

BAO SHEN HOLDINGS LIMITED

寶申控股有限公司

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE: 8151

SHARE
OFFER

Sole Sponsor



信達國際
CINDA INTERNATIONAL

Joint Bookrunners



信達國際
CINDA INTERNATIONAL



聯合證券
Head & Shoulders Securities

IMPORTANT

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

Bao Shen Holdings Limited

寶申控股有限公司

(Incorporated in the Cayman Islands with limited liability)

LISTING ON THE GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF SHARE OFFER

Number of Offer Shares : 105,000,000 (subject to the Offer Size Adjustment Option)
Number of Public Offer Shares : 10,500,000 (subject to re-allocation)
Number of Placing Shares : 94,500,000 Shares (subject to re-allocation and the Offer Size Adjustment Option)
Offer Price : Not more than HK\$0.52 per Offer Share and not less than HK\$0.48 per Offer Share, plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value : HK\$0.01 per Share
Stock code : 8151

Sole Sponsor



Joint Bookrunners



Joint Lead Managers



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents in 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 — Documents Delivered to the Registrar of Companies in Hong Kong" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be fixed by an agreement between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on the Price Determination Date, which is expected to be on or around Thursday, 12 April 2018 (Hong Kong time) or such later date or time as agreed by our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters). The Offer Price is currently expected to be not more than HK\$0.52 per Offer Share and not less than HK\$0.48 per Offer Share. The Joint Bookrunners (for themselves and on behalf of the Underwriters) may, with the Company's consent, reduce the indicative Offer Price range stated in this prospectus at any time prior to the Price Determination Date. In such case, a notice of the reduction of the indicative Offer Price range will be published on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.baoshen.com.hk as soon as practicable but in any event not later than the morning of the last date for lodging applications under the Public Offer. If, for any reason, the Offer Price is not agreed between the Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on or before Friday, 20 April 2018, the Share Offer will not proceed and will lapse.

Pursuant to the provisions contained in the Public Offer Underwriting Agreement, the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) have the right in certain circumstances, in their absolute discretion, to terminate the obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement at any time prior to 8:00 a.m. (Hong Kong time) on the day on which dealings in the Shares first commence on the Stock Exchange. Further details of these provisions are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including but not limited to the risk factors set out in the section headed "Risk Factors" in this prospectus.

9 April 2018

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate small and mid-sized 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.

Given that the companies listed on GEM are generally small and mid-sized companies, 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 Stock Exchange's website at www.hkexnews.hk in order to obtain up-to-date information on GEM-listed issuers.

EXPECTED TIMETABLE

If there is any change in the following expected timetable of the Share Offer, we will issue an announcement in Hong Kong to be published on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.baoshen.com.hk.

2018 ^(Note 1)

Public Offer commences and WHITE, YELLOW and GREEN Application Forms available from	9:00 a.m. on Monday, 9 April 2018
Latest time to complete electronic applications under HK eIPO White Form service through the designated website www.hkeipo.hk ^(Note 2)	11:30 a.m. on Thursday, 12 April 2018
Application lists of the Public Offer open ^(Note 3)	11:45 a.m. on Thursday, 12 April 2018
Latest time for lodging WHITE and YELLOW Application Forms	12:00 noon on Thursday, 12 April 2018
Latest time for giving electronic application instructions to HKSCC ^(Note 4)	12:00 noon on Thursday, 12 April 2018
Latest time to complete payment of HK eIPO White Form applications by effecting internet banking transfer(s) or PPS payment transfers	12:00 noon on Thursday, 12 April 2018
Application lists of the Public Offer close ^(Note 3)	12:00 noon on Thursday, 12 April 2018
Expected Price Determination Date on or about ^(Note 5)	Thursday, 12 April 2018
Announcement of the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares to be published on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.baoshen.com.hk ^(Note 5) from	Friday, 20 April 2018

EXPECTED TIMETABLE

Results of allocations in the Public Offer (with successful applicants' identification document or business registration numbers, where appropriate) to be available through a variety of channels as described in "How to Apply for Public Offer Shares — 11. Publication of Results" fromFriday, 20 April 2018

Results of allocations in the Public Offer will be available at www.tricor.com.hk/ipo/result with a "search by ID Number" function fromFriday, 20 April 2018

Despatch/Collection 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 *(Notes 6 and 7)*Friday, 20 April 2018

Despatch/Collection of **HK eIPO White Form** e-Auto Refund payment instructions/refund cheques in respect of wholly or partially successful applications if the final Offer Price is less than the maximum Offer Price (if applicable) or wholly or partially unsuccessful applications pursuant to the Public Offer on or before *(Notes 7 and 8)*Friday, 20 April 2018

Dealings in the Shares on GEM expected to commence at 9:00 a.m. onMonday, 23 April 2018

Notes:

1. All times and dates refer to Hong Kong local time and date. If there is any change of the above expected timetable, a separate announcement will be made by our Company on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.baoshen.com.hk accordingly.
2. You will not be permitted to submit your application to the HK eIPO White Form Service Provider through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
3. 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 Thursday, 12 April 2018, the Application Lists will not open or close on that day. See "How to Apply for Public Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists" in this prospectus.
4. Applicants who apply for Public Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to "How to apply for Public Offer Shares — 5. Applying through HK eIPO White Form Service" in this prospectus.

EXPECTED TIMETABLE

5. The Offer Price is expected to be determined by agreement between us and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on or about Thursday, 12 April 2018. The Offer Price will be not more than HK\$0.52 and is currently expected to be not less than HK\$0.48, unless otherwise announced. Investors for the Public Offer Shares are required to pay, on subscription, the maximum Offer Price of HK\$0.52 per Offer Share together with brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to any refund if the Offer Price is lower than HK\$0.52 per Offer Share.

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares and/or the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last date for lodging applications under the Public Offer. In such case, a notice of such reduction of the number of Offer Shares and/or the indicative Offer Price range will be published on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.baoshen.com.hk as soon as practicable but in any event not later than the morning of the last date for lodging applications under the Public offer.

If, for any reason, the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company are unable to agree on the Offer Price on or before Friday, 20 April 2018, the Share Offer will not proceed and will lapse.

6. Share certificates will only become valid at 8:00 a.m. on Monday, 23 April 2018 provided that the Share Offer has become unconditional in all respects and none of the Underwriting Agreements has been terminated in accordance with their respective terms. Investors who trade Shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk. If the Share Offer does not become unconditional or the Underwriting Agreements are terminated in accordance with their respective terms, we will make an announcement as soon as possible.
7. Applicants who have applied on **WHITE** Application Forms or through the **HK eIPO White Form** service for 1,000,000 Shares or more and have provided all information required by the Application Form may collect their refund cheques if any and/or share certificates (where applicable) in person from our 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 Friday, 20 April 2018. Applicants being individuals who are eligible for personal collection must not authorise any other person to collect on their behalf. Applicants being corporations which are eligible for personal collection must attend by their authorised representatives bearing a letter of authorisation from their corporation stamped with the company's chop. Both individuals and authorised representatives of corporations (if applicable) must produce evidence of identity acceptable to the Hong Kong Branch Share Registrar at the time of collection.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 Public Offer Shares or more 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 share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to their or the designated CCASS Participant's 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 apply through the **HK eIPO White Form** service and paid their application monies through the single bank account may have refund monies (if any) despatched to their application payment bank account, in the form of e-Auto Refund payment instructions. Applicants who apply through the **HK eIPO White Form** service and paid their application monies through multiple bank accounts may have refund monies (if any) despatched to the address as specified in their application instructions to the **HK eIPO White Form** Service Provider, in the form of refund cheques, by ordinary post at their own risk.

