	586	770
		<u>12,582</u>	<u>11,624</u>	<u>10,458</u>
Current assets				
Inventories	16	15,334	13,160	15,352
Trade and other receivables	17	24,110	38,631	46,432
Loan to a related company	18	26,820	–	–
Loans to carved-out subsidiaries	18	9,855	2	–
Cash and bank balances	19	2,659	8,290	11,719
		<u>78,778</u>	<u>60,083</u>	<u>73,503</u>
Total assets		<u>91,360</u>	<u>71,707</u>	<u>83,961</u>
Current liabilities				
Trade and other payables	20	34,129	42,489	44,027
Loan from a director	21	2,000	–	–
Loans from related parties	22	11,374	–	–
Bank borrowings	23	17,238	–	–
Current tax liabilities		98	967	1,881
		<u>64,839</u>	<u>43,456</u>	<u>45,908</u>
Net current assets		<u>13,939</u>	<u>16,627</u>	<u>27,595</u>
Total assets less current liabilities		<u>26,521</u>	<u>28,251</u>	<u>38,053</u>
Non-current liabilities				
Loans from related parties	22	5,773	–	–
Deferred tax liabilities	24	–	145	632
		<u>5,773</u>	<u>145</u>	<u>632</u>
Net assets		<u>20,748</u>	<u>28,106</u>	<u>37,421</u>
Capital and reserves				
Equity attributable to owners of the Company				
Share capital	25	23,316	–	66
Reserves	26	(2,568)	28,106	37,355
Total equity		<u>20,748</u>	<u>28,106</u>	<u>37,421</u>

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

		As at 31 December	
	<i>Notes</i>	2015	2016
		<i>RMB'000</i>	<i>RMB'000</i>
Current assets			
Prepayments		277	792
Cash and bank balances		<u>—</u>	<u>25</u>
		<u>277</u>	<u>817</u>
Current liabilities			
Amount due to a subsidiary	32	<u>2,945</u>	<u>9,757</u>
Net current liabilities		<u>(2,668)</u>	<u>(8,940)</u>
Net liabilities		<u>(2,668)</u>	<u>(8,940)</u>
Capital and reserves			
Equity attributable to owners of the Company			
Share capital	25	<u>—</u>	<u>—</u>
Reserves	26	<u>(2,668)</u>	<u>(8,940)</u>
Total equity		<u>(2,668)</u>	<u>(8,940)</u>

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Share capital <i>RMB'000</i> (Note 25)	Special reserve <i>RMB'000</i> (Note 26)	Statutory reserve <i>RMB'000</i> (Note 26)	Foreign currency translation reserve <i>RMB'000</i> (Note 26)	Retained profits <i>RMB'000</i>	Total equity <i>RMB'000</i>
Balance at 1 January 2014	23,316	(11,000)	2,059	—	5,604	19,979
Profit for the year	—	—	—	—	5,769	5,769
Other comprehensive income for the year	—	—	—	—	—	—
Total comprehensive income for the year	—	—	—	—	5,769	5,769
Capital contribution into a carved-out subsidiary	—	(5,000)	—	—	—	(5,000)
Statutory reserve appropriation	—	—	763	—	(763)	—
Balance at 31 December 2014	23,316	(16,000)	2,822	—	10,610	20,748
Profit for the year	—	—	—	—	7,362	7,362
Other comprehensive expense for the year	—	—	—	(4)	—	(4)
Total comprehensive income/(expense) for the year	—	—	—	(4)	7,362	7,358
Disposals of carved-out subsidiaries	—	16,000	—	—	(16,000)	—
Corporate Reorganisation	(23,316)	23,316	—	—	—	—
Balance at 31 December 2015	—	23,316	2,822	(4)	1,972	28,106
Profit for the year	—	—	—	—	9,425	9,425
Other comprehensive expense for the year	—	—	—	(176)	—	(176)
Total comprehensive income/(expense) for the year	—	—	—	(176)	9,425	9,249
Issue of shares of a subsidiary	66	—	—	—	—	66
Statutory reserve appropriation	—	—	21	—	(21)	—
Balance at 31 December 2016	66	23,316	2,843	(180)	11,376	37,421

COMBINED STATEMENTS OF CASH FLOWS

	<i>Notes</i>	Year ended 31 December		
		2014	2015	2016
		RMB'000	RMB'000	RMB'000
Cash flows from operating activities				
Profit before tax		8,180	10,536	14,683
Adjustments for:				
Depreciation of property, plant and equipment		2,304	1,861	1,716
Amortisation of intangible assets		88	102	98
Interest income		(1,855)	(1,346)	(10)
Waiver of amount due to a related party		–	(739)	–
Finance costs recognised in profit or loss		1,479	724	–
Loss on disposal of property, plant and equipment		2	–	–
		10,198	11,138	16,487
Movements in working capital				
Decrease/(increase) in inventories		6,978	2,174	(2,192)
Decrease/(increase) in trade and other receivables		2,100	(14,249)	(7,251)
(Decrease)/increase in trade and other payables		(10,702)	8,360	1,538
Decrease in loan from a director		(1,000)	(2,000)	–
Increase/(decrease) in loan from a related company		2,063	(4,886)	–
		9,637	537	8,582
Cash generated from operations		(2,700)	(2,362)	(4,123)
Income taxes paid				
Net cash generated by/(used in) operating activities		6,937	(1,825)	4,459
Cash flows from investing activities				
Interest received		2,189	1,499	10
Payments for property, plant and equipment		(613)	(1,087)	(461)
Proceeds from disposal of property, plant and equipment		192	354	–
Payments for intangible assets		(204)	(89)	–
Capital contribution into a carved-out subsidiary		(5,000)	–	–
Loan to a related company		(14,800)	(2,900)	–
Repayment of loan to a related company		–	29,720	–
Loans to carved-out subsidiaries		(8,700)	(100)	–
Repayment of loans to carved-out subsidiaries		4,479	9,800	2
Net cash (used in)/generated by investing activities		(22,457)	37,197	(449)

	<i>Notes</i>	Year ended 31 December		
		2014	2015	2016
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash flows from financing activities				
Interest paid		(1,170)	(879)	–
Proceeds from issue of shares		–	–	66
Loans from related parties		5,000	1,000	–
Repayment of loans from related parties		(2,117)	(12,480)	–
Proceeds from bank borrowings		38,879	24,487	–
Repayment of bank borrowings		(39,073)	(41,848)	–
Prepayments of listing expenses		–	(272)	(502)
Net cash generated by/(used in) financing activities		<u>1,519</u>	<u>(29,992)</u>	<u>(436)</u>
Net (decrease)/increase in cash and cash equivalents		(14,001)	5,380	3,574
Cash and cash equivalents at the beginning of year		16,415	2,659	8,290
Effect of foreign exchange rate changes, net		<u>245</u>	<u>251</u>	<u>(145)</u>
Cash and cash equivalents at the end of year		<u><u>2,659</u></u>	<u><u>8,290</u></u>	<u><u>11,719</u></u>
Analysis of balances of cash and cash equivalents				
Cash and bank balances	19	<u><u>2,659</u></u>	<u><u>8,290</u></u>	<u><u>11,719</u></u>

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Company was incorporated in the Cayman Islands under the Companies Law of the Cayman Islands as an exempted company with limited liability on 3 November 2015. Its parent and ultimate holding company is Nonton Limited (“Nonton”), a company incorporated in the BVI with limited liability and wholly-owned by Mr. Lee King Sun (“Mr. Lee”), the controlling shareholder of the Company (the “Controlling Shareholder”).

The addresses of the registered office and the principal place of business of the Company are set out in the section headed “Corporate Information” in the Prospectus.

The Company is an investment holding company. The Group is principally engaged in the manufacturing and sales of inflatable products and related accessories (the “Listing Business”).

Throughout the Relevant Periods, the group entities were under the control of Mr. Lee. Through the Corporate Reorganisation as more fully explained in the paragraphs headed “Reorganisation” under the section head “History, Development and Reorganisation” to the Prospectus, the Company became the holding company of the companies now comprising the Group on 20 June 2017. Accordingly, for the purpose of the preparation of the Financial Information of the Group, the Company has been considered as the holding company of the companies now comprising the Group throughout the Relevant Periods. The Group comprising the Company and its subsidiaries resulting from the Corporate Reorganisation is regarded as a continuing entity. The Group was under the control of Mr. Lee prior to and after the Corporate Reorganisation.

The Listing Business carved out Sunnytech Company Limited (中山市新亮達日用品有限公司) (“Sunnytech”), Humoled Lighting Limited (中山市新宇科光電科技有限公司) (“Humoled”) and Zhongshan You Mei Lai Optoelectronics Technology Company Limited (中山市優美萊光電科技有限公司) (“You Mei Lai”), a 90% owned subsidiary of Humoled, which are the carved-out business of the Group (“Carved-out Business”). Sunnytech is principally engaged in the manufacturing and sales of hard plastic moulded toys. Humoled and You Mei Lai are principally engaged in research and development, wholesale, and export and import of light-emitting diode lighting products. During the Relevant Periods, the entire equity interest of Sunnytech was transferred from Swiftech Company to Zhongshan Huanleyuan Recreation Development Company Limited (中山歡樂源遊樂發展有限公司) (“Zhongshan Huanleyuan”), a related company, and the entire equity interest of Humoled was transferred to Mr. Li Xilong (李希龍), a former director of Swiftech Company who resigned on 18 August 2015 and Mr. Liu Junkai (劉軍凱), a minority shareholder of You Mei Lai (Note 31). The financial information of the Carved-out Business has not been included in the Financial Information throughout the Relevant Periods as it has separate management personnel, maintained separate accounting records and has been financed separately as if it was autonomous and it was in dissimilar business and operations.

The Financial Information has been prepared as if the Company had been the holding company of the Group throughout the Relevant Periods in accordance with Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the HKICPA. The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows for the Relevant Periods, which include the results, changes in equity and cash flows of the companies now comprising the Group, have been prepared as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation or establishment where this is a shorter period. The combined statements of financial position as at the respective reporting dates have been prepared to 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.

Items included in the financial statements of each of the Group’s subsidiaries are measured using the currency of the primary economic environment in which the respective entity operates (the “functional currency”). The functional currency of the Company is HK\$. The functional currency of the Group’s operating subsidiaries is RMB. Accordingly the Financial Information is presented in RMB, rounded to the nearest thousand.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Group has consistently adopted the HKFRSs, Hong Kong Accounting Standards ("HKASs"), amendments and interpretations ("HK(IFRIC)-Int") issued by the HKICPA that are effective for the annual periods beginning on 1 January 2016 throughout the Relevant Periods.

At the date of this report, the HKICPA has issued the following new standards and amendments which are not yet effective. The Group has not early adopted these new standards and amendments.

HKFRS 9	Financial Instruments ²
HKFRS 15	Revenue from Contracts with Customers ²
HKFRS 16	Leases ³
Amendments to HKAS 7	Disclosure Initiative ¹
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ¹
Amendments to HKAS 40	Transfers of Investment Property ²
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ²
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKFRS 15	Clarification to HKFRS 15 Revenue from Contracts with Customers ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle ⁵

¹ Effective for annual periods beginning on or after 1 January 2017.

² Effective for annual periods beginning on or after 1 January 2018.

³ Effective for annual periods beginning on or after 1 January 2019.

⁴ Effective for annual periods beginning on or after a date to be determined.

⁵ Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

HKFRS 9 Financial Instruments

HKFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the "hedged ratio" to be the same as the one management actually use for risk management purposes. The directors anticipate that the application of HKFRS 9 in the future will have no material impact on the Group's consolidated financial statements.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company do not expect the adoption of HKFRS 15 would result in significant impact on the amounts reported on the Group's consolidated financial statements in the future. However, there will be additional qualitative and quantitative disclosures upon the adoption of HKFRS 15.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. It distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Subject to limited exceptions for short-term leases and low value assets, distinctions of operating and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees. However, the standard does not significantly change the accounting of lessors. Application of HKFRS 16 will result in the Group's recognition of right-of-use assets and corresponding liabilities in respect of many of the Group's lease arrangements. These assets and liabilities are currently not required to be recognised but certain relevant information is disclosed as commitments to these Financial Information. Total operating lease commitment of the Group as at 31 December 2016 amounted to approximately RMB589,000 (Note 30). The management of the Group do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group's results but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

Except as described above, management of the Group anticipates that the application of these new standards and amendments will have no material impact on the Financial Information of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange ("GEM Listing Rules") and by the Hong Kong Companies Ordinance.

Basis of preparation

The Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the combined statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Merger accounting for business combination involving entities under common control

The Financial Information incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined statements of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the Financial Information are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Sub-contracting income is recognised when services are provided.

Dividend income from investments is recognised when the shareholders' right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

The functional currencies of the Company and certain overseas subsidiaries are currencies other than RMB. At the end of each of the Relevant Periods, the assets and liabilities of these entities are translated into the presentation currency of the Company (i.e. RMB) using exchange rates prevailing at the end of each of the Relevant Periods. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at

the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

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 added to 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.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the combined statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to the defined contribution benefit plans are recognised as an expense when employees have rendered services entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit before tax” as reported in the combined statements of profit or loss and other comprehensive income 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 each of the Relevant Periods.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the 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. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises 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 associated with 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. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each of the Relevant Periods, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Value-added tax refundable recognition

Value-added tax refundable represents the excess of input value-added tax paid over output value-added tax generated from the sale of goods or services by the Group entities. Value-added tax refundable is calculated on a monthly basis and recognised when there is reasonable assurance that the value-added tax refundable will be received from the government.