EXPECTED TIMETABLE

Uncollected share certificates (if applicable) and/or refund cheques, will be despatched by ordinary post, at the applicants' own risk, to the addresses specified in the relevant applications. Further information is set out in "How to Apply for Public Offer Shares — 13. Refund of Application Monies" and "How to Apply for Public Offer Shares — 14. Despatch/collection of Share Certificates and Refund Monies" in this prospectus.

8. Refund cheques/e-Auto Refund payment instructions will be despatched in respect of wholly or partially unsuccessful application and in respect of successful applications if the final Offer Price is less than the maximum Offer Price of HK\$0.52 for each Offer Share.

The above expected timetable is a summary only. You should refer to "Structure and Conditions of the Share Offer" and "How to Apply for Public Offer Shares" in this prospectus for details of the structure of the Share Offer, including the conditions of the Share Offer, and the procedures for application for the Public Offer Shares.

CONTENTS

This prospectus is issued by our Company solely in connection with the Share Offer and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Offer Shares offered by this prospectus pursuant to the Share Offer. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer in any other jurisdiction or in any circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. 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 pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus to make your investment decision.

Our Company, the Sole Sponsor, the Joint Bookrunners, 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 or contained in this prospectus must not be relied on by you as having been authorised by our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, advisers, agents, representatives or affiliates of any of them or any other persons or parties involved in the Share Offer.

The contents of our Company's website at www.baoshen.com.hk, which is the official website of our Group, do not form part of this prospectus.

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SUMMARY AND HIGHLIGHTS

This summary aims to give you an overview of the information contained in this prospectus. Since it is a summary, it does not contain all the information that may be important to you. You should read the prospectus in its entirety 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. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW OF OUR BUSINESS

We are a plastic and steel component processor⁽¹⁾ for white goods which entails manufacturing of stamping components and processing of spray-painting and powder-coating peripheral components⁽²⁾. White goods are major household electrical appliances used for routine housekeeping tasks and used to be painted in white enamel finish. In this prospectus, white goods refer only to home washing machines and home refrigerators. Headquartered in Anhui province, which is the largest white goods manufacturing province in the PRC in terms of output volume in 2016, we operated two production bases, namely, the First Base and the Second Base, with an average annual manufacturing and processing output of approximately 5.8 million units of stamping components and 7.1 million units of peripheral components during the Track Record Period. Currently, we are engaged in spray-painting, powder-coating and baking enamel for steel components and spray-painting and UV-coating for plastic components and stamping of stamping components.

Our customers generally are component processors and manufacturers of prominent white goods brands, including Midea and TCL. We take pride in our long-term business relationships with our customers. Our Directors believe that was attributable, amongst others, to our high product quality, which is evidenced by our accreditation of ISO9001:2008. During the Track Record Period, we experienced significant growth that our revenue increased by approximately 42.2% from approximately RMB55.7 million in 2015 to approximately RMB79.2 million in 2016, and further increased by approximately 22.9% to RMB97.3 million in 2017.

The following table sets out a breakdown of our revenue by customer type during the Track Record Period:

	2015		Year ended 31 December 2016		2017	
	RMB'000	% of revenue	RMB'000	% of revenue	RMB'000	% of revenue
White goods manufacturers	23,169	41.6	38,947	49.2	57,634	59.2
Various independent component processors	26,825	48.2	36,166	45.7	36,462	37.5
Others	5,689	10.2	4,054	5.1	3,228	3.3
	<u>55,683</u>	<u>100.0</u>	<u>79,167</u>	<u>100.0</u>	<u>97,324</u>	<u>100.0</u>

Note:

- (1) According to the Ipsos Report and for the purpose of this prospectus, processor refers to the entity in which their business activities include manufacturing stamping components and/or processing peripheral components for white goods.
- (2) Pursuant to the production process for stamping components and peripheral components, for the purpose of this prospectus, we will use the term “manufacturing” and “processing” to describe the production of stamping components and peripheral components, respectively.

SUMMARY AND HIGHLIGHTS

The table below sets out a breakdown of our revenue, sales volume, average selling price, gross profit and gross profit margin by product during the Track Record Period:

	Year ended 31 December														
	2015			2016			2017								
	Revenue	Sales Volume	Average Selling Price ⁽¹⁾	Gross Profit	Gross Profit Margin	Revenue	Sales Volume	Average Selling Price ⁽¹⁾	Gross Profit	Gross Profit Margin					
	RMB'000	Million units	RMB	RMB'000	%	RMB'000	Million units	RMB	RMB'000	%					
		(approximately)		(approximately)			(approximately)		(approximately)						
Spray-painting peripheral components	33,090	2.5	13.1	11,173	33.8	37,778	3.1	12.1	12,867	34.1	44,380	3.7	12.1	18,314	41.3
Powder-coating peripheral components	10,389	2.2	4.8	1,765	17.0	21,822	3.6	6.1	3,325	15.2	35,997	3.8	9.4	2,027	5.6
Stamping components	12,204	2.5	4.9	3,540	29.0	19,567	3.1	6.4	6,930	35.4	16,947	3.6	4.7	2,585	15.3
	55,683	7.2		16,478		79,167	9.8		23,122		97,324	11.1		22,926	

Note:

- Average selling price is calculated by dividing the revenue by the sales volume of each of spray-painting peripheral components, powder-coating peripheral components and stamping components.

SUMMARY AND HIGHLIGHTS

The following table sets out the designed manufacturing or processing capacity, actual manufacturing or processing volume and utilisation rate of the First Base and the Second Base during the Track Record Period:

		Year ended 31 December								
		2015			2016			2017		
		Designed manufacturing or processing capacity ^{(1), (2), (3) & (4)}	Actual manufacturing or processing volume	Utilisation rate ⁽⁵⁾	Designed manufacturing or processing capacity ^{(1), (2), (3) & (4)}	Actual manufacturing or processing volume	Utilisation rate ⁽⁵⁾	Designed manufacturing or processing capacity ^{(1), (2), (3) & (4)}	Actual manufacturing or processing volume	Utilisation rate ⁽⁵⁾
		<i>(million units (approximately))</i>	<i>(million units (approximately))</i>	<i>(%)</i>	<i>(million units (approximately))</i>	<i>(million units (approximately))</i>	<i>(%)</i>	<i>(million units (approximately))</i>	<i>(million units (approximately))</i>	<i>(%)</i>
First Base	Powder-coating peripheral components	1.3	2.0	153.8 ⁽⁶⁾	5.4	3.8	70.4	5.4	4.0	74.1
Second Base	Stamping components	5.3	4.6	86.8	5.7	6.3	110.5 ⁽⁶⁾	6.5	6.4	98.5
	Spray-painting peripheral components	2.6	2.9	111.5 ⁽⁶⁾	3.2	3.4	106.3 ⁽⁶⁾	3.5	3.8	108.6 ⁽⁶⁾

Please refer to the paragraph headed “Business — Manufacturing and Processing — Manufacturing and Processing Facilities” in this prospectus for details of assumptions labelled in notes (1) to (6) in the above table.

OUR COMPETITIVE STRENGTHS

Our Directors believe that our competitive strengths include: (i) our established long-term business relationships with renowned white goods brands; (ii) our Group being the largest plastic and steel component processor for white goods in Anhui province in the PRC in terms of sales revenue in 2016 with extensive manufacturing and processing know-how and stringent quality control which ensures high quality products; (iii) our stable sources of quality raw materials; (iv) our production bases being strategically located; and (v) our experienced and dedicated management team with profound industry knowledge.

Please refer to the section headed “Business — Competitive Strengths” in this prospectus for further details.

OUR BUSINESS STRATEGIES

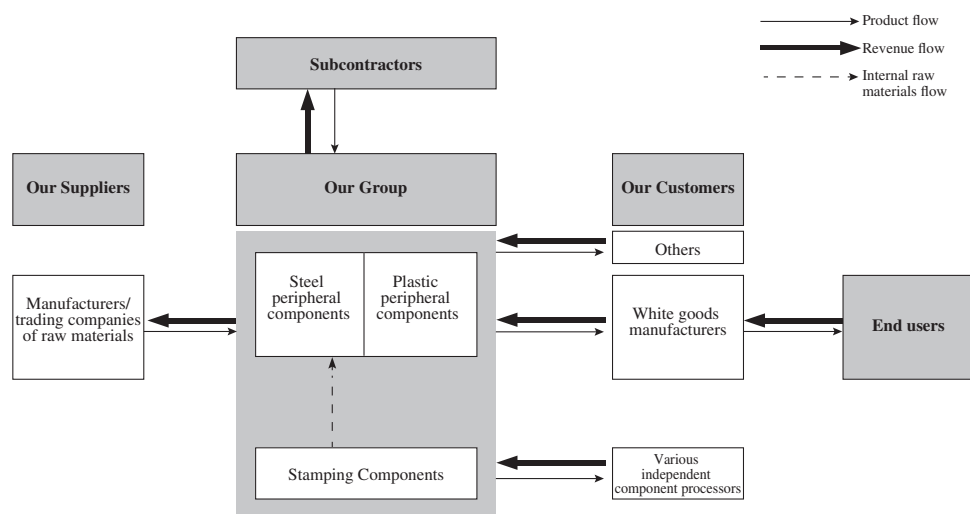
We intend to strengthen our position and increase our market share in the future by: (i) continuing to invest in the field of our products with higher profit margin; (ii) continuing to enrich and expand our product offerings; (iii) enhancing our market share; and (iv) upgrading our manufacturing and processing facilities to enhance competitiveness.

Please refer to the section headed “Business — Business Strategies” in this prospectus for further details.

SUMMARY AND HIGHLIGHTS

OUR BUSINESS MODEL

The following diagram illustrates our value chain and business model:



We primarily sell our stamping components and peripheral components to white goods manufacturers, who in turn use our components for manufacturing of white goods, and various independent component processors in the same industry in which we operate. During the Track Record Period, we also derived a small portion of our revenue from peripheral components processing for non-white goods such as motor vehicles, lighting and computers due to occasional purchase orders from Independent Third Parties. Going forward, we expect that we will leverage our competitive strengths and focus on production of stamping components and peripheral components processing for white goods. Save as occasional subcontracting as disclosed in the paragraph headed “Business — Subcontracting” in this prospectus, we manufactured all our stamping components and processed all our peripheral components at our two production bases.

OUR CUSTOMERS AND SUPPLIERS

As at the Latest Practicable Date, our five largest customers during the Track Record Period principally included white goods manufacturers of prominent white goods brands with a range of business relationship of more than two years to more than six years. The revenue attributed to our five largest customers amounted to approximately 65.6%, 67.8% and 73.4% of our total revenue for the years ended 31 December 2015, 2016 and 2017, respectively, and our largest customer accounted for approximately 18.6%, 17.2% and 33.8% of our total revenue, respectively, for the same periods. In particular, Group A was our third largest, largest and largest customer for the years ended 31 December 2015, 2016 and 2017, respectively. Please refer to the paragraph headed “Business — Relationship with our Largest Customer” in this prospectus for further details of our relationship with Group A.

The major raw materials used by our Group include steel, steel parts, plastic parts, oil paint and paint powder. We generally purchase raw materials in the PRC from suppliers on our qualified suppliers list. For the years ended 31 December 2015, 2016 and 2017, the total purchases from our five largest suppliers during the Track Record Period, who have a range of business relationship of less than one year to more than six years with us as at the Latest Practicable Date, accounted for approximately 47.2%, 55.8% and 62.6% of our total purchases, respectively, and the total purchase from our largest supplier accounted for approximately 12.2%, 14.2% and 19.3% of our total purchases, respectively, for the same periods.

During the Track Record Period, some of our major customers/suppliers, mostly consisted of white goods manufacturers or independent component processors, were also our suppliers/customers.

SUMMARY AND HIGHLIGHTS

Our Directors believe that it is not uncommon for white goods manufacturers to require component processors to manufacture and/or process stamping components and/or peripheral components with raw materials and/or semi-finished peripheral components supplied by themselves or their designated suppliers for quality and cost control purposes. In addition, independent component processors may purchase stamping or peripheral components from us when their production capacity or schedules fail to meet the orders of their customers. Please refer to the paragraph headed “Business — Entities Who Are both our Major Customers and Suppliers” in this prospectus for further details.

OUR PRICING POLICY

We adopt a cost-plus pricing policy and set prices for our stamping components and peripheral components taking into account various factors including but not limited to (i) the market supply and demand; (ii) our manufacturing or processing costs with reference to product specifications from our customers in terms of technical and quality requirements and capacity; and (iii) the targeted gross profit margin of our products. In addition, we also adjust our prices upon changes in key raw materials prices in accordance with the terms of the relevant sales agreement. For details, please refer to the paragraph headed “Business — Pricing Policy” in this prospectus.

OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the Share Offer and the Capitalisation Issue, Mr. Fan, through Wang Mao Investments, will hold approximately 53.25% of the issued share capital of our Company, without taking into account any Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option or any options that may be granted under the Share Option Scheme. Mr. Fan and Wang Mao Investments are therefore our Controlling Shareholders. Our Controlling Shareholders, apart from the business operated by members of our Group, do not hold or conduct any business which competes, or is likely to compete, either directly or indirectly, with the business of our Group. In order to avoid such competition, each of our Controlling Shareholders has entered into the Deed of Non-competition in favour of our Company. Please refer to the section headed “Relationship with Controlling Shareholders” in this prospectus for further details.