Property, plant and equipment

Property, plant and equipment are stated in the combined statements of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets***Intangible assets acquired separately***

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on weighted average basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets “at fair value through profit or loss” (“FVTPL”), “held-to-maturity” investments, “available-for-sale” (“AFS”) financial assets and “loans and receivables”. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

The Group’s financial assets are classified into loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including deposit, trade and other receivables, loan to a related company, loans to carved-out subsidiaries and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment of financial assets could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the respective credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. 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 financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities (including trade and other payables, loan from a director, loans from related parties, and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others.

- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

Cash and cash equivalents

For the purpose of the combined statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, management is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience, expectations of the future and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each of the Relevant Periods that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual value. The Group assesses annually the residual value and the useful lives of the property, plant and equipment. If the expectation differs from the original estimate, such difference will impact the depreciation charge in the period in which such estimate is changed.

Impairment losses on trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables based on an assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and the current market condition, and requires the use of judgements and estimates. Management reassesses the provisions at each reporting date.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less variable selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in customer demand and competitor behaviours.

Income tax

The Group is subject to income taxes in the PRC. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. REVENUE AND SEGMENT INFORMATION

HKFRS 8, Operating Segments, requires identification and disclosure of operating segment information based on internal financial reports that are regularly reviewed by the executive directors of the Company, being the chief operating decision maker, for the purpose of resources allocation and performance assessment. On this basis, the Group has determined that it only has one operating segment which is the manufacturing and sales of inflatable products and related accessories.

Revenue

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Sales of inflatable products and related accessories	173,601	166,902	172,347
Sub-contracting income	1,208	1,900	–
	<u>174,809</u>	<u>168,802</u>	<u>172,347</u>

Geographical information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of revenue is based on the locations of the customers. All specified non-current assets are physically located in the PRC. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment.

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Revenue from external customers:			
– China	24,814	30,115	59,262
– Europe	37,614	41,610	37,325
– Australia and Oceania	40,449	39,821	22,285
– North America	22,051	18,968	18,551
– Asia	41,091	34,705	32,287
– Central and South America	8,083	2,807	2,588
– Africa	707	776	49
	<u>174,809</u>	<u>168,802</u>	<u>172,347</u>

Information about major customers

Revenue from customers individually contributing over 10% of the total revenue of the Group for the Relevant Periods were as follows:

	Year ended 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Customer A	31,283	18,347	N/A ¹
Customer B	N/A ¹	18,423	–
Customer C	–	N/A ¹	24,447
	<u> </u>	<u> </u>	<u> </u>

¹ The customer did not contribute over 10% or more to the Group's total revenue in the respective year.

6. OTHER INCOME AND GAINS

	Year ended 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest income on bank deposits	49	34	10
Interest income from carved-out subsidiaries	473	335	–
Interest income from a related company	1,333	977	–
Grants and subsidies (<i>Note</i>)	373	229	415
Waiver of amount due to a related party (<i>Note</i> 22)	–	739	–
Net foreign exchange gains	283	1,474	1,733
Others	11	207	489
	<u> </u>	<u> </u>	<u> </u>
	<u>2,522</u>	<u>3,995</u>	<u>2,647</u>

Note: Grants and subsidies mainly consist of gross grants and subsidies by local governments in relation to corporate development and export encouragement scheme and compensation for expenses already incurred. The amounts of these grants and subsidies are subject to discretions of local governments and there are no unfulfilled conditions or contingencies.

7. FINANCE COSTS

	Year ended 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank borrowings wholly repayable within five years	848	479	–
Interests on loans from related parties	631	245	–
	<u> </u>	<u> </u>	<u> </u>
	<u>1,479</u>	<u>724</u>	<u>–</u>

8. INCOME TAX EXPENSE

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Current tax			
Hong Kong Profits Tax			
– Current tax	–	512	744
PRC Enterprise Income Tax			
– Current tax	2,545	2,697	4,222
– Under-provision in prior year	44	–	–
Deferred tax (Note 24)	<u>(178)</u>	<u>(35)</u>	<u>292</u>
Total income tax recognised in profit or loss	<u>2,411</u>	<u>3,174</u>	<u>5,258</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits during the Relevant Periods. No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2014 as the Group had no assessable profits arising in or derived from Hong Kong for the year ended 31 December 2014.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% during the Relevant Periods. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The tax charge for the Relevant Periods can be reconciled to profit before tax per the combined statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Profit before tax	<u>8,180</u>	<u>10,536</u>	<u>14,683</u>
Tax at PRC Enterprise Income Tax rate of 25% (Note)	2,045	2,634	3,671
Under-provision in prior year	44	–	–
Tax effect of expenses not deductible for tax purpose	322	663	1,488
Withholding tax on undistributed profits	–	142	479
Effect of different tax rates of group entities operating in jurisdictions other than the PRC	<u>–</u>	<u>(265)</u>	<u>(380)</u>
Income tax expense for the year	<u>2,411</u>	<u>3,174</u>	<u>5,258</u>

Note: The PRC Enterprise Income Tax rate is used as it is the domestic tax rate in the jurisdiction where the operation of the Group is substantially based.

9. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Auditors' remuneration	19	19	241
Cost of inventories recognised as an expense	144,476	136,775	133,426
Depreciation of property, plant and equipment (<i>Note (i)</i>)	2,304	1,861	1,716
Amortisation of intangible assets	88	102	98
Product development expenses	390	34	5
Loss on disposal of property, plant and equipment	2	–	–
Listing expenses	–	2,736	5,348
Operating lease payments (<i>Note (ii)</i>)	4,601	4,812	5,331
	<u>4,601</u>	<u>4,812</u>	<u>5,331</u>
Employee benefits expense (including directors' emoluments (<i>Note 10</i>)):			
Salaries, wages and other benefits	37,029	36,876	27,717
Contributions to retirement benefits schemes	2,355	2,400	1,339
	<u>39,384</u>	<u>39,276</u>	<u>29,056</u>
Total employee benefits expense (<i>Note (iii)</i>)	<u>39,384</u>	<u>39,276</u>	<u>29,056</u>

Notes:

- (i) During the years ended 31 December 2014, 2015 and 2016, depreciation of property, plant and equipment amounting to approximately RMB1,480,000, RMB1,436,000 and RMB1,422,000 respectively are capitalised in inventories and amounting to approximately RMB824,000, RMB425,000 and RMB294,000 respectively are included in administrative expenses.
- (ii) During the years ended 31 December 2014, 2015 and 2016, operating lease payments amounting to approximately RMB3,827,000, RMB3,705,000 and RMB4,087,000 respectively are capitalised in inventories and amounting to approximately RMB774,000, RMB1,107,000 and RMB1,244,000 respectively are included in administrative expenses, of which approximately RMB443,000, RMB392,000 and RMB364,000 respectively relating to staff quarter are included in employee benefits expense disclosed above.
- (iii) During the years ended 31 December 2014, 2015 and 2016, total employee benefits expense amounting to approximately RMB31,242,000, RMB31,581,000 and RMB20,975,000 respectively are capitalised in inventories; amounting to approximately RMB1,419,000, RMB1,601,000 and RMB1,529,000 respectively are included in distribution and selling expenses; and amounting to approximately RMB6,723,000, RMB6,094,000 and RMB6,552,000 respectively are included in administrative expenses.

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the directors and the chief executive of the Company for the Relevant Periods were as follows:

	Other emoluments				
	Fees	Salaries and	Discretionary	Contributions	
	RMB'000	other benefits	bonuses	to retirement	Total
		RMB'000	RMB'000	benefits	RMB'000
				schemes	
				RMB'000	
For the year ended					
31 December 2014					
<i>Executive directors</i>					
Mr. Huang Xiaodong					
("Mr. Huang") (黄小冬)	–	270	–	1	271
Mr. Xiao Jiansheng					
("Mr. Xiao") (肖健生)	–	284	–	1	285
	–	554	–	2	556
For the year ended					
31 December 2015					
<i>Executive directors</i>					
Mr. Huang	72	230	–	1	303
Mr. Xiao	48	284	–	1	333
	120	514	–	2	636
For the year ended 31					
December 2016					
<i>Executive directors</i>					
Mr. Huang	103	345	–	1	449
Mr. Xiao	68	304	–	1	373
<i>Non-executive director</i>					
Mr. Lee Kin Kee	–	–	–	–	–
	171	649	–	2	822

Mr. Huang is an executive director and the chairman of the Company. Mr. Xiao is an executive director and the chief executive officer of the Company. Both Mr. Huang and Mr. Xiao are also directors of certain subsidiaries of the Company during the Relevant Periods and the Group paid emoluments to them in their capacity as directors of subsidiaries before their appointment as executive directors of the Company during the Relevant Periods.

Mr. Huang was appointed as an executive director of the Company on 3 November 2015. On 1 February 2016, the Company appointed Mr. Xiao as an executive director. On 5 March 2016, Mr. Lee Kin Kee was appointed as a non-executive director. On 20 June 2017, Mr. Mao Guohua, Mr. Gan Mingqing and Mr. Chu Wai Wa Fangus were appointed as independent non-executive directors. No fees and other emoluments was payable to the independent non-executive directors during the Relevant Periods as they were appointed subsequent to the Relevant Periods.

None of the directors or the chief executive waived or agreed to waive any emoluments during the Relevant Periods.

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two were directors of the Company whose emoluments are included in the disclosures in Note 10 above for each of the years ended 31 December 2014, 2015 and 2016 respectively. The emoluments of the remaining three individuals for the respective year were as follows:

	Year ended 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries and other benefits	534	520	933
Contributions to retirement benefits schemes	13	18	23
	<u>547</u>	<u>538</u>	<u>956</u>

Their emoluments were all within nil to HK\$1,000,000.

During the Relevant Periods, no emoluments were paid by the Group to any of the directors and the chief executive of the Company or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

12. DIVIDENDS

No dividend was paid or declared by the Company since its incorporation or by other group entities during the Relevant Periods.

13. EARNINGS PER SHARE

For the purpose of this report, the calculation of basic earnings per share attributable to owners of the Company was based on (i) the profit attributable to owners of the Company for the Relevant Periods and (ii) 680,000,000 shares in issue and issuable, as if these 680,000,000 shares were outstanding throughout the Relevant Periods.

The diluted earnings per share is equal to the basic earnings per share as there is no dilutive potential ordinary share in issue during the Relevant Periods.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture and equipment <i>RMB'000</i>	Computer equipment <i>RMB'000</i>	Total <i>RMB'000</i>
Cost						
Balance at 1 January 2014	6,677	11,025	1,324	246	1,801	21,073
Additions	40	371	139	–	63	613
Disposals	–	(196)	(365)	–	–	(561)
Balance at 31 December 2014	6,717	11,200	1,098	246	1,864	21,125
Additions	114	916	–	16	41	1,087
Disposals	–	(438)	–	–	(9)	(447)
Effect of foreign exchange differences	2	–	–	1	–	3
Balance at 31 December 2015	6,833	11,678	1,098	263	1,896	21,768
Additions	118	249	76	–	18	461
Effect of foreign exchange differences	2	–	–	1	1	4
Balance at 31 December 2016	6,953	11,927	1,174	264	1,915	22,233
Accumulated depreciation						
Balance at 1 January 2014	2,332	3,353	654	216	1,344	7,899
Depreciation expense	959	1,027	212	4	102	2,304
Eliminated on disposals	–	(159)	(208)	–	–	(367)
Balance at 31 December 2014	3,291	4,221	658	220	1,446	9,836
Depreciation expense	655	960	158	1	87	1,861
Eliminated on disposals	–	(87)	–	–	(6)	(93)
Balance at 31 December 2015	3,946	5,094	816	221	1,527	11,604
Depreciation expense	662	907	86	4	57	1,716
Effect of foreign exchange differences	1	–	–	–	–	1
Balance at 31 December 2016	4,609	6,001	902	225	1,584	13,321
Carrying amounts						
Balance at 31 December 2014	<u>3,426</u>	<u>6,979</u>	<u>440</u>	<u>26</u>	<u>418</u>	<u>11,289</u>
Balance at 31 December 2015	<u>2,887</u>	<u>6,584</u>	<u>282</u>	<u>42</u>	<u>369</u>	<u>10,164</u>
Balance at 31 December 2016	<u>2,344</u>	<u>5,926</u>	<u>272</u>	<u>39</u>	<u>331</u>	<u>8,912</u>

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	Over the shorter of the term of the lease, and 2 to 9 years
Plant and machinery	6 to 10 years
Motor vehicles	4 to 5 years
Furniture and equipment	3 to 5 years
Computer equipment	3 to 10 years