During the Track Record Period, we rented two factory buildings at First Base from Chuzhou Genxing, an associate of our executive Director and Controlling Shareholder, Mr. Fan. Upon Listing, such rental arrangement will continue and constitute exempted connected transactions under Chapter 20 of the GEM Listing Rules. For details, please refer to the section headed “Connected Transactions” in this prospectus.

PRE-IPO INVESTMENT

On 1 April 2016, Mr. Zhou, through Season Empire Group agreed to subscribe 2,875 Shares of our Company at the consideration of HK\$36.9 million, which was determined between the parties after arm’s length negotiation taking into account the potential growth of our Group and settled on 5 May 2016. Mr. Zhou was introduced by his father to Mr. Fan and subsequently decided to invest in the Group as he considered it has good business prospect after certain due diligence work, including discussion with our senior management, studying our manufacturing, processing and products, conducting researches on the prospect of our industry in the PRC. For details about Mr. Zhou, please refer to the paragraph headed “Directors and Senior Management — Directors — Executive Directors” of this prospectus. Immediately following the completion of the Share Offer and the Capitalisation Issue, the Shares held by Mr. Zhou through Season Empire Group will represent approximately 21.75% of the issued share capital of our Company, taking no account any Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option or any options that may be granted under the Share Option Scheme, and will not be considered as part of the public float. As at the Latest Practicable Date, approximately HK\$19.1 million (approximately RMB15.4 million) of the proceeds from the Pre-IPO Investment was used by the Group for general working capital purposes, payment

SUMMARY AND HIGHLIGHTS

of Listing expenses and payment of consideration to Mr. Fan and Gift Horizon for acquisition of Xiezhong Home Appliances as part of our Reorganisation, and the remaining sum is intended to be used as our general working capital. Please refer to the paragraph headed “History, Reorganisation and Group Structure — Pre-IPO Investment” in this prospectus for further details.

SUMMARY OF FINANCIAL INFORMATION

Extract of the consolidated statements of profit or loss and other comprehensive income

	For the year ended 31 December		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	55,683	79,167	97,324
Cost of sales	(39,205)	(56,045)	(74,398)
Gross profit	16,478	23,122	22,926
Profit for the year	<u>6,567</u>	<u>8,564</u>	<u>4,173</u>

Extract of consolidated statements of financial position

	As at 31 December		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets	32,646	32,757	33,040
Current assets	39,673	70,112	73,653
Current liabilities	37,844	39,075	58,734
Net current assets	<u>1,829</u>	<u>31,037</u>	<u>14,919</u>
Non-current liabilities	17,375	21,939	7,401
Net assets	<u><u>17,100</u></u>	<u><u>41,855</u></u>	<u><u>40,558</u></u>

For the year ended 31 December 2016, our Group’s current asset increased from RMB39.7 million to RMB70.1 million. Such increase was mainly attributable to increase in cash and bank balances from proceeds of Pre-IPO Investment from Season Empire Group, our Pre-IPO Investor, and the increase in our trade and other receivables due to the increase in sales.

For the year ended 31 December 2017, our Group’s current asset increased from RMB70.1 million to RMB73.7 million, which was mainly attributable to increase in our trade and other receivables due to the increase in sales.

Extract of consolidated statements of cash flows

	For the year ended 31 December		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Operating cash flow before changes in working capital, interest paid and income tax paid	14,181	17,835	12,561
Net cash generated from operating activities	<u>3,716</u>	<u>3,704</u>	<u>12,208</u>
Net cash generated from/(used in) investing activities	<u>11,571</u>	<u>(16,690)</u>	<u>(4,406)</u>
Net cash (used in)/generated from financing activities	<u>(15,113)</u>	<u>30,642</u>	<u>(10,349)</u>

SUMMARY AND HIGHLIGHTS

	For the year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Net increase/(decrease) in cash and cash equivalents	174	17,656	(2,547)
Cash and cash equivalents at the beginning of year	400	574	19,703
Effect of foreign exchange rate changes	—	1,473	(1,191)
Cash and cash equivalents at the end of year	<u>574</u>	<u>19,703</u>	<u>15,965</u>

Key financial ratio

	As at/for the year ended 31 December		
	2015	2016	2017
Gross profit margin (%)	29.6	29.2	23.6
Net profit margin (%)	11.8	10.8	4.3
Return on equity (%)	38.4	20.5	10.3
Return on total assets (%)	9.1	8.3	3.9
Interest coverage ratio (times)	3.8	5.5	2.8
Current ratio	1.0	1.8	1.3
Quick ratio	0.9	1.6	1.1
Gearing ratio	1.7	0.8	0.8
Net debt to equity ratio	1.7	0.4	0.4

The following is an analysis of material fluctuations in our financial performance during the Track Record Period. For details of the analysis, please refer to the section headed “Financial Information — Review of Historical Operating Results” in this prospectus.

Revenue

Our revenue for the year ended 31 December 2016 increased by approximately RMB23.5 million, or approximately 42.2%, as compared to the year ended 31 December 2015. It was mainly due to the increase in sales of (i) powder-coating peripheral components by approximately RMB11.4 million or approximately 110.0% primarily attributable to sales to TCL, Midea and Group A and (ii) stamping components by approximately RMB7.4 million or approximately 60.3% to existing customers.

Our revenue for the year ended 31 December 2017 increased by approximately RMB18.2 million, or approximately 22.9%, as compared to the year ended 31 December 2016. It was mainly due to increase in sales of (i) spray-painting peripheral components by approximately RMB6.6 million or approximately 17.5% primarily attributable to sales to Chuzhou Boai and (ii) powder-coating peripheral components by approximately RMB14.2 million or by approximately 65.0% due to increase in sales to Group A.

Gross profit and gross profit margin

Our gross profit increased by approximately RMB6.6 million, or approximately 40.3%, from approximately RMB16.5 million for the year ended 31 December 2015 to approximately RMB23.1 million for the year ended 31 December 2016. Our overall gross profit margin remained stable for both years. The increase in gross profit was primarily due to increase in our sales of stamping components and powder-coating peripheral components.

Our gross profit decreased slightly by approximately RMB0.2 million, or approximately 0.8%, from approximately RMB23.1 million for the year ended 31 December 2016 to approximately RMB22.9 million for the year ended 31 December 2017. Our overall gross profit margin decreased from approximately 29.2% for the year ended 31 December 2016 to approximately 23.6% for the year

SUMMARY AND HIGHLIGHTS

ended 31 December 2017. The decrease in gross profit margin was mainly due to increase in average purchase price of steel and the sales of certain powder-coating peripheral components for home refrigerators to Group A with relatively lower gross profit margin. Please refer to the paragraph headed “Business — Relationship with our Largest Customers” for further details.

Profit for the year

Our profit increased by approximately RMB2.0 million, or approximately 30.3%, from approximately RMB6.6 million for the year ended 31 December 2015 to approximately RMB8.6 million for the year ended 31 December 2016. The increase was primarily due to increase in gross profit by approximately RMB6.6 million which was offset by one-off Listing expenses of approximately RMB4.9 million recognised.

Our profit decreased by approximately RMB4.4 million, or approximately 51.3%, from approximately RMB8.6 million for the year ended 31 December 2016 to approximately RMB4.2 million for the year ended 31 December 2017. The decrease was mainly due to increase in Listing expenses of approximately RMB5.7 million which was partially offset by the increase in other income and gain of RMB1.7 million. For the year ended 31 December 2017, the Group recognised approximately RMB4.2 million government grants, which included a non-recurring listing incentive reward of RMB3.5 million granted by Nanqiao district of the People’s Government of Chuzhou City* (滁州市南譙區人民政府).

LISTING EXPENSES

Assuming the Offer Price of HK\$0.5 per Offer Share, being the mid-point of the indicative range of the Offer Price stated in this prospectus, the Listing expenses (including underwriting commission are estimated to be approximately RMB25.9 million (approximately HK\$32.0 million). Expenses in relation to the Listing are non-recurring in nature. Approximately RMB9.0 million (approximately HK\$11.1 million) is directly attributable to the issue of the Offer Shares and is expected to be accounted for as a deduction from equity upon Listing. Out of the remaining amount of approximately RMB16.9 million (approximately HK\$20.9 million), approximately RMB4.9 million (approximately HK\$6.1 million) and approximately RMB10.5 million (approximately HK\$13.0 million) have been recognised in our consolidated statements of profit or loss and other comprehensive income for the years ended 31 December 2016 and 31 December 2017, respectively, and approximately RMB1.5 million (approximately HK\$1.8 million) is expected to be recognised in our consolidated statements of profit and loss and other comprehensive income for the financial year ending 31 December 2018. The aforesaid Listing expenses are estimates for reference only and the actual amount to be recognised is subject to adjustments based on audit and any changes in variables and assumptions.

DIVIDEND

Save for the dividends of approximately RMB1.9 million and RMB4.3 million declared and paid to our then shareholders, respectively, for the years ended 31 December 2016 and 2017, we had not declared or paid any dividends during the Track Record Period and up to the Latest Practicable Date.

We do not currently have any dividend policy, predetermined dividend distribution ratio or intention to pay dividend, and any declaration of dividends is subject to the discretion of our Board and the approval of our Shareholders. For details of factors to be taken into account by our Directors in considering any dividend payment, please refer to the paragraph headed “Financial Information — Dividends”. Any future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors.

SUMMARY AND HIGHLIGHTS

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

Subsequent to the Track Record Period and up to the date of this prospectus, we continue to focus on our principal business in manufacturing of stamping components and processing of spray-painting and powder-coating peripheral components for white goods. According to our unaudited financial information for the two months ended 28 February 2018, our revenue has increased by approximately 4.1% to approximately RMB14.8 million as compared to the corresponding two months ended 28 February 2017. We expect that our financial performance and results of operations for the year ending 31 December 2018 will be adversely affected as a result of (i) the recognition of the non-recurring Listing expenses and (ii) the expected increase in the average purchase price of steel, which is one of our principal raw materials.

Save for the Listing expense as disclosed in the paragraph headed “Listing Expenses” in this section, our Group did not have any significant non-recurring items in our consolidated statements of profit or loss and other comprehensive income subsequent to the Track Record Period.

The unaudited financial information of our Group, including our Group’s revenue for the two months ended 28 February 2018, are extracted from our Group’s unaudited consolidated financial statements for the two months ended 28 February 2018 prepared by our Directors in accordance with the Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the HKICPA, which were reviewed by the Reporting Accountants in accordance with the Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA.

Our Directors confirm that, save as disclosed in the paragraph headed “Listing Expenses” in this section, up to the date of this prospectus, (i) there has been no material adverse change in the general economic and market conditions, legal and regulatory environment, and the industry in which we operate since 31 December 2017, being the date to which our latest audited financial statements were prepared, (ii) there has been no other material adverse change in the operating and financial positions or prospects of our Group since 31 December 2017, and (iii) no event has occurred since 31 December 2017 which would materially affect the information shown in the Accountants’ Report set forth in Appendix I to this prospectus.

KEY OFFER STATISTICS

	Based on the indicative Offer Price of HK\$0.48 per Offer Share	Based on the indicative Offer Price of HK\$0.52 per Offer Share
Market capitalisation (<i>Note 1</i>)	HK\$201.6 million	HK\$218.4 million
Pro forma adjusted net tangible asset value per Share (<i>Note 2</i>)	HK\$20.89 cents	HK\$21.81 cents

Notes:

- (1) The calculation of market capitalisation at the Offer Price is based on 420,000,000 Shares expected to be in issue immediately upon completion of the Share Offer and the Capitalisation Issue, but taking no account of any Shares which may be issued upon the exercise of the Offer Size Adjustment Option.
- (2) The unaudited pro forma adjusted net tangible asset value per share is determined after the adjustments as described in the section headed “Unaudited Pro Forma Financial Information” in Appendix II to this prospectus and on the basis that 420,000,000 Shares are issued and outstanding immediately upon completion of the Share Offer and Capitalisation, but taking no account of any Shares which may be issued upon the exercise of the Offer Size Adjustment Option.

SUMMARY AND HIGHLIGHTS

USE OF PROCEEDS

Based on the Offer Price of HK\$0.50 per Offer Share (being the mid-point of the indicative Offer Price range), we estimate that the net proceeds from the Share Offer (after deducting underwriting fees and estimated expenses in connection with the Share Offer and assuming that the Offer Size Adjustment Option is not exercised) will be approximately HK\$20.5 million. We intend to allocate the net proceeds from the Share Offer for the following purposes:

- approximately 22.1% of the net proceeds from the Share Offer or approximately HK\$4.5 million will be used for increasing our production capacity of stamping components by acquisition of two automatic roll production lines, seven stamping machines and the moulds required, and the related additional labour cost, out of which approximately HK\$2.3 million and HK\$2.2 million will be used by the six months ending 31 December 2018 and the six months ending 30 June 2019, respectively;
- approximately 22.7% of the net proceeds from the Share Offer or approximately HK\$4.7 million will be used for increasing our production capacity of powder-coating peripheral components by acquisition of one new processing line and the related additional labour cost by the six months ending 30 June 2019;
- approximately 14.9% of the net proceeds from the Share Offer or approximately HK\$3.1 million will be used for increasing our production capacity of spray-painting components by acquisition of one new processing line and the related additional labour cost by the six months ending 30 June 2019;
- approximately 36.2% of the net proceeds from the Share Offer or approximately HK\$7.4 million will be used by the six months ending 31 December 2018 for repayment of part of our bank loans; and
- approximately 4.1% of the net proceeds from the Share Offer or approximately HK\$0.8 million will be used for general working capital.

For further details on our future plans and use of proceeds, please refer to the section headed “Future Plans and Use of Proceeds” of this prospectus.