15. INTANGIBLE ASSETS

	Patents <i>RMB'000</i>	Trademarks <i>RMB'000</i>	Total <i>RMB'000</i>
Cost			
Balance at 1 January 2014	142	628	770
Additions	<u>77</u>	<u>127</u>	<u>204</u>
Balance at 31 December 2014	219	755	974
Additions	<u>–</u>	<u>89</u>	<u>89</u>
Balance at 31 December 2015 and 31 December 2016	<u>219</u>	<u>844</u>	<u>1,063</u>
Accumulated amortisation			
Balance at 1 January 2014	103	256	359
Amortisation expense	<u>22</u>	<u>66</u>	<u>88</u>
Balance at 31 December 2014	125	322	447
Amortisation expense	<u>23</u>	<u>79</u>	<u>102</u>
Balance at 31 December 2015	148	401	549
Amortisation expense	<u>21</u>	<u>77</u>	<u>98</u>
Balance at 31 December 2016	<u>169</u>	<u>478</u>	<u>647</u>
Carrying amounts			
Balance at 31 December 2014	<u>94</u>	<u>433</u>	<u>527</u>
Balance at 31 December 2015	<u>71</u>	<u>443</u>	<u>514</u>
Balance at 31 December 2016	<u>50</u>	<u>366</u>	<u>416</u>

The following useful lives are used in the calculation of amortisation:

Patents	10 years
Trademarks	10 years

16. INVENTORIES

	As at 31 December		
	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>	2016 <i>RMB'000</i>
Raw materials	11,519	7,541	4,977
Work in progress	1,297	1,100	1,927
Finished goods	<u>2,518</u>	<u>4,519</u>	<u>8,448</u>
	<u>15,334</u>	<u>13,160</u>	<u>15,352</u>

17. TRADE AND OTHER RECEIVABLES

	As at 31 December		
	2014 RMB'000	2015 RMB'000	2016 RMB'000
Trade receivables (<i>Note (i)</i>)	17,014	32,862	36,871
Value-added tax refundable	5,336	3,871	6,144
Prepaid listing expenses	–	272	822
Deposits paid (<i>Note (ii)</i>)	809	1,035	1,117
Other receivables and prepayment (<i>Note (iii)</i>)	1,311	951	1,838
	<u>24,470</u>	<u>38,991</u>	<u>46,792</u>
Analysed for reporting purposes:			
Current assets	24,110	38,631	46,432
Non-current assets	<u>360</u>	<u>360</u>	<u>360</u>
	<u>24,470</u>	<u>38,991</u>	<u>46,792</u>

Notes:

- (i) Trade receivables disclosed above included amounts due from the Swan Group (*Note 31(a)*) amounting to approximately RMB3,747,000, RMB6,223,000 and RMB3,969,000 as at 31 December 2014, 2015 and 2016 respectively, and an amount due from SHD International Ltd. (*Note 31(a)*) amounting to approximately RMB5,381,000, nil and nil as at 31 December 2014, 2015 and 2016 respectively, which are of trade nature.
- (ii) Deposits paid disclosed above included rental deposit paid to a related company Zhongshan Dongcheng Real Estate Industrial Limited (“Zhongshan Dongcheng”) (中山東成地產實業有限公司) (*Note 31(a)*) of approximately RMB302,000 as at 31 December 2014, 2015 and 2016.
- (iii) Other receivables and prepayment disclosed above included a prepayment for raw materials to a related company Zhongshan Dongjian Trading Company Limited (“Zhongshan Dongjian”) (中山市東健貿易有限公司) (*Note 31(a)*) amounting to RMB300,000 as at 31 December 2014 which are of trade nature.

The following is an analysis of trade receivables by age, presented based on the invoice date, which approximates the respective revenue recognition dates:

	As at 31 December		
	2014 RMB'000	2015 RMB'000	2016 RMB'000
0 – 30 days	10,442	16,824	26,236
31 – 60 days	1,747	8,000	3,609
61 – 90 days	516	7,093	5,315
91 – 120 days	–	298	1,393
121 – 365 days	4,293	631	318
Over 365 days	<u>16</u>	<u>16</u>	<u>–</u>
	<u>17,014</u>	<u>32,862</u>	<u>36,871</u>

The credit terms granted to customers are varied and are generally the result of negotiations between individual customers and the Group. The Group generally allows credit period ranging from 0 to 120 days for the Relevant Periods. No interest is charged on overdue receivables.

The management closely monitors the credit quality of trade receivables and considers the trade receivables that are neither past due nor impaired to be of a good credit quality. As at 31 December 2014, 2015 and 2016, respectively 22%, 65% and 75% of the trade receivables are neither past due nor impaired relate to a number of independent customers with good settlement history and no default on settlement had been noted.

Trade receivables disclosed above include amounts (see below for aged analysis) which are past due at the end of each of the Relevant Periods for which the Group has not recognised an allowance for doubtful debts because there were subsequent settlement or no historical default of payments by the respective customers and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Age of trade receivables that are past due but not impaired

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Overdue by:			
1 – 30 days	8,484	10,170	7,524
31 – 60 days	–	70	1,412
61 – 90 days	516	413	–
91 – 120 days	2,085	838	–
121 – 365 days	2,208	–	318
Over 365 days	16	16	–
	<u>13,309</u>	<u>11,507</u>	<u>9,254</u>

18. LOANS TO A RELATED COMPANY/CARVED-OUT SUBSIDIARIES

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Loan to a related company			
Zhongshan Dongcheng (Note 31(a))	<u>26,820</u>	<u>–</u>	<u>–</u>
Maximum amount outstanding during the respective year	<u>26,820</u>	<u>28,065</u>	<u>–</u>
Loans to carved-out subsidiaries			
Huomold	4,285	2	–
Sunnytech	<u>5,570</u>	<u>–</u>	<u>–</u>
	<u>9,855</u>	<u>2</u>	<u>–</u>
Maximum amount outstanding during the respective year			
Huomold	4,638	4,384	2
Sunnytech	<u>5,570</u>	<u>5,759</u>	<u>–</u>

The amounts due were unsecured, interest-bearing at 6.9% per annum and repayable within twelve months.

19. CASH AND BANK BALANCES

Cash at banks earn interest at floating rates based on daily bank deposit rates. As at 31 December 2014, 2015 and 2016, the Group's cash and bank balances with an aggregate amount of approximately RMB2,382,000, RMB5,812,000 and RMB3,883,000 respectively were denominated in RMB which is not a freely convertible currency in the international market. The government of the PRC has implemented foreign exchange control and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the government of the PRC.

20. TRADE AND OTHER PAYABLES

	As at 31 December		
	2014 RMB'000	2015 RMB'000	2016 RMB'000
Trade payables (<i>Note (i)</i>)	20,368	27,400	30,360
Receipt in advance	1,990	2,992	2,768
Accrued salaries and other benefits (<i>Note (ii)</i>)	9,802	9,798	7,240
Other payables and accruals (<i>Note (iii) and (iv)</i>)	1,969	2,299	3,659
	<u>34,129</u>	<u>42,489</u>	<u>44,027</u>

Notes:

- (i) Trade payables disclosed above included an amount due to the Swan Group (*Note 31(a)*) amounting to approximately RMB4,239,000, RMB639,000 and RMB895,000 as at 31 December 2014, 2015 and 2016 respectively which are of trade nature.
- (ii) Accrued salaries and other benefits disclosed above included emoluments payable to the executive directors of the Company amounting to approximately RMB207,000, RMB343,000 and RMB555,000 as at 31 December 2014, 2015 and 2016 respectively.
- (iii) Other payables and accruals disclosed above included electricity expense payable to Sunnyside, a carved-out subsidiary amounting to approximately RMB93,000 as at 31 December 2015.
- (iv) Other payables and accruals disclosed above included electricity expense payable to Zhongshan Dongcheng, a related company of the Group amounting to approximately RMB120,000 as at 31 December 2016.

The following is an analysis of trade payables based on the invoice date:

	As at 31 December		
	2014 RMB'000	2015 RMB'000	2016 RMB'000
0 – 30 days	8,134	13,246	15,036
31 – 60 days	5,897	6,454	4,485
61 – 90 days	4,409	4,868	5,644
91 – 120 days	–	1,939	3,194
121 – 365 days	13	–	1,350
Over 365 days	1,915	893	651
	<u>20,368</u>	<u>27,400</u>	<u>30,360</u>

The trade payables are non-interest bearing and the Group is normally granted credit period ranging from 30 to 75 days.

21. LOAN FROM A DIRECTOR

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Mr. Xiao	2,000	–	–

The amount due was unsecured, non-interest bearing and repayable within twelve months.

22. LOANS FROM RELATED PARTIES

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Ms. Lin Limiao (林麗苗) (Note (i))	9,374	–	–
Zhongshan Huanleyuan (Note (ii))	3,000	–	–
Ocean Union (Note (iii))	4,773	–	–
	17,147	–	–
Analysed for reporting purpose as:			
Current liabilities	11,374	–	–
Non-current liabilities	5,773	–	–
	17,147	–	–

Notes:

- (i) The loans from Ms. Lin Limiao (Note 31 (a)) were unsecured, interest-bearing at 6.9% per annum and repayable within twelve months with an amount of RMB1,000,000 was unsecured, interest-bearing at 6.9% per annum and repayable in February 2016. The loans were fully settled in 2015.

During the year ended 31 December 2015, interest payable to Ms. Lin Limiao amounting to approximately RMB739,000 was waived by Ms. Lin Limiao, resulting in a waiver of amount due to a related party of approximately RMB739,000 being recognised in profit or loss within “other income and gains” for the year ended 31 December 2015.

- (ii) The loan from Zhongshan Huanleyuan (Note 31 (a)) was unsecured, interest-bearing at 6.9% per annum and repayable within twelve months.
- (iii) Mr. Lee, the Controlling Shareholder, through Nonton has beneficial interest in Ocean Union International Limited (“Ocean Union”). The amount due was unsecured, interest-free and repayable in March 2016. The loan was fully settled in 2015.

23. BANK BORROWINGS

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Secured bank borrowings	17,238	—	—
Carrying amount repayable within one year	17,238	—	—

Notes:

- (i) The bank borrowings were secured by charge over certain leasehold land and buildings of Zhongshan Dongcheng, a related company of the Group and personal guarantees jointly executed by Mr. Huang and his spouse to the extent of RMB42,000,000. As at 31 December 2014, 2015 and 2016, the Group has unutilised banking facilities amounted to approximately RMB14,762,000, nil and nil respectively.
- (ii) The bank borrowings were repayable within one year, interest-bearing at fixed rates ranging from 1.9% to 7.5% per annum as of 31 December 2014.
- (iii) As at 31 December 2014, bank borrowings of approximately RMB12,238,000 and RMB5,000,000 were denominated in United States dollar and RMB respectively.

24. DEFERRED TAXATION

	Accelerated tax depreciation RMB'000	Withholding tax on undistributed profits RMB'000	Total RMB'000
Balance at 1 January 2014	228	—	228
Credited to profit or loss (Note 8)	178	—	178
Balance at 31 December 2014	406	—	406
Credited/(charged) to profit or loss (Note 8)	177	(142)	35
Balance at 31 December 2015	583	(142)	441
Credited/(charged) to profit or loss (Note 8)	187	(479)	(292)
Exchange differences	—	(11)	(11)
Balance at 31 December 2016	770	(632)	138

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Analysed for reporting purpose as:			
Deferred tax assets	406	586	770
Deferred tax liabilities	—	(145)	(632)
	406	441	138

Under the Enterprise Income Tax Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has been provided for in full in respect of undistributed profits retained by PRC entities in the Financial Information.

25. SHARE CAPITAL

For the purpose of the preparation of the combined statements of financial position, the balance of share capital:

- at 31 December 2014 represents the paid-up registered capital of Swiftech Company held by Mr. Lee, the Controlling Shareholder, prior to the completion of the Corporate Reorganisation; and
- at 31 December 2015 and 2016 represents the aggregate of the paid-up share capital of the Company and Silver Bliss held by Mr. Lee, the Controlling Shareholder, prior to the completion of the Corporate Reorganisation.

During the year ended 31 December 2016, the share capital of Silver Bliss was increased from US\$1 to US\$10,000 by issuing an additional 9,999 ordinary shares of US\$1 at par to Nonton for cash.

The Company was incorporated in the Cayman Islands under the Companies Law of the Cayman Islands as an exempted company with limited liability on 3 November 2015 and with an authorised capital of HK\$380,000 divided into 38,000,000 ordinary shares of HK\$0.01 each. One fully paid ordinary share of the Company was allotted and issued to the initial subscriber, which was subsequently transferred to Nonton on 3 November 2015. On 3 November 2015, Nonton subscribed for an additional 9,999 fully paid ordinary shares of the Company resulting in Nonton holding 10,000 fully paid ordinary shares of the Company.

As at 31 December 2015 and 2016, the Company has issued share capital of HK\$100 divided into 10,000 ordinary shares of HK\$0.01 each.

26. RESERVES

The Group

Special reserve

At 31 December 2014, special reserve represents the investment costs of the subsidiaries which have been carved out of the Group as part of the Corporate Reorganisation as explained in Note 1.