RISK FACTORS

Our business operations and the Share Offer involve certain risks and uncertainties. Some material risks include: (i) we rely heavily on our relationship with Group A; (ii) we generally rely on short term purchase orders from our major customers; and (iii) we depend on third party suppliers for our raw materials and we may not be able to secure a stable supply of raw materials with acceptable quality or on acceptable prices and terms which would adversely affect our operations and financial condition.

NON-COMPLIANCE INCIDENTS

Historically, our Group had entered into various loan financing arrangements that were not in compliance with certain PRC laws and regulations in relation to loan financing including General Rules of Loans (貸款通則). Our Directors confirmed that we have ceased to apply loans in violation of the applicable PRC laws and regulations since November 2015 and all principals and interests under the non-compliant loan financing arrangements were repaid by 30 June 2016. In addition, our Group failed to comply with certain PRC laws and regulations relating to social insurance, housing provident fund and environmental protection. Based on the view of our PRC Legal Adviser, our Directors are of the view that there would be no material adverse impact on our operation or financial position. For details, please refer to the paragraph headed “Business — Legal Compliance” in this prospectus.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:

“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s) or, where the context so requires, any of them
“Articles” or “Articles of Association”	the amended and restated articles of association of our Company (as amended from time to time) adopted on 31 March 2018, a summary of which is set forth in the section headed “Summary of the Constitution of our Company and Cayman Islands Company Law” in Appendix IV to this prospectus
“associate(s)”	has the same meaning ascribed to it under the GEM Listing Rules
“Audit Committee”	the audit committee of the Board
“Board” or “Board of Directors”	the board of Directors
“Business Day”	a day (other than a Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are generally open for normal banking business
“BVI”	British Virgin Islands
“Capitalisation Issue”	the allotment and issue of 314,990,000 Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company as referred to in the paragraph headed “A. Further Information about Our Company — 3. Written Resolutions of our Shareholders passed on 31 March 2018” in Appendix V to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant or a CCASS Custodian Participant or a CCASS Investor Participant

DEFINITIONS

“China” or “PRC”	the People’s Republic of China which shall, for the purpose of this prospectus, exclude Hong Kong, Macau and Taiwan
“Chuzhou Boai”	Chuzhou Boai Metal Products Co., Ltd.* (滁州市博愛金屬製品有限公司), one of our five largest customers during the Track Record Period
“Chuzhou Genxing”	Chuzhou Genxing Clothing Co., Ltd.* (滁州市互興服裝有限公司) (formerly known as Chuzhou Genxing Powder-Coating Co., Ltd.* (滁州市互興噴塑有限公司)), a company established in the PRC on 4 November 2005 with limited liability
“Companies Law”	the Companies Law (as revised) of the Cayman Islands as amended, supplemented or otherwise 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”	Bao Shen Holdings Limited (寶申控股有限公司), a company incorporated in the Cayman Islands on 14 December 2015 as an exempted company with limited liability
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“connected transaction(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Controlling Shareholders”	has the meaning ascribed thereto in the GEM Listing Rules and in the case of our Company, means Mr. Fan and Wang Mao Investments
“CSRC”	China Securities Regulatory Commission (中國証券監督管理委員會)
“Deed of Indemnity”	the deed of indemnity dated 31 March 2018 entered into by our Controlling Shareholders as indemnifiers in favour of our Company (for itself and as trustee for and on behalf of our subsidiaries) to provide certain indemnities, particulars of which are set out in the paragraphs headed “E. Other Information — 1. Tax and Other Indemnities” in Appendix V to this prospectus

DEFINITIONS

“Deed of Non-competition”	the deed of non-competition dated 31 March 2018 entered into by our Controlling Shareholders in favour of our Company (for itself and as trustee for and on behalf of our subsidiaries) regarding the non-competition undertakings as further detailed in the section headed “Relationship with Controlling Shareholders” in this prospectus
“Director(s)”	the director(s) of our Company
“Dragon Shiner Development”	Dragon Shiner Development Limited (龍昇發展有限公司), a company incorporated in Hong Kong on 24 July 2015 with limited liability and wholly-owned by Wealthy Square Developments
“EIT Law”	the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) passed by the National People’s Congress of the PRC on 16 March 2007 and taking effect on 1 January 2008, as amended, supplemented and otherwise modified from time to time
“EIT Rules”	the PRC Enterprise Income Tax Implementation Rules (中華人民共和國企業所得稅法實施條例) passed by the State Council on 28 November 2007 and taking effect on 1 January 2008, as amended, supplemented and otherwise modified from time to time
“First Base”	our factory located at Danzi Industrial Park* (擔子工業園), Chuzhou, Anhui Province, the PRC
“GEM”	the GEM operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM as amended, supplemented or otherwise modified from time to time
“GEM website”	the internet website at www.hkgem.com operated by the Stock Exchange for the purposes of GEM
“Gift Horizon”	Gift Horizon Limited (禮美有限公司), a company incorporated in Hong Kong on 22 November 2012 with limited liability and indirectly wholly-owned by Mr. Zhou
“GREEN Application Form(s)”	the application form(s) to be completed by HK eIPO White Form Service Provider

DEFINITIONS

“Group”, “our Group”, “we” or “us”	our Company and its subsidiaries or any of them at the relevant point of time (including where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the present subsidiaries of our Company and businesses operated by such subsidiaries)
“Group A”	Company A, a company incorporated in the PRC, and its subsidiaries, namely Company B, Company C and Company D, being one of our five largest customers during the Track Record Period
“Group B”	Company E and its indirect subsidiaries, namely, Nanjing Deshuo and Nanjing Quanfeng, being one of our five largest customers during the Track Record Period
“Hefei Hualing”	Hefei Hualing Limited* (合肥華凌股份有限公司), one of our five largest customers in the Track Record Period
“HK eIPO White Form”	the application for Public Offer Shares in the applicant’s own name by submitting applications online through the designated website of HK eIPO White Form at www.hkeipo.hk
“HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by our Company, as specified on the designated website at www.hkeipo.hk
“HKFRS”	Hong Kong Financial Reporting Standards
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“HK\$” or “HK dollars”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited, the branch share registrar of our Company in Hong Kong
“Hong Kong” or “HKSAR”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	person(s) or company(ies) and their respective ultimate beneficial owner(s), which, to the best of our Directors’ knowledge, information and belief, having made all reasonable enquiries, are independent of our Company or are not our connected persons

DEFINITIONS

“Ipsos”	Ipsos Limited, an independent market research and consulting company commissioned by us to prepare the Ipsos Report
“Ipsos Report”	an independent research report prepared by Ipsos which was commissioned by us in relation to the market study on the plastic and steel manufacturing and processing industry for white goods manufacturing in China for the purpose of the Listing
“Joint Bookrunners”	Cinda International Capital Limited, a licensed corporation under SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities and Head & Shoulders Securities Limited, a licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities
“Joint Lead Managers”	Cinda International Capital Limited, a licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities, Head & Shoulders Securities Limited, a licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities and Supreme China Securities Limited, a licensed corporation under the SFO to carry on type 1 (dealing in securities) regulated activities
“Latest Practicable Date”	31 March 2018, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Listing	the proposed listing of the Shares on GEM
“Listing Date”	the date on which dealings in the Shares first commence on GEM
“Listing Division”	the Listing Division of the Stock Exchange
“Macau”	the Macau Special Administrative Region of the PRC
“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of our Company (as amended from time to time) adopted on 31 March 2018, a summary of which is set forth in the section headed “Summary of the Constitution of our Company and Cayman Islands Company Law” in Appendix IV to this prospectus
“MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)