On 30 September 2015, Ocean Union transferred its entire equity interest in Swiftech Company to Swiftech International at a cash consideration of HK\$30 million. On 30 December 2015, Ocean Union executed a deed of loan assignment in favour of Nonton, pursuant to which Ocean Union assigned the loan of HK\$30 million due from Swiftech International (the “Loan”) to Nonton. On 31 December 2015, Nonton executed a deed of waiver of loan in favour of Swiftech International, pursuant to which Nonton agreed to waive the Loan due from Swiftech International. At 31 December 2015 and 2016, special reserve represents (i) the difference between the cash consideration in exchange for the entire paid-up registered capital of Swiftech Company as a result of part of the Corporate Reorganisation and (ii) deemed contribution from Nonton arising from the waiver of Loan.

Statutory reserve

In accordance with the PRC Company Law and the PRC subsidiaries' Articles of Association, every year the PRC subsidiaries are required to transfer at least 10% of the profit after taxation determined in accordance with PRC Accounting Standards to the statutory reserves until the balance reaches 50% of the registered capital. Such reserve can be used to reduce any losses incurred or to increase registered capital.

Foreign currency translation reserve

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. RMB) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve in respect of translating the net assets of foreign operations are reclassified to profit or loss on the disposal of the foreign operation.

Reserve movement of the Company

	Foreign currency translation reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at 3 November 2015 (date of incorporation)	–	–	–
Loss for the period	–	(2,560)	(2,560)
Other comprehensive expense for the period	(108)	–	(108)
Total comprehensive expense for the period	(108)	(2,560)	(2,668)
Balance at 31 December 2015	(108)	(2,560)	(2,668)
Loss for the year	–	(5,750)	(5,750)
Other comprehensive expense for the year	(522)	–	(522)
Total comprehensive expense for the year	(522)	(5,750)	(6,272)
Balance at 31 December 2016	(630)	(8,310)	(8,940)

27. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the plans are held separately from those of the Group in funds under the control of trustees.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit plans operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plans is to make the specified contributions.

The total expense recognised in profit or loss of approximately RMB2,355,000, RMB2,400,000 and RMB1,339,000 respectively for the years ended 31 December 2014, 2015 and 2016 represents contributions payable to the plans by the Group at rates specified in the rules of the plans.

28. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the Relevant Periods.

The capital structure of the Group consists of net debt (which includes loan from a director, loans from related parties and bank borrowings net of cash and cash equivalents) and equity attributable to owners of the Company (comprising issued share capital and reserves).

Adjusted debt-to-equity ratio

Management of the Group reviews the capital structure regularly taking into account the cost of capital and the risks associated with the cost of capital. The Group will balance its overall capital structure through the issuance of new shares, raise of borrowings and repayment of existing borrowings.

The adjusted debt-to-equity ratios at the end of each of the Relevant Periods were as follows:

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Debts (<i>Note (i)</i>)	36,385	–	–
Cash and cash equivalents	(2,659)	(8,290)	(11,719)
Net debts	33,726	N/A	N/A
Equity (<i>Note (ii)</i>)	20,748	28,106	37,421
Adjusted debt-to-equity ratio	163%	N/A	N/A

Notes:

- (i) Debts comprises loan from a director, loans from related parties and bank borrowings as detailed in Notes 21, 22 and 23 respectively.
- (ii) Equity includes all capital and reserves attributable to owners of the Company.

29. FINANCIAL INSTRUMENTS**(a) Categories of financial instruments**

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Financial assets			
Loans and receivables (including cash and cash equivalents)	62,820	46,330	56,929
Financial liabilities			
Amortised cost	68,524	39,497	41,259

(b) Financial risk management objectives and policies

The Group's major financial instruments include deposit, trade and other receivables, loan to a related company, loans to carved-out subsidiaries, cash and bank balances, trade and other payables, loan from a director, loans from related parties and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The management has been monitoring these risk exposures to ensure appropriate measures are implemented on a timely and effective manner so as to mitigate or reduce such risks.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks throughout the Relevant Periods.

Foreign currency risk management

For the years ended 31 December 2014, 2015 and 2016, approximately 92%, 83% and 68% of the Group's revenue are denominated in United States Dollar ("US\$"), respectively. The Group's dominant operations are in the PRC and most of the operating expenses are primarily denominated in RMB. The Group is exposed to currency risk arising from currency exposures primarily with respect to US\$, mainly attributable to the exposure on outstanding receivables and payables denominated in US\$.

The carrying amounts of the Group's US\$ denominated monetary assets and monetary liabilities at the end of each of the Relevant Periods are as follows:

	Liabilities			Assets		
	As at 31 December			As at 31 December		
	2014	2015	2016	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
US\$	18,915	3,366	4,708	14,359	26,771	34,971

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in the RMB against US\$. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rate throughout the Relevant Periods. The sensitivity analysis includes outstanding foreign currency denominated monetary items. A negative number below indicates a decrease in profit or equity where the RMB strengthen 5% against US\$. For a 5% weakening of RMB against US\$, there would be an equal and opposite impact on the profit or equity, and the balances below would be positive.

	As at 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Sensitivity rate	5%	5%	5%
Profit or loss	228	(1,170)	(1,513)
Equity	228	(1,170)	(1,513)

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Interest rate risk management

The Group's fair value interest rate risk relates primarily to its fixed-rate loans and bank borrowings. The cash flow interest rate risk of the Group related primarily to its variable-rate bank deposits. For loans and bank borrowings which are fixed-rate instruments are insensitive to any change in interest rates. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of benchmark interest rate regulated by the People's Bank of China in the PRC.

The Group did not adopt any hedge policy for these borrowings as management considered that these borrowings were all short-term in nature and the exposure to the interest rate risk to the Group is minimal.

Credit risk management

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the combined statements of financial position at the end of each of the Relevant Periods.

In respect of trade and other receivables, individual credit evaluations are performed on all customers and counterparties. These evaluations focus on the counterparty's financial position, past history of making payments and take into account information specific to the counterparty as well as pertaining to the economic environment in which the counterparty operates. Monitoring procedures have been implemented to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt and debt instrument at the end of each of the Relevant Periods to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management considers that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies or with good reputation. The Group is also subject to concentration of credit risk arising from its trade receivables. As at 31 December 2014, 2015 and 2016, trade receivables that are due from the Group's largest five customers approximate to 24.5%, 47.1% and 30.1% respectively.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings or good reputation and on trade receivables as disclosed above, the Group does not have any other significant concentration of credit risk.

Liquidity risk management

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents and banking facilities deemed adequate by management to finance the Group's operations and mitigate the effects of unexpected fluctuations in cash flows.

The following table details the Group's and the Company's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. Specifically, the maturity analysis for non-derivative financial liabilities is prepared based on the scheduled repayment dates.

The Group

	Weighted average interest rate %	On demand or within 1 year RMB'000	Over 1 year RMB'000	Total contractual undiscounted cash flows RMB'000	Total RMB'000
At 31 December 2014					
Trade and other payables	N/A	32,139	–	32,139	32,139
Loan from a director	N/A	2,000	–	2,000	2,000
Loans from related parties	6.9%	11,713	1,012	12,725	12,374
Bank borrowings	4.04%	17,579	–	17,579	17,238
Loan from a related company	N/A	–	4,773	4,773	4,773
		<u>63,431</u>	<u>5,785</u>	<u>69,216</u>	<u>68,524</u>

At 31 December 2015

Trade and other payables	N/A	<u>39,497</u>	<u>–</u>	<u>39,497</u>	<u>39,497</u>
--------------------------	-----	---------------	----------	---------------	---------------

At 31 December 2016

Trade and other payables	N/A	<u>41,259</u>	<u>–</u>	<u>41,259</u>	<u>41,259</u>
--------------------------	-----	---------------	----------	---------------	---------------

The Company

	Weighted average interest rate %	On demand or within 1 year RMB'000	Over 1 year RMB'000	Total contractual undiscounted cash flows RMB'000	Total RMB'000
At 31 December 2015					
Amount due to a subsidiary	N/A	<u>2,945</u>	<u>–</u>	<u>2,945</u>	<u>2,945</u>
At 31 December 2016					
Amount due to a subsidiary	N/A	<u>9,757</u>	<u>–</u>	<u>9,757</u>	<u>9,757</u>

(c) Fair value measurements of financial instruments

The Group has no financial instruments measured at fair value subsequent to initial recognition on a recurring basis throughout the Relevant Periods.

30. COMMITMENTS

Operating lease commitments as lessee

At the end of each of the Relevant Periods, the Group had operating lease commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	As at 31 December		
	2014 RMB'000	2015 RMB'000	2016 RMB'000
Within one year	312	647	589
In the second to fifth years inclusive	—	245	—
	<u>312</u>	<u>892</u>	<u>589</u>

Operating leases relate to production facilities and office premises with lease terms of 2 to 5 years.

According to the tenancy agreements dated 1 November 2014, the Group leases certain of the properties in the PRC from Zhongshan Dongcheng for a period of 5 years until 30 September 2019 at an aggregate monthly rental of approximately RMB312,000, with 5% increment per annum. The Group has an option to terminate such rental agreements by serving one month's notice.

In addition, the Group entered into a non-cancellable operating lease arrangement to lease for its office premises in Hong Kong for a period of 2 years commencing from October 2015 at a monthly rental of approximately RMB26,500.

Operating lease commitment disclosed above included (i) the one month's termination notice in relation to its PRC properties; and (ii) the remaining contractual period of the non-cancellable operating lease from its Hong Kong office premises.

The Group does not have an option to purchase the leased assets at the expiry of the lease period.

Capital commitments

The Group had the following capital commitments not provided for in respect of property, plant and equipment at the end of each of the Relevant Periods as follows:

	As at 31 December		
	2014 RMB'000	2015 RMB'000	2016 RMB'000
Contracted but not provided for:			
– Property, plant and equipment	<u>147</u>	<u>—</u>	<u>—</u>

31. RELATED PARTY TRANSACTIONS

(a) Name and relationship with related parties:

Name	Relationship
Swan Plastic Products (HK) Limited ("Swan Plastic") and its subsidiaries (collectively the "Swan Group")	Swan Plastic was owned as to 9.5% and 9.5% by Mr. Huang and Mr. Tong Yat Keung ("Mr. Tong") 湯逸強, a former director of certain subsidiaries of the Company, respectively. Each of Mr. Huang and Mr. Tong was a director of Swan Plastic. Mr. Huang resigned as director of Swan Plastic on 30 September 2015 and disposed of his 9.5% equity interest in Swan Plastic to Mr. Tong on 24 November 2015
Zhongshan Huanleyuan SHD International Ltd.	Subsidiary of the Swan Group A company owned as to 74.4%, 12.8% and 12.8% by Nonton, Mr. Huang and Mr. Tong respectively and was dissolved on 1 November 2015
Zhongshan Dongjian	A company owned as to 70% and 15% by the spouse of Mr. Huang and Mr. Xiao respectively during the Relevant Periods and up to January 2016
Nanjing Airgun Manufacturing Ltd. ("Nanjing Airgun") (南京氣槍廠有限公司)	A company owned as to 70% by Mr. Huang
Zhongshan Dongcheng	Zhongshan Dongcheng was owned up to 45% of its equity interest by Allied Step Development Limited, whose in turn 40% share capital was owned by Mr. Huang and 20% share capital was owned by Ms. Tsang Lai Ping, the spouse of Mr. Tong. On 29 July 2015, Mr. Huang disposed his 40% share capital of Allied Step Development Limited to Ms. Tsang Lai Ping
Ms. Lin Limiao	Spouse of Mr. Huang
Mr. Li Xilong	A former director of a subsidiary

(b) Transactions

During the Relevant Periods, the Group entered into the following significant transactions with the following related parties based on terms mutually agreed between the parties involved:

	Year ended 31 December		
	2014	2015	2016
	RMB'000	RMB'000	RMB'000
Sales of goods			
Swan Group	30,075	16,447	11,812
SHD International Ltd.	8,453	18,423	–
Zhongshan Dongjian	2,527	–	–
Nanjing Airgun	267	296	–
Sub-contracting income			
Swan Group	1,208	1,900	–
Purchases of goods			
Zhongshan Dongjian	5,180	–	–
Sunnytech	–	860	–
Sub-contracting expense			
Swan Group	2,747	20	1,144
Sunnytech	65	246	915
Interest income			
Zhongshan Dongcheng	1,333	977	–
Humoled	206	124	–
Sunnytech	267	211	–
Waiver of amount due to a related party			
Ms. Lin Limiao (<i>Note 22</i>)	–	739	–
Interest expenses			
Zhongshan Huanleyuan	–	35	–
Ms. Lin Limiao	586	210	–
Rental and building management expenses (<i>Note (i)</i>)			
Zhongshan Dongcheng	4,526	4,736	4,811
Product development expenses			
Swan Group	387	34	5

Notes:

- (i) The Group leased its production facilities located in Dongcheng Industrial Zone, Zhongshan City, Guangdong Province from Zhongshan Dongcheng under operating leases for lease term of 5 years.
- (ii) On 6 March 2015, Swiftech Company, as vendor and Zhongshan Huanleyuan, as purchaser, entered into a sale and purchase agreement, pursuant to which Zhongshan Huanleyuan acquired the entire paid-up registered capital of Sunnytech from Swiftech Company at a consideration of RMB1. On 10 March 2015, Swiftech Company, as vendor, and each of Mr. Liu Junkai and Mr. Li Xilong, as purchaser, entered into a sale and purchase agreement, respectively, pursuant to which each of Mr. Liu Junkai and Mr. Li Xilong acquired 50% of the registered paid-up capital of Humoled from Swiftech Company at a consideration of RMB1 each. The transactions were completed on 7 April 2015.

(c) Balances

Details of balances with related parties of the Group at the end of each of the Relevant Periods are set out in Notes 17, 18, 20, 21 and 22.

(d) Compensation of key management personnel

The remuneration of directors and other members of key management of the Group during the Relevant Periods were as follows:

	Year ended 31 December		
	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries and other benefits	1,088	1,154	1,753
Contributions to retirement benefits schemes	15	20	25
	<u>1,103</u>	<u>1,174</u>	<u>1,778</u>

(e) Guarantee

As at 31 December 2014, the Group's bank borrowings were secured by charge over certain leasehold land and buildings of Zhongshan Dongcheng and personal guarantees jointly executed by Mr. Huang and his spouse to the extent of RMB42,000,000.

32. AMOUNT DUE TO A SUBSIDIARY

The amount due is unsecured, interest-free and repayable on demand.

B. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable to the Company's directors by the Company or any of its subsidiaries during the Relevant Periods. Under the arrangements presently in force, the aggregate remuneration of the Company's directors for the year ending 31 December 2017 is expected to be approximately RMB1,053,000.

C. SUBSEQUENT EVENTS

The following significant events took place subsequent to 31 December 2016:

- (i) On 20 June 2017, the Company increased its authorised share capital from HK\$380,000 divided into 38,000,000 ordinary shares of HK\$0.01 each to HK\$10,000,000 divided into 1,000,000,000 ordinary shares of HK\$0.01 each by the creation of an additional 962,000,000 ordinary shares of HK\$0.01 each.
- (ii) On 20 June 2017, the Company further issued and allotted 507,746,000 and 172,244,000 ordinary shares of HK\$0.01 each to each of Nonton and Blink Wishes Limited ("Blink Wishes"), a company wholly-owned by Mr. Lee Kin Kee, in consideration for the acquisition of the entire equity interest in Silver Bliss from Nonton and Blink Wishes as part of the Corporate Reorganisation. Immediately following the above allotments and share transfers, the Company was owned as to 74.67% and 25.33% by Nonton and Blink Wishes, respectively.

- (iii) The Company has conditionally adopted a share option scheme on 20 June 2017, details of which are set out in the paragraph headed “Share Option Scheme” in Appendix IV to the Prospectus.
- (iv) The Corporate Reorganisation as set out in Note 1 to Section A was completed on 20 June 2017.
- (v) In June 2017, the Company had declared an interim dividend of HK\$7,000,000.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the subsidiaries in respect of any period subsequent to 31 December 2016.

Yours faithfully,
HLB Hodgson Impey Cheng Limited
Certified Public Accountants
Chan Ching Pang
Practising Certificate Number: P05746
Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set out in this appendix does not form part of the Accountants' Report on the financial information of our Group for the Track Record Period prepared by HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set out in Appendix I to this prospectus, and is included in this prospectus for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted combined net tangible assets prepared in accordance with paragraph 7.31 of the GEM Listing Rules are set out below to illustrate the effect of the Public Offer on the combined net tangible assets of our Group attributable to owners of our Company as of 31 December 2016 as if the Public Offer had taken place on that date.

The unaudited pro forma adjusted combined net tangible assets have been prepared for illustrative purposes only and, because of their hypothetical nature, they may not give a true picture of the combined net tangible assets of our Group had the Public Offer been completed as of 31 December 2016 or of any future dates. The unaudited pro forma adjusted combined net tangible assets are prepared based on the audited combined net tangible assets of our Group attributable to owners of our Company as of 31 December 2016 as set out in the Accountants' Report of our Company, the text of which is set out in Appendix I to this prospectus, and adjusted as described below.

	Audited combined net tangible assets of our Group attributable to owners of our Company as at 31 December 2016	Add: Estimated net proceeds from the Public Offer	Unaudited pro forma adjusted combined net tangible assets	Unaudited pro forma adjusted combined net tangible assets per Share	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB</i>	<i>HK\$</i>
	<i>(Note 1)</i>	<i>(Note 2)</i>		<i>(Note 3)</i>	<i>(Note 5)</i>
Based on the Offer Price of HK\$0.20 per Share	<u>37,005</u>	<u>17,055</u>	<u>54,060</u>	<u>0.07</u>	<u>0.08</u>
Based on the Offer Price of HK\$0.35 per Share	<u>37,005</u>	<u>32,121</u>	<u>69,126</u>	<u>0.09</u>	<u>0.10</u>

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

1. The audited combined net tangible assets of our Group attributable to owners of our Company as at 31 December 2016 are based on audited combined net assets of our Group attributable to owners of our Company as at 31 December 2016 of approximately RMB37,421,000 with adjustment for intangible assets of approximately RMB416,000 as at 31 December 2016 as shown in the financial information section of the Accountants' Report set out in Appendix I to this prospectus.
2. The estimated net proceeds from the Public Offer are based on the Offer Price of HK\$0.20 and HK\$0.35 per Share respectively, after deduction of relevant estimated underwriting fees and other related fees and expenses to be borne by our Group (excluding approximately RMB8,084,000 listing-related expenses which have been accounted for prior to 31 December 2016).
3. The unaudited pro forma adjusted combined net tangible assets per Share is determined after the adjustments as described in Notes 1 and 2 above and on the basis that 800,000,000 Shares are issued and outstanding as set out in the section headed "Share Capital" in this prospectus.
4. The unaudited pro forma adjusted combined net tangible assets of our Group does not take into account the dividend of approximately HK\$7,000,000 declared by the Group in June 2017. The unaudited pro forma adjusted combined net tangible assets per Share would have been HK\$0.07 and HK\$0.09 per Share based on the Offer Price of HK\$0.20 and HK\$0.35 respectively, after taking into account the declaration of dividend in the sum of approximately HK\$7,000,000.
5. The unaudited pro forma adjusted combined net tangible assets per Share is converted into Hong Kong dollars at an exchange rate of RMB0.90 to HK\$1.00. No representation is made that the RMB amounts have been, could have been or may be converted into HK\$, or vice versa, at that rate.
6. The unaudited pro forma financial information presented above does not take account of any trading results or other transactions subsequent to the date of the financial statements included in the unaudited pro forma financial information (i.e. 31 December 2016).

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this prospectus.



國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

30 June 2017

The Directors
Alpha Era International Holdings Limited

Dear Sirs,

Introduction

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Alpha Era International Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted combined net tangible assets of the Group as at 31 December 2016, and related notes (the “Unaudited Pro Forma Financial Information”) as set out in Section A of Appendix II to the prospectus issued by the Company dated 30 June 2017 (the “Prospectus”). The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described in Section A of Appendix II to the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed public offer of the shares of the Company (the “Public Offer”) on the Group’s financial position as at 31 December 2016 as if the Public Offer had taken place at 31 December 2016. As part of this process, information about the Group’s financial position has been extracted by the directors from the Group’s financial information for the three years ended 31 December 2016, on which an accountants’ report has been published.

Directors’ Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 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 (“HKICPA”).

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

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 the 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 7.31(7) of the GEM Listing Rules, on the Unaudited 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 Unaudited 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 perform procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 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 Unaudited 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 Unaudited 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 Unaudited 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 Unaudited 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:

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited 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 Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited 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 Unaudited 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 Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Yours faithfully,
HLB Hodgson Impey Cheng Limited
Certified Public Accountants
Chan Ching Pang
Practising Certificate Number: P05746
Hong Kong

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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 3 November 2015 under the Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (the "**Memorandum**") and its Amended and Restated Articles of Association (the "**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 20 June 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 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

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorised and subject to any conditions prescribed by law.

(iv) Transfer of shares

Subject to the 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

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(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.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(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.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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 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

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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 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 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 Companies Law, to issue

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

- (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. 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 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.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(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.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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 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.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(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 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 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.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(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.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(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 and the assets available for distribution among the members of the Company are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* among such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution among the members as such are insufficient to repay the whole of the paid-up capital, such assets shall be distributed 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 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 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.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on 3 November 2015 subject to the 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 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 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 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.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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 Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the 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.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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 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).

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(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 16 December 2015.

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

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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 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.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(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

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

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 Companies Law, is available for inspection as referred to in the paragraph headed "Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection" in Appendix V to this prospectus. 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.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 3 November 2015. Our Company has established a principal place of business in Hong Kong at Units 1903-04, Tamson Plaza, 161 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong and has been registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 14 December 2015. CFN Lawyers in association with Broad & Bright has been appointed as the authorised representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company is incorporated in the Cayman Islands, it is subject to the Cayman Islands law and to its constitution, which comprises the Memorandum and the Articles. A summary of various provisions of its constitution and relevant aspects of the Companies Law is set out in Appendix III to this prospectus.

2. Changes in share capital of our Company

- (a) As at the date of incorporation, our Company had an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. 1 fully paid share was allotted and issued to the initial subscriber on 3 November 2015, and was subsequently transferred to Nonton (an investment holding company wholly owned by Mr. Lee) on the same day. On 3 November 2015, Nonton subscribed for 9,999 fully paid Shares, resulting in Nonton holding 10,000 fully paid Shares immediately after the above allotments and share transfers.
- (b) On 20 June 2017, our Shareholders resolved to increase the authorised share capital of our Company from HK\$380,000 to HK\$10,000,000 by the creation of an additional of 962,000,000 Shares, each ranking pari passu with our Shares then in issue in all respects.
- (c) Pursuant to the Reorganisation and as a consideration for the acquisition by the Company of the entire issued share capital of Silver Bliss from Nonton and Blink Wishes, on 20 June 2017, 507,746,000 and 172,244,000 Shares, all credited as fully paid, were allotted and issued to Nonton and Blink Wishes, respectively.
- (d) Immediately following completion of the Public Offer, and taking no account of any Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme, 800,000,000 Shares will be issued fully paid or credited as fully paid, and 200,000,000 Shares will remain unissued.
- (e) Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed “Written resolutions of our Shareholders passed on 20 June 2017” in this appendix and pursuant to the Share Option Scheme, our Company does not have any present intention to issue any of the authorised but unissued

share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

- (f) Save as disclosed in this prospectus, there has been no alteration in our Company's share capital since its incorporation.

3. Written resolutions of our Shareholders passed on 20 June 2017

On 20 June 2017, resolutions in writing were passed by our Shareholders pursuant to which, among other things:

- (a) our Company approved and adopted the Memorandum and the Articles, the terms of which are summarised in Appendix III to this prospectus;
- (b) the authorised share capital of our Company be increased from HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each to HK\$10,000,000 divided into 1,000,000,000 Shares of HK\$0.01 each by the creation of an additional 962,000,000 Shares of HK\$0.01 each, ranking pari passu with the existing Shares in all respects;
- (c) conditional on the Listing Department granting listing of, and permission to deal in, our Shares in issue and Shares to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme) and on the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case on or before the date falling 30 days after the date of the issue of this prospectus:
 - (i) the Public Offer was approved and our Directors were authorised to allot and issue the Offer Shares pursuant to the Public Offer to rank pari passu with the then existing Shares in all respects;
 - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed "Share Option Scheme" below in this appendix, were approved and adopted and our Directors were authorised, subject to the terms and conditions of the Share Option Scheme, to grant options to subscribe for Shares thereunder and to allot, issue and deal with our Shares pursuant to the exercise of subscription rights attaching to any options which may be granted under the Share Option Scheme and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme;
- (d) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue or an issue of Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme or any other share option scheme of our

Company or any Shares allotted and issued in lieu of the whole or part of a dividend on Shares or similar arrangement in accordance with the Articles or pursuant to a specific authority granted by our Shareholders in general meeting or pursuant to the Public Offer, Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such securities convertible into Shares, and to make or grant offers, agreements and options which might require the exercise of such power, with an aggregate nominal value not exceeding 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Public Offer but excluding or pursuant to the exercise of the options which may be granted under the Share Option Scheme, such mandate to remain in effect until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of our Company;
 - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
 - (iii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting; and
- (e) a general unconditional mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase on GEM or on any other stock exchange on which the securities of our 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 nominal value of the share capital of our Company in issue immediately following completion of the Public Offer or pursuant to the exercise of the options which may be granted under the Share Option Scheme, such mandate to remain in effect until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of our Company;
 - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held; or
 - (iii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting; and
- (f) the general unconditional mandate mentioned in sub-paragraph (d) above was extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in sub-paragraph (e) above, provided that such extended amount shall not exceed 10% of the aggregate

nominal value of the share capital of our Company in issue immediately following completion of the Public Offer or pursuant to the exercise of the options which maybe granted under the Share Option Scheme.

4. Corporate Reorganisation

In preparing for the Listing, the companies comprising our Group underwent the Reorganisation to rationalise the corporate structure of our Group and our Company became the holding company of our Group. Please refer to the paragraphs headed “History, Development and Reorganisation – Reorganisation” in this prospectus for further details.

5. Changes in share capital of subsidiaries

The subsidiaries of our Company are listed in the Accountants’ Report of our Company, the text of which is set out in Appendix I to this prospectus.