DEFINITIONS

“Mr. Fan”	Mr. Fan Baocheng (樊寶成先生), an executive Director, chief executive officer of our Company and one of our Controlling Shareholders
“Mr. Fan Baoyi”	Mr. Fan Baoyi (樊寶屹先生), one of the founders of Xiezhong Home Appliances and the brother of Mr. Fan
“Mr. Xu”	Mr. Xu Qiang (徐強先生), one of the founders of Xiezhong Home Appliances and the nephew of Mr. Fan
“Mr. Zhou”	Mr. Zhou Zhen Dong (周振鵬先生), an executive Director and one of our Substantial Shareholders
“Ms. Cao”	Ms. Cao Lele (曹樂樂女士), the spouse of Mr. Fan
“Ms. Fan Xiaohong”	Ms. Fan Xiaohong (樊曉紅女士), one of the founders of Xiezhong Home Appliances and the sister of Mr. Fan
“Nanjing Deshuo”	Nanjing Deshuo Industrial Co., Ltd* (南京德朔實業有限公司), a member of Group B
“Nanjing Quanfeng”	Nanjing Quanfeng Automobile Precision Technology Limited* (南京泉峰汽車精密技術股份有限公司), a member of Group B
“NDRC”	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Nomination Committee”	the nomination committee of the Board
“NPC”	National People’s Congress of the PRC (中華人民共和國全國人民代表大會)
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage fee of 1%, the SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005%) which is currently expected to be not more than HK\$0.52 and not less than HK\$0.48, to be agreed upon by the Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on the Price Determination Date
“Offer Shares”	the Public Offer Shares and the Placing Shares

DEFINITIONS

“Offer Size Adjustment Option”	the option granted by the Company to the Joint Bookrunners (for themselves and on behalf of the Placing Underwriter) under the Placing Underwriting Agreement to require the Company to issue up to an additional 15,750,000 Shares, representing up to 15% of the number of the Offer Shares initially available under the Share Offer at the Offer Price, details of which are set out in the section headed “Structure and Conditions of the Share Offer” in this prospectus
“PAS Appliance”	PAS Appliance Solution (Nanjing) Co., Ltd* (帕艾斯電子技術(南京)有限公司), one of our five largest customers in the Track Record Period
“Placing”	the conditional placing of the Placing Shares by the Placing Underwriters on behalf of our Company to institutional, professional and other investors at the Offer Price, on and subject to the Placing Underwriting Agreement, as further described in the section headed “Structure and Conditions of the Share Offer” in this prospectus
“Pre-IPO Investment”	the transaction contemplated under the subscription agreement dated 1 April 2016, which was entered into between Season Empire Group and our Company, as further described in the paragraph headed “History, Reorganisation and Group Structure — Pre-IPO Investment” of this prospectus
“Pre-IPO Investor”	Season Empire Group
“Placing Shares”	the 94,500,000 new Shares being offered by our Company for subscription pursuant to the Placing, subject to re-allocation and where relevant, with any additional Shares which may be issued pursuant to the Offer Size Adjustment Option
“Placing Underwriting Agreement”	the underwriting agreement dated 12 April 2018 relating to the Placing entered into by our Company, our Controlling Shareholders as warranting shareholders, our executive Directors as warranting directors, the Sole Sponsor, the Joint Bookrunners, the Placing Underwriters, Mr. Zhou and Season Empire Group on or about the Price Determination Date, as further described in the section headed “Underwriting” in this prospectus
“PRC Legal Adviser”	Beijing Dentons Law Offices, LLP (Shanghai), the legal adviser to our Company as to the PRC law
“Predecessor Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force from time to time before 3 March 2014

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“Price Determination Date”	the date, expected to be on or around Thursday, 12 April 2018, or such later as may be agreed by our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) but no later than Friday, 20 April 2018, being the date on which the Offer Price will be fixed for the purpose of the Share Offer
“Public Offer”	the conditional offer of the Public Offer Shares for subscription by the public in Hong Kong at the Offer Price on the terms and subject to the conditions stated in this prospectus and the related Application Forms details of which are described in the section headed “Structure and Conditions of the Share Offer” in this prospectus
“Public Offer Shares”	the 10,500,000 new Shares initially being offered by us for subscription at the Offer Price under the Public Offer, subject to re-allocation as described in the section headed “Structure and Conditions of the Share Offer” in this prospectus
“Public Offer Underwriters”	the underwriters for the Public Offer as named in the section headed “Underwriting — Public Offer Underwriters” in this prospectus
“Public Offer Underwriting Agreement”	the conditional underwriting agreement dated 6 April 2018 relating to the Public Offer entered into among our Company, our Controlling Shareholders as warranting shareholders, our executive Directors as warranting directors, the Sole Sponsor, the Joint Bookrunners, the Public Offer Underwriters, Mr. Zhou and Season Empire Group, as further described in the section headed “Underwriting — Underwriting Arrangements, Commissions and Expenses — Public Offer — Public Offer Underwriting Agreement” in this prospectus
“Remuneration Committee”	the remuneration committee of the Board
“Reorganisation”	the corporate reorganisation undertaken by the Group in preparation for the Listing, particulars of which are set out in the section headed “History, Reorganisation and Group Structure” in this prospectus
“RMB”	Renminbi, the lawful currency of the PRC
“SAFE”	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAT”	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)

DEFINITIONS

“SCNPC”	Standing Committee of the National People’s Congress of the PRC (中華人民共和國全國人大常委會)
“Season Empire Group”	Season Empire Group Limited, a company incorporated in the BVI on 7 July 2015 with limited liability and directly wholly owned by Mr. Zhou
“Second Base”	our factory located at No. 719 Shuangying Road* (雙迎大道719號), Chuzhou, Anhui Province, the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.01 each in the share capital of our Company
“Shareholder(s)”	holder(s) of the Share(s)
“Share Offer”	the Public Offer and the Placing
“Share Option Scheme”	the share option scheme conditionally approved and adopted by our Company on 31 March 2018, the principal terms of which are summarised in the section headed “Appendix V — Statutory and General Information — D. Share Option Scheme” in this prospectus
“Sole Sponsor”	Cinda International Capital Limited, a licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities
“State Council”	The State Council of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Companies Ordinance
“Substantial Shareholder(s)”	has the same meaning ascribed to it under the GEM Listing Rules
“Takeovers Code”	The Hong Kong Codes on Takeovers and Mergers as amended, supplemented or otherwise modified from time to time
“TCL Household”	TCL Household Electric Appliances (Hefei) Co., Ltd.* (TCL 家用電器(合肥)有限公司), one of our five largest customers during the Track Record Period
“Track Record Period”	the financial years ended 31 December 2015, 2016 and 2017