Save as disclosed in the section headed “History, Development and Reorganisation” in this prospectus, there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

6. Repurchase of our Shares by our Company

This section contains information required by the Stock Exchange to be included in this prospectus concerning the repurchase of our Shares by our Company.

(a) Provisions of the GEM Listing Rules

The GEM Listing Rules permit companies whose primary listing is on GEM to repurchase their securities on GEM subject to certain restrictions, a summary of which is set out below:

(i) Shareholders’ approval

The GEM Listing Rules provide that all proposed repurchases of shares, which must be fully paid up in the case of shares, by a company with a primary listing on GEM 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 the written resolutions passed by our Shareholders on 20 June 2017, a general unconditional mandate (the “**Repurchase Mandate**”) was granted to our Directors authorising them to exercise all powers of our Company to repurchase on GEM or on any other stock exchange on which the securities of our 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 nominal amount of the share capital of our Company in issue immediately following completion of the Public Offer but excluding any Shares which may be issued under the Share Option Scheme and the Repurchase Mandate shall remain in effect until whichever is the earliest of the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company

is required by the Articles or the Companies Law or any other applicable laws of the Cayman Islands to be held or the time when the Repurchase Mandate is revoked or varied by an ordinary resolution of our Shareholders in a general meeting.

(ii) Source of funds

Any repurchase by our Company must be funded out of funds legally available for the purpose in accordance with the Articles, the applicable laws of the Cayman Islands and the GEM Listing Rules. Our Company may not repurchase its own Shares on GEM 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.

Any repurchases by our Company may be made out of profits or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by the Articles and subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of our Company or out of our Company's share premium account before or at the time our Shares are repurchased or, if authorised by the Articles and subject to the Companies Law, out of capital.

(iii) Connected parties

The GEM Listing Rules prohibit our Company from knowingly repurchasing our Shares on GEM from a "core connected person" (as defined in the GEM Listing Rules), which includes a Director, chief executive or substantial shareholder of our Company or any of its subsidiaries or a close associate of any of them and a core connected person shall not knowingly sell Shares to our Company on GEM.

(b) Exercise of the Repurchase Mandate

On the basis of 800,000,000 Shares in issue immediately after completion of the Public Offer, our Directors would be authorised under the Repurchase Mandate to repurchase up to 80,000,000 Shares during the period in which the Repurchase Mandate remains in force. Any Shares repurchased pursuant to the Repurchase Mandate must be fully paid up.

(c) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and its Shareholders for our Directors to have a general authority from Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of our Company's net asset value and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

(d) Funding of repurchases

In repurchasing the Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles, the GEM Listing Rules and the applicable laws and regulations of the Cayman Islands.

Our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(e) General

None of our Directors or to the best of their knowledge, having made all reasonable enquiries, any of their close associates (as defined in the GEM Listing Rules) of any Director, has any present intention to sell any Shares to our Company if the Repurchase Mandate is exercised.

Our 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, the Articles and the applicable law and regulations from time to time in force in the Cayman Islands.

If, as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. In certain circumstances, a Shareholder or a group of Shareholders acting in concert (as defined in the Takeovers Code) depending on the level of increase of our Shareholders' interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase.

Save as disclosed above, our Directors are not aware of any consequences which may arise under the Takeovers Code as a consequence of any repurchase of Shares if made immediately after the listing of our Shares pursuant to the Repurchase Mandate. At present, so far as is known to our Directors, no Shareholder may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code in the event that our Directors exercise the power in full to repurchase our Shares pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the GEM Listing Rules). No core connected person (as defined in the GEM Listing Rules) has notified our Company that he/she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS**1. Summary of material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by our Group within the two years preceding the date of this prospectus and are or may be material in relation to the business of our Company taken as a whole:

- (a) an equity transfer agreement dated 6 March 2015 entered into between Swiftech Company Limited (中山新宏達日用製品有限公司) as transferor, and Zhongshan Huanleyuan Recreation Development Company Limited (中山歡樂源遊樂發展有限公司) as transferee, in relation to the sale and purchase of the entire equity interest in Sunnytech Company Limited (中山市新亮達日用品有限公司) for a total consideration of RMB1.00;
- (b) an equity transfer agreement dated 10 March 2015 entered into between Swiftech Company Limited (中山新宏達日用製品有限公司) as transferor, and Mr. Liu Junkai (劉軍凱) as transferee, in relation to the sale and purchase of 50% equity interest in Humoled Lighting Limited (中山市新宇科光電科技有限公司) for a total consideration of RMB1.00;
- (c) an equity transfer agreement dated 10 March 2015 entered into between Swiftech Company Limited (中山新宏達日用製品有限公司) as transferor, and Mr. Li Xilong (李希龍) as transferee, in relation to the sale and purchase of 50% equity interest in Humoled Lighting Limited (中山市新宇科光電科技有限公司) for a total consideration of RMB1.00;
- (d) an equity transfer agreement dated 30 June 2015 entered into between Ocean Union International Limited as transferor, and Swiftech International Limited as transferee, in relation to the sale and purchase of the entire equity interest in Swiftech Company Limited (中山新宏達日用製品有限公司) for a total consideration of HK\$30,000,000;
- (e) an agreement for the sale and purchase dated 4 February 2016 entered into between (i) Nonton Limited; (ii) Blink Wishes Limited; (iii) Silver Bliss Holdings Limited; and (iv) Mr. Lee King Sun in relation to the sale and purchase of 25.33% of the issued share capital of Silver Bliss Holdings Limited for a total consideration of HK\$7,600,000;
- (f) a share swap deed dated 20 June 2017 entered into between (i) Nonton Limited; (ii) Blink Wishes Limited; (iii) Alpha Era International Holdings Limited; (iv) Silver Bliss Holdings Limited; (v) Mr. Lee King Sun; and (vi) Mr. Lee Kin Kee in relation to the transfer of the entire issued share capital in Silver Bliss Holdings Limited;

















- (g) the Deed of Indemnity dated 20 June 2017 given by the Controlling Shareholders in favour of our Company (for itself and on behalf of its subsidiaries) containing indemnities referred to in the paragraph headed “Tax and other indemnities” in this appendix;
- (h) the Deed of Non-competition dated 20 June 2017 given by the Controlling Shareholders in favour of our Company (for itself and on behalf of its subsidiaries), details of which are set out in the paragraph headed “Non-competition undertakings” under the section headed “Relationship with Our Controlling Shareholders” in this prospectus; and
- (i) the Underwriting Agreement.

2. Intellectual property rights of our Group

(a) Trademarks

As at the Latest Practicable Date, our Group has registered the following trademarks that are considered to be or may be material to our business and with which we conduct the majority of our business are:






No.	Trademark	Country or place of registrations	Registered owner	Class	Registration number	Duration
1.		PRC ⁽¹⁾	Swiftech Company	28	4946653	21 April 2011 – 20 April 2021
2.		PRC	Swiftech Company	28	1771430	21 May 2012 – 20 May 2022
3.		PRC	Swiftech Company	22	14545078	28 June 2015 – 27 June 2025
4.		PRC	Swiftech Company	11	9935730	7 May 2013 – 6 May 2023
5.		PRC	Swiftech Company	13	9935704	7 May 2013 – 6 May 2023
6.		PRC	Swiftech Company	28	9955984	7 January 2013 – 6 January 2023
7.		United Arab Emirates ⁽²⁾	Swiftech Company	28	103945	24 July 2008 – 24 July 2018
8.		USA ⁽³⁾	Swiftech Company	28	3460971	8 July 2008 – 8 July 2018

No.	Trademark	Country or place of registrations	Registered owner	Class	Registration number	Duration
9.		Hong Kong	Swiftech International	22, 28	303562425	13 October 2015 – 12 October 2025
10.		PRC	Swiftech Company	28	5888060	28 January 2010 – 27 January 2020
11.		PRC	Swiftech Company	41	5888061	21 April 2010 – 20 April 2020
12.		PRC	Swiftech Company	28	4177663	21 February 2008 – 20 February 2018
13.		PRC	Swiftech Company	28	5713076	21 March 2010 – 20 March 2020
14.		PRC	Swiftech Company	13	11972614	14 June 2014 – 13 June 2024
15.		PRC	Swiftech Company	18	11972664	14 June 2014 – 13 June 2024
16.		PRC	Swiftech Company	22	11972719	14 August 2015 – 13 August 2025
17.		PRC	Swiftech Company	13	13212025	28 January 2015 – 27 January 2025
18.		PRC	Swiftech Company	18	13212198	21 February 2015 – 20 February 2025
19.		PRC	Swiftech Company	20	13212071	28 February 2015 – 27 February 2025
20.		PRC	Swiftech Company	22	13212127	28 October 2015 – 27 October 2025
21.		Canada	Swiftech Company	N/A	1526329	8 April 2013 – 8 April 2028
22.		U.S.	Swiftech Company	28	3180441	5 December 2016 – 5 December 2026
23.		Canada	Swiftech Company	N/A	1302246	26 March 2008 – 26 March 2023
24.		South Africa	Swiftech Company	28	2008/14333	24 June 2008 – 24 June 2018

Notes:

- Swiftech Company has also registered  in the US, Canada and Russia.
- Swiftech Company has also registered  in Kuwait and New Zealand.
- Swiftech Company has also registered  in Mexico, Canada and New Zealand.

As at the Latest Practicable Date, our Group has registered the following trademarks under the Madrid Agreement and Protocol concerning the International Registration of Marks which we believe are material to our business:

Trademark	Registered Owner	Class	International Registration Number	Registration Date	Expiry Date
	Swiftech Company	22	1232359	13 October 2014	13 October 2024
	Swiftech Company	28	897075	26 April 2006	26 April 2026
	Swiftech Company	28, 41	1096036	8 August 2011	8 August 2021
	Swiftech Company	28	874515	19 September 2015	19 September 2025
	Swiftech Company	28, 41	965711	24 March 2008	24 March 2018

(b) Copyrights

As at the Latest Practicable Date, our Group has been granted to use 86 copyrights in the PRC.

(c) Patents

As at the Latest Practicable Date, our Group has 89 patents registered in the PRC and 2 patents registered in the EU.

(d) Domain names

As at the Latest Practicable Date, our Group has registered the following domain names:

Domain name	Registered owner	Duration
www.alpha-era.co	Swiftech Company	12 October 2015 – 11 October 2017
www.swiftech.cn	Swiftech Company	28 May 2005 – 28 May 2018
www.happyhoppykids.com	Swiftech Company	21 November 2002 – 21 November 2022
www.mooseoutdoors.net	Swiftech Company	6 November 2016 – 6 November 2018

(e) Legal proceedings

During the Track Record Period, we were involved in three civil litigations in the PRC involving intellectual properties disputes and a civil litigation in Hong Kong, which in each case our Group is the claimant in these civil litigations. Details of the litigation proceedings regarding infringement of our intellectual property rights are set out in the section headed “Business – Legal proceedings and compliance” in this prospectus.

C. INFORMATION ABOUT THE PRC SUBSIDIARIES OF OUR GROUP

(i) Name	:	Swiftech Company Limited (中山新宏達日用製品有限公司)
Date of establishment	:	5 June 2003
Corporate nature	:	Limited liability company (wholly foreign owned enterprise)
Attributable interest of our Company	:	100%
Total registered capital and paid-up registered capital (as at Latest Practicable Date)	:	HK\$28,000,000
Term	:	From 5 June 2003 to 4 June 2025
Scope of business	:	Manufacturer of inflatable playgrounds and related accessories
Legal representative	:	Mr. Xiao
(ii) Name	:	Zhongshan Runhe Macromolecular Materials Manufacture Limited (中山市潤和高分子材料製造有限公司)
Date of establishment	:	22 June 2009
Corporate nature	:	Limited liability company
Attributable interest of our Company	:	100%
Total registered capital and paid-up registered capital (as at Latest Practicable Date)	:	RMB7,000,000
Term	:	From 22 June 2009 to 10 June 2020
Scope of business	:	Manufacturing of PVC coating, PVC laminated oxford and plastic products
Legal representative	:	Mr. Zhou Hongxiang

D. FURTHER INFORMATION ABOUT SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND EXPERTS

1. Disclosure of interests

(a) Interests of Directors and chief executive in Shares, underlying Shares and debentures of our Company and its associated corporations

Immediately following the completion of the Public Offer or upon the exercise of any options which may be granted under the Share Option Scheme, the interests and short positions of our Directors or chief executive of our Company in our Shares, underlying Shares and debentures of our Company or any of the associated corporations (within the meaning of Part XV of the SFO) which, once our Shares are listed on the GEM, will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by our Directors, to be notified to our Company and the Stock Exchange, will be as follows:

Name of Director/ Chief Executive	Capacity/Nature of interest	Number of underlying Shares (Note 1)	Percentage of shareholding
Mr. Kevin Lee	Interested in a controlled corporation	172,244,000	25.33%

Notes:

(1) All interests stated are long positions.

(b) *Interests of substantial and other Shareholders in our Shares and underlying Shares*

So far as is known to our Directors and taking no account of any Shares which may be taken up under the Public Offer, or pursuant to options which may be granted under the Share Option Scheme, the following persons (not being a Director or chief executive of our Company) will, immediately following the completion of the Public Offer, have interests or short positions in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who are, 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 general meetings of any other member of our Group:

Name	Capacity/Nature of interest	Number of underlying Shares (Note 1)	Percentage of shareholding
Nonton	Beneficial Owner	427,756,000	53.5%
Mr. Lee (Note 2)	Interested in a controlled corporation	427,756,000	53.5%
Ms. Chak Lai Hung Theresa (“ Ms. Chak ”) (Note 3)	Interested of Spouse	427,756,000	53.5%
Blink Wishes	Beneficial Owner	172,244,000	21.5%
Mr. Kevin Lee (Note 4)	Interested in a controlled corporation	172,244,000	21.5%
Ms. Law Siu Ling (“ Ms. Law ”) (Note 5)	Interested of Spouse	172,244,000	21.5%

Notes:

- (1) All interests stated are long positions.
- (2) Mr. Lee beneficially owns the entire issued share capital of Nonton. Therefore, Mr. Lee is deemed, or taken to be, interested in all the Shares held by Nonton for the purpose of the SFO. Mr. Lee is the sole director of Nonton.
- (3) Ms. Chak is the spouse of Mr. Lee. Under the SFO, Ms. Chak is deemed to be interested in the same number of Shares in which Mr. Lee is interested.
- (4) Mr. Kevin Lee beneficially owns the entire issued share capital of Blink Wishes. Therefore, Mr. Kevin Lee is deemed, or taken to be, interested in all the Shares held by Blink Wishes for the purpose of the SFO. Mr. Kevin Lee is the sole director of Blink Wishes.

- (5) Ms. Law is the spouse of Mr. Kevin Lee. Under the SFO, Ms. Law is deemed to be interested in the same number of Shares in which Mr. Kevin Lee is interested.

2. Particulars of service contracts

Each of our Directors has entered into a service contract or an appointment letter (as the case may be) with our Company for an initial fixed term of three years commencing on the Listing Date which may only be terminated in accordance with the provisions of the service contract or the appointment letter (as the case may be) or by (i) our Company giving to any Director not less than three months' prior notice in writing or (ii) by any Director giving to our Company not less than three month's prior notice in writing.

3. Remuneration of Directors

- (a) The aggregate remuneration paid by our Group to our Directors in respect of the three years ended 31 December 2014, 2015 and 2016 were approximately RMB556,000 and RMB636,000 and RMB822,000 respectively.
- (b) Under the arrangements currently in force, the aggregate emoluments (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to our Directors for the year ending 31 December 2017 will be approximately RMB1,053,000.
- (c) Under the arrangements currently proposed, conditional upon the Listing, the basic annual remuneration (excluding payment pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to each of our Directors will be as follows:

HK\$

Executive Directors

Mr. Huang Xiaodong	HK\$420,000
Mr. Xiao Jiansheng	HK\$400,000

Non-executive Director

Mr. Lee Kin Kee	HK\$240,000
-----------------	-------------

Independent non-executive Directors

Mr. Mao Guohua	HK\$60,000
Mr. Gan Mingqing	HK\$60,000
Mr. Chu Wai Wa Fangus	HK\$240,000

- (d) Each of our Directors has entered into a service contract with our Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice served by either party on the other, and is subject to termination provisions therein and provisions on retirement by rotation of Directors as set out in the Memorandum and the Articles.

4. Agency fee or commission received

Save as disclosed in the section headed "Underwriting – Underwriting arrangements and expenses" of this prospectus, none of our Directors or the experts named in the paragraph headed "Consents of experts" in this Appendix had received any agency fee or commissions from our Group within the two years preceding the date of this prospectus.

5. Related party transactions

Details of the related party transactions are set out under Note 31 to the Accountants' Report of our Company set out in Appendix I to this prospectus.

6. Disclaimers

Save as disclosed in this prospectus:

- (a) taking no account of any Shares which may be issued upon the exercise of options which may be granted under the Share Option Scheme or repurchased by our Company pursuant to the mandates as referred to in the paragraph headed "Further information about our Company" in this appendix, and taking no account of Shares which may be taken up under the Public Offer, our Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately following the completion of the Public Offer, have an interest or short position in our Shares or underlying Shares which will fall to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 10% or more of the nominal value or any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group;
- (b) none of our Directors or chief executive of our Company has any interest or short position in our Shares, underlying Shares or debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange under 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 will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by our Directors, to be notified to our Company and the Stock Exchange, in each case once our Shares are listed on the GEM;

- (c) none of our Directors or the experts named in the paragraph headed “Qualifications of experts” in this appendix is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (d) none of our Directors or the experts named in the paragraph headed “Qualifications of experts” in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (e) none of our Directors or the experts named in the paragraph headed “Qualifications of experts” in this appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;
- (f) so far as is known to our Directors, none of our Directors, their respective associates (as defined under the GEM Listing Rules) or Shareholders who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group;
- (g) none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)); and
- (h) no remuneration or other benefits in kind have been paid by any member of our Group to any Director since the date of incorporation of our Company, nor are any remuneration or benefits in kind payable by any member of our Group to any Director in respect of the current financial year under any arrangement in force as at the Latest Practicable Date.

E. SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme on 20 June 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) Definitions

For the purpose of this section, the following expressions have the meanings set out below unless the context requires otherwise:

“Adoption Date”	20 June 2017, the date on which the Share Option Scheme is conditionally adopted by our Shareholders by way of written resolutions
“Board”	the board of Directors or a duly authorised committee of the board of Directors
“Group”	our Company and any entity in which our Company, directly or indirectly, holds any equity interest
“Scheme Period”	the period commencing on the Adoption Date and expiring at the close of business on the Business Day immediately preceding the tenth anniversary thereof

(b) Summary of terms

The following is a summary of the principal terms of the rules of the Share Option Scheme conditionally adopted by the written resolutions of our Shareholders passed on 20 June 2017:

(i) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to employees (fulltime and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners and services providers of our Group and to promote the success of the business of our Group.

(ii) Who may join and basis of eligibility

The Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, consultant or adviser of our Group, or any substantial shareholder of our Group, or any distributor,

contractor, supplier, agent, customer, business partner or services provider of our Group, options to subscribe at a price calculated in accordance with paragraph (iii) below for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme. The basis of eligibility of any participant to the grant of any option shall be determined by our Board (or as the case may be, our independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of our Group.

(iii) Price of Shares

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of: (i) the closing price of our Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a Business Day; (ii) the average of the closing prices of our Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option, provided always that for the purpose of calculating the subscription price, where our Company has been listed on the Stock Exchange for less than five Business Days, the new issue price shall be used as the closing price for any Business Day fall within the period before listing.

(iv) Grant of options and acceptance of offers

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to our Company on acceptance of the offer for the grant of an option is HK\$1.

(v) Maximum number of Shares

- (aa) subject to sub-paragraph (bb) and (cc) below, the maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company as from the Adoption Date (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) must not in aggregate exceed 10% of all our Shares in issue as at the Listing Date. Therefore, it is expected that our Company may grant options in respect of up to 80,000,000 Shares (or such numbers of Shares as shall result from a sub-division or a consolidation of such 80,000,000 Shares from time to time) to the participants under the Share Option Scheme.

- (bb) The 10% limit as mentioned above may be refreshed at any time by obtaining approval of our Shareholders in general meeting provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company must not exceed 10% of our Shares in issue as at the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and any other share option schemes of our Company (including those outstanding, cancelled or lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) will not be counted for the purpose of calculating the refreshed 10% limit. A circular must be sent to our Shareholders containing the information as required under the GEM Listing Rules in this regard.
- (cc) our Company may seek separate approval of our Shareholders in general meeting for granting options beyond the 10% limit provided the options in excess of the 10% limit are granted only to grantees specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to our Shareholders containing a generic description of such grantees, the number and terms of such options to be granted and the purpose of granting options to them with an explanation as to how the terms of the options will serve such purpose, such other information required under the GEM Listing Rules.
- (dd) The aggregate 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 our Company must not exceed 30% of our Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes of our Company if this will result in such 30% limit being exceeded.

(vi) Maximum entitlement of each participant

The total number of Shares issued and to be issued upon exercise of options granted to any participant (including both exercised and outstanding options) under the Share Option Scheme, in any 12-month period up to the date of grant shall not exceed 1% of our Shares in issue. Any further grant of options in excess of such limit must be separately approved by Shareholders in general meeting with such grantee and his associates abstaining from voting. In such event, our Company must send a circular to our Shareholders containing the identity of the grantee, the number and terms of the options to be granted (and options previously granted to such grantee), and all other information required under the GEM Listing Rules. The number and terms (including the subscription price) of the options to be granted must be fixed before the approval of our Shareholders and the date of our Board meeting proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

(vii) Grant of options to certain connected persons

- (aa) Any grant of an option to a Director, chief executive or Substantial Shareholder (or any of their respective associates) must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the option).
- (bb) Where any grant of options to a Substantial Shareholder or an independent non-executive Director (or any of their respective associates) will result in the total number of Shares issued and to be granted to such person under the Share Option Scheme and any other share option schemes of our Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant:
 - (i) representing in aggregate over 0.1% of our Shares in issue; and
 - (ii) having an aggregate value, based on the closing price of our Shares at the date of each grant, in excess of HK\$5 million, such further grant of options is required to be approved by Shareholders at a general meeting of our Company, with voting to be taken by way of poll. Our Company shall send a circular to our Shareholders containing all information as required under the GEM Listing Rules in this regard. All connected persons of our Company shall abstain from voting (except where any connected person intends to vote against the proposed grant). Any change in the terms of an option granted to a Substantial Shareholder or an independent non-executive Director or any of their respective associates is also required to be approved by Shareholders in the aforesaid manner.

(viii) Restrictions on the times of grant of options

- (aa) An offer for the grant of options may not be made after any inside information (as defined in the SFO) has come to the knowledge of our Company until such inside information has been announced pursuant to the requirements of the GEM Listing Rules and the SFO. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:
 - (i) the date of our Board meeting (such date to first be notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or other interim period (whether or not required under the GEM Listing Rules); and

- (ii) the deadline for our Company to publish an announcement of the results for any year, half-year or quarterly under the GEM Listing Rules, or other interim period (whether or not required under the GEM Listing Rules).
- (bb) Further to the restrictions in paragraph (aa) above, no option may be granted to a Director on any day on which financial results of our Company are published and:
 - (i) during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
 - (ii) during the period of 30 days immediately preceding the publication date of the quarterly results and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

(ix) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as our Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

(x) Performance targets

Save as determined by our 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.

(xi) Ranking of Shares

Our Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends or other distributions paid or made after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be on or before the date of allotment, save that our Shares allotted upon the exercise of any option shall not carry any voting rights until the name of the grantee has been duly entered on the register of members of our Company as the holder thereof.

(xii) Rights are personal to grantee

An option shall not be transferable or assignable and shall be personal to the grantee of the option.

(xiii) Rights on cessation of employment by death

In the event of the death of the grantee (provided that none of the events which would be a ground for termination of employment referred to in (xiv) below arises within a period of 3 years prior to the death, in the case the grantee is an employee at the date of grant), the legal personal representative(s) of the grantee may exercise the option up to the grantee's entitlement (to the extent which has become exercisable and not already exercised) within a period of 12 months following his death provided that where any of the events referred to in (xvii), (xviii) and (xix) occurs prior to his death or within such period of six months following his death, then his personal representative(s) may so exercise the option within such of the various periods respectively set out therein.

(xiv) Rights on cessation of employment by dismissal

In the event that the grantee is an employee of our Group at the date of grant and he subsequently ceases to be an employee of our Group on any one or more of the grounds that he has been guilty of serious misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by our Board) on any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group, his option shall lapse automatically (to the extent not already exercised) on the date of cessation of his employment with our Group.

(xv) Rights on cessation of employment for other reasons

In the event that the grantee is an employee of our Group at the date of grant and he subsequently ceases to be an employee of our Group for any reason other than his death or the termination of his employment on one or more of the grounds specified in (xiv) above, the option (to the extent not already exercised) shall lapse on the expiry of 3 months after the date of cessation of such employment (which date will be the last actual working day with our Company or the relevant member of our Group whether salary is paid in lieu of notice or not).

(xvi) Effects of alterations to share capital

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, consolidation, subdivision or reduction of the share capital of our Company (other than an issue of Shares as consideration in respect of a

transaction to which any member of our Group is a party), such corresponding adjustments (if any) shall be made in the number of Shares subject to the option so far as unexercised; and/or the subscription prices, as the auditors of or independent financial adviser to our Company shall certify or confirm in writing (as the case may be) to the Board to be in their opinion fair and reasonable in compliance with the relevant provisions of the GEM Listing Rules, or any guideline or supplemental guideline issued by the Stock Exchange from time to time (no such certification is required in case of adjustment made on a capitalisation issue), provided that any alteration shall give a grantee the same proportion of the issued share capital of our Company as that to which he was previously entitled, but no adjustment shall be made to the effect of which would be to enable a Share to be issued at less than its nominal value.

(xvii) Rights on a general offer

In the event of a general offer (whether by way of takeover offer or scheme of arrangement or otherwise in like manner) being made to all our Shareholders (or all such holders other than the offeror and, or any persons controlled by the offeror and, or any person acting in association or concert with the offeror) and such offer becoming or being declared unconditional, the grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise the option in full (to the extent not already exercised) at any time within one month after the date on which the offer becomes or is declared unconditional.

(xviii) Rights on winding-up

In the event a notice is given by our Company to the members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall on the same date as or soon after it despatches such notice to each member of our Company give notice thereof to all grantees and thereupon, each grantee (or, as the case may be, his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than 2 Business Days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

(xix) Rights on compromise or arrangement

In the event of a compromise or arrangement between our Company and our Shareholders or the creditors of our Company being proposed in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company or companies pursuant to the Companies Law, our Company shall give notice thereof to all the grantees (or, as the case may be, their legal personal representatives) on the same day as it gives notice of the meeting to our

Shareholders or the creditors to consider such a compromise or arrangement and the options (to the extent not already exercised) shall become exercisable in whole or in part on such date not later than two Business Days prior to the date of the general meeting directed to be convened by the court for the purposes of considering such compromise or arrangement (“**Suspension Date**”), by giving notice in writing to our Company accompanied by a remittance for the full amount of the aggregate subscription price for our Shares in respect of which the notice is given whereupon our Company shall as soon as practicable and, in any event, no later than 3:00 p.m. on the Business Day immediately prior to the date of the proposed general meeting, allot and issue the relevant Shares to the grantee credited as fully paid. With effect from the Suspension Date, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. Our Board shall endeavour to procure that our Shares issued as a result of the exercise of options hereunder shall for the purposes of such compromise or arrangement form part of the issued share capital of our Company on the effective date thereof and that such Shares shall in all respects be subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the court (whether upon the terms presented to the court or upon any other terms as may be approved by such court), the rights of grantees to exercise their respective options shall with effect from the date of the making of the order by the court be restored in full but only up to the extent not already exercised and shall thereupon become exercisable (but subject to the other terms of the Share Option Scheme) as if such compromise or arrangement had not been proposed by our Company and no claim shall lie against our Company or any of its officers for any loss or damage sustained by any grantee as a result of such proposal, unless any such loss or damage shall have been caused by the act, neglect, fraud or willful default on the part of our Company or any of its officers.

(xx) Lapse of options

An option shall lapse automatically on the earliest of:

- (aa) the expiry of the period referred to in paragraph (ix) above;
- (bb) the date on which our Board exercises our Company’s right to cancel, revoke or terminate the option on the ground that the grantee commits a breach of paragraph (xii);
- (cc) the expiry of the relevant period or the occurrence of the relevant event referred to in paragraphs (xiii), (xiv), (xv), (xvii), (xviii) or (xix) above;
- (dd) subject to paragraph (xviii) above, the date of the commencement of the winding-up of our Company;

- (ee) the occurrence of any act of bankruptcy, insolvency or entering into of any arrangements or compositions with his creditors generally by the grantee, or conviction of the grantee of any criminal offence involving his integrity or honesty;
- (ff) where the grantee is only a substantial shareholder of any member of our Group, the date on which the grantee ceases to be a substantial shareholder of such member of our Group; or
- (gg) subject to the compromise or arrangement as referred to in paragraph (xix) become effective, the date on which such compromise or arrangement becomes effective.

(xxi) Cancellation of options granted but not yet exercised

Any cancellation of options granted but not exercised may be effected on such terms as may be agreed with the relevant grantee, as our Board may in its absolute discretion sees fit and in manner that complies with all applicable legal requirements for such cancellation.

(xxii) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of ten years commencing on the date on the Adoption Date and shall expire at the close of business on the Business Day immediately preceding the tenth anniversary thereof unless terminated earlier by our Shareholders in general meeting.

(xxiii) Alteration to the Share Option Scheme

- (aa) The Share Option Scheme may be altered in any respect by resolution of our Board except that alterations of the provisions of the Share Option Scheme which alters to the advantage of the grantees of the options relating to matters governed by Rule 23.03 of the GEM Listing Rules shall not be made except with the prior approval of our Shareholders in general meeting.
- (bb) Any amendment to any terms of the Share Option Scheme which are of a material nature or any change to the terms of options granted, or any change to the authority of the Board in respect of alteration of the Share Option Scheme must be approved by Shareholders in general meeting except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (cc) Any amendment to any terms of the Share Option Scheme or the options granted shall comply with the relevant requirements of the GEM Listing Rules or any guidelines issued by the Stock Exchange from time to time.

(xxiv) Termination to the Share Option Scheme

Our Company by resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but options granted prior to such termination shall continue to be valid and exercisable in accordance with provisions of the Share Option Scheme.

(xxv) Conditions of the Share Option Scheme

The Share Option Scheme is conditional on the Listing Division of the Stock Exchange granting the listing of, and permission to deal in our Shares may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(c) Present status of the Share Option Scheme

Application has been made to the Listing Division for listing of and permission to deal in the Shares which fall to 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 under the Share Option Scheme.

F. OTHER INFORMATION**1. Tax and other indemnities**

Our Controlling Shareholders (collectively, the “**Indemnifiers**”) have, under a deed of indemnity referred to in paragraph (g) of the paragraph headed “B. Further Information about our Business – 1. Summary of material contracts” in this appendix, given joint and several indemnities to our Company for itself and as trustee for its subsidiaries in connection with, among other things, (a) any taxation falling on any member of our Group (i) in respect of or by reference to any income, profits or gains earned, accrued or received or deemed or alleged to have been earned, accrued or received on or before the date on which our Public Offer becomes unconditional; or (ii) in respect of or by reference to any transaction, act, omission or event entered into or occurring or deemed to enter into or occur on or before the date on which our Public Offer becomes unconditional; and (b) any claims, actions, demands, proceedings, judgements, losses, liabilities, damages, costs, charges, fees, expenses and fines of whatever nature suffered or incurred by any member of our Group as a result of or in connection with any litigation, arbitrations, claims (including counter-claims), complaints, demands and/or legal proceedings instituted by or against any member of our Group in relation to events occurred on or before the date on which our Public Offer becomes unconditional. Our Indemnifiers will, however, not be liable under the deed of indemnity to the extent that, among others:

- (a) specific provision, reserve or allowance has been made for such liability in the audited combined accounts of our Company for the Track Record Period; or

- (b) the taxation liability arises or is incurred as a result of a retrospective change in law or a retrospective increase in tax rates coming into force after the date on which our Public Offer becomes unconditional; or
- (c) the taxation liability arises in the ordinary course of business of any members of our Group after 31 December 2016 up to and including the date on which our Public Offer becomes unconditional.

Our Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands or the PRC is likely to fall on our Group.

2. Litigation

Our Directors confirmed that as at the Latest Practicable Date, save as otherwise disclosed in the prospectus, no member of our Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is pending or threatened by or against any member of our Group.

3. Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Stock Exchange for listing of and permission to deal in our Shares in issue and to be issued as mentioned herein and any Shares which may fall to be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme.

The Sponsor's fees are HK\$4,800,000 and are payable by the Company.

4. Preliminary expenses

The preliminary expenses relating to the incorporation of our Company are approximately HK\$38,000 and are payable by our Company.

5. Promoter

Our Company has no promoter for the purpose of the GEM Listing Rules.

6. Qualifications of experts

The following are the respective qualifications of the experts who have given their opinion or advice which is contained in this prospectus:

Name	Qualification
Frontpage Capital Limited	A licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities as defined under the SFO
HLB Hodgson Impey Cheng Limited	Certified Public Accountants
Appleby	Legal adviser to our Company as to Cayman Islands law
China Commercial Law Firm	Legal adviser to our Company as to PRC Law
Euromonitor International Limited	Market research consultant
Antonio & Clayton CPA Limited	Internal control consultant
MdME	Macau legal advisers

7. Consents of experts

Each of Frontpage Capital Limited, HLB Hodgson Impey Cheng Limited, Appleby, China Commercial Law Firm, Euromonitor International Limited, Antonio & Clayton CPA Limited and MdME has given and has not withdrawn its written consents to the issue of this prospectus, with the inclusion of its letters and/or reports and/or opinions and/or summary thereof (as the case may be) and/or reference to its name included herein in the form and context in which they respectively appear.

8. 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 (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

9. Registration procedures

The principal register of members of our Company in the Cayman Islands will be maintained by Estera Trust (Cayman) Limited and a branch register of members of our Company will be maintained by Tricor Investor Services Limited. Save where our Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for

registration with, and registered by, our Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable our Shares to be admitted into CCASS.

10. Material adverse change

Our Directors confirm, save for the matters disclosed in the section headed "Financial Information – Material adverse change" of this prospectus, that there has been no material adverse change in the financial or trading position or prospects of our Company or its subsidiaries since 31 December 2016 (being the date to which the latest audited financial statements of our Group were made up) and up to the date of the Prospectus.

11. Taxation of holders of Shares

(a) Hong Kong

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

Profits from dealings in Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) 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

Intending 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 dealing in the Shares. It is emphasised that none of our Company, our Directors or parties involved in the Public Offer accepts responsibility for any tax effect on, or liabilities of holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

12. Particulars of the Vendor:

The particulars of the Vendor are set out as follows:

Nonton

Name:	Nonton Limited
Description:	A company incorporated in the BVI with limited liability on 22 November 1994
Registered Address:	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands
Shareholder:	Wholly-owned by Mr. Lee King Sun
Number of Sale Shares to be sold:	80,000,000

13. Miscellaneous

- (a) Save as disclosed in this prospectus:
 - (i) Within the two years immediately preceding the date of this prospectus:
 - (aa) no share or loan capital of our Company or any of our 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;
 - (bb) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries and no commission has been paid or is payable in connection with the issue or sale of any capital of our Company or any of our subsidiaries;
 - (cc) no commission has been paid or payable (except to sub-underwriter) for subscribing or agreeing to subscribe, procuring or agreeing to procure subscriptions, for any Shares or shares of any of our subsidiaries;
 - (dd) no founder, management or deferred shares or any debentures of our Company have been issued or agreed to be issued; and
 - (ee) no share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option.
 - (ii) there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this prospectus;

- (iii) none of Frontpage Capital Limited, HLB Hodgson Impey Cheng Limited, China Commercial Law Firm, Euromonitor International Limited, Antonio & Clayton CPA Limited and Appleby:
 - (aa) is interested beneficially or non-beneficially in any securities in any member of our Group, including the Shares; or
 - (bb) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of our Group, including the Shares.
- (iv) our Company and its subsidiaries do not have any debt securities issued or outstanding, or authorised or otherwise created but unissued, or any term loans whether guaranteed or secured as at the Latest Practicable Date;
- (v) our Directors have been advised that, under Cayman Islands laws, the use of a Chinese name pre-approved by the Registrar of Companies in the Cayman Islands by our Company in conjunction with the English name does not contravene Cayman Islands laws;
- (vi) no company within our Group is presently listed on any stock exchange or traded on any trading system;
- (vii) our Group has no outstanding convertible debt securities; and
- (viii) the English text of this prospectus shall prevail over the Chinese text.

14. Bilingual prospectus

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).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of each of the **WHITE** and **YELLOW** Application Forms;
- (b) copies of the material contracts referred to in the section headed “Statutory and General Information – B. Further Information about the business of our Group – 1. Summary of material contracts” in Appendix IV to this prospectus;
- (c) the written consents referred to in the section headed “Statutory and General Information – F. Other Information – 7. Consents of experts” in Appendix IV to this prospectus; and
- (d) statement of particulars of the Vendor.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of CFN Lawyers in association with Broad & Bright at Room 4124, 41/F, Sun Hung Kai Centre, 30 Harbour Road, Wan Chai, 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 of Association and the Articles of Association;
- (b) the accountants’ report and prepared by HLB Hodgson Impey Cheng Limited, the text of which are set out in Appendix I and II to this prospectus;
- (c) the audited combined financial statements of the companies comprising our Group for the three financial years ended 31 December 2016 (or for the period from their respective dates of incorporation to 31 December 2016 where there is a shorter period);
- (d) the material contracts referred to the section headed “Statutory and General Information – B. Further Information about the business of our Group – 1. Summary of material contracts” in Appendix IV to this prospectus;
- (e) the service contracts of our Directors referred to in the section headed “Statutory and General Information – D. Further information about substantial shareholder, directors and experts – 3. Directors’ remuneration” in Appendix IV to this prospectus;
- (f) the rules of the Share Option Scheme;

- (g) the written consents referred to in the section headed “Statutory and General Information – F. Other Information – 7. Consents of experts” in Appendix IV to this prospectus;
- (h) the Companies Law;
- (i) the legal opinions issued by China Commercial Law Firm, the PRC Legal Advisers, in respect of certain aspects of our Group referred to in this prospectus;
- (j) the legal opinion issued by MdME, our legal adviser as to Macau law, in respect to the compliance of applicable laws and regulations in relation to business operations of SHD International in Macau;
- (k) the Euromonitor Report;
- (l) the internal control review report prepared by Antonio & Clayton CPA Limited;
- (m) the letter of advice prepared by Appleby summarising certain aspects of the Cayman Islands company law referred to in Appendix III to this prospectus; and
- (n) a statement of particulars of the Vendor.



合寶豐年
ALPHA ERA

ALPHA ERA INTERNATIONAL HOLDINGS LIMITED

合寶豐年控股有限公司