DEFINITIONS

“Underwriters”	the Public Offer Underwriters and the Placing Underwriters
“Underwriting Agreements”	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
“United States” or “U.S.”	the United States of America
“USD” or “US\$”	United States dollar(s), the lawful currency of the United States
“U.S. Securities Act”	the United States Securities Act of 1933, as amended
“Wang Mao Investments”	Wang Mao Investments Limited (環茂投資有限公司), a company incorporated in the BVI on 28 September 2015 with limited liability and directly wholly-owned by Mr. Fan
“Wealthy Square Developments”	Wealthy Square Developments Limited (裕方發展有限公司), a company incorporated in the BVI on 28 September 2015 with limited liability and directly wholly-owned by our Company upon completion of the Reorganisation
“ WHITE Application Form(s)”	the application form(s) for use by the public who require(s) the Public Offer Shares to be issued in the applicants’ own name
“Xiezhong Home Appliances”	Chuzhou Xiezhong Home Appliance Accessories Co., Ltd.* (滁州市協眾家電配件有限公司), a company established in the PRC on 16 November 2010 with limited liability and indirectly wholly-owned by our Company upon completion of the Reorganisation
“ YELLOW Application Form(s)”	the application form(s) to be completed by the public who require(s) the Public Offer Shares to be deposited directly into CCASS
“%”	per cent

In this prospectus, unless otherwise stated, certain amounts denominated in Renminbi have been translated into HK dollars and vice versa at an exchange rate of RMB0.8082 = HK\$1.00.

Translated English names of Chinese laws and regulations, governmental authorities, institutions, natural persons, entities or product names marked with “” included in this prospectus and for which no official English translation exists are unofficial translations for your reference only.*

GLOSSARY

This glossary of industry terms contains explanation of certain terms used in this prospectus as they relate to the industry in which our Group operates its business. These terms and their given meaning may not correspond to standard industry meaning or usage.

“baking enamel”* (烤漆)	a type of spray-painting technique where the components will be painted several times and will be baked under high temperature after such time being painted
“CAGR”	compound annual growth rate
“GDP”	gross domestic product
“highlight polishing”* (高光噴漆)	a type of spray-painting technique where gloss paint is sprayed onto the surface of components to create a smooth and shiny surface
“ISO 9001:2008”	an internationally recognised specification for occupational health and safety management system
“peripheral component(s)”* (外圍部件)	plastic and steel components processed through spray-painting or powder-coating
“powder-coating”* (噴塑)	a type of peripheral process where paint powder is sprayed onto the surface of steel components. Powder-coating is typically applied electrostatically and is then cured under heat to form a hard finish coating
“processing”	component surface processing through application of various types of peripheral techniques and/or processes
“spray-painting”* (噴漆)	a type of peripheral process where oil paint is sprayed onto the surface of plastic components or steel components. Highlight polishing, UV-coating and baking enamel are three specific types of spray-painting, where more complex techniques and/or processes are applied
“stamping”* (沖壓)	transforming steel sheet from either blank or coil form into desired shapes. Stamping includes a variety of sheet-metal forming manufacturing procedures, such as punching through stamping press, blanking, embossing, bending, flanging and coining
“stamping component(s)”* (沖壓部件)	steel components or parts manufactured through stamping
“steel”	cold-roll steel, galvanised steel, or any of them, which are the major types of steel used by our Group in our manufacturing or processing

GLOSSARY

“UV-coating”* (UV噴漆)

a type of spray-painting techniques where ultraviolet curing paint is applied onto the surfaces of spray-painted plastic components and then cured through ultraviolet radiation to form a hard finish coating

“white goods”

major household electrical appliances used for routine housekeeping tasks and used to be painted in white enamel finish. In this prospectus, white goods refer only to home washing machines and home refrigerators

FORWARD LOOKING STATEMENT

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- the business strategies and plans of operations;
- the capital expenditure plans;
- the amount and nature of, and potential for, future development of our Group's business;
- the operations and business prospects;
- the dividend policy;
- the projects under planning;
- the regulatory environment of the relevant industry in general;
- the future development in relevant industry; and
- other factors referenced in this prospectus, including, without limitation, under the sections entitled "Risk Factors", "Industry Overview", "Business", and "Financial Information".

The words "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "ought to", "plan", "potential", "project", "seek", "should", "will", "would" and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflecting our Group's 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. One or more of these risks or uncertainties may materialise, or underlying assumptions may prove incorrect.

Subject to the requirements of the GEM Listing Rules, our Company does not intend to publicly 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 our Company expects, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

An investment in the Offer Shares involves various risks. You should consider carefully all the information set out in this prospectus and, in particular, the risks and uncertainties described below before making an investment in the Offer Shares. The occurrence of any of the following events could harm us. If any of these events occurs, our business, financial condition, results of operations and future prospects may be materially adversely affected and the trading price of the Shares may decline and you could lose all or part of your investment.

The risks and uncertainties described below may not be the only ones faced by our Company or our Group. Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial may also adversely affect our business, financial condition, results of operations and future prospects of our Company and our Group. If any of the possible events described below occurs, our business, financial condition, results of operations and future prospects may be adversely and materially affected, the trading price of the Shares may decline and investors could lose all or part of their investment.

RISKS ASSOCIATED WITH OUR BUSINESS

We rely heavily on our relationship with Group A

Our revenue derived from Group A, which produces home appliance products, was approximately RMB8.2 million, RMB13.6 million and RMB32.9 million for the years ended 31 December 2015, 2016 and 2017, respectively, representing approximately 14.8%, 17.2% and 33.8% of our total revenue for the same periods. Our business would be adversely affected if the sales of Group A drop significantly.

During the Track Record Period, we processed certain powder-coating peripheral components which had a relatively lower gross profit margin for Group A. The sales amounted to approximately RMB13.5 million, representing approximately 41.1% of our total sales to Group A and approximately 13.9% of our total revenue for the year ended 31 December 2017. Such powder-coating peripheral components sold to Group A recorded a gross profit margin of 3.0% as compared to the average gross profit margin of 7.2% of other powder-coating peripheral components. Assuming the Group had not taken orders of these powder-coating peripheral components from Group A, our average gross profit margin would increase from 23.6% to 26.9% for the year ended 31 December 2017. If Group A places more purchase orders for these powder-coating peripheral components with us as a condition of granting us orders for other more profitable products, and we are not able to come up with and implement effective measures on cost control or adjust our price accordingly in the foreseeable future, our business and financial condition would be adversely affected.

We may face rising cost of sales which would adversely affect our operations and financial condition

Our cost of sales increased by approximately 32.7% from approximately RMB56.0 million for the year ended 31 December 2016 to approximately RMB74.4 million for the year ended 31 December 2017. Such increase was mainly attributable to increase in (i) direct materials costs which was in turn mainly due to increase in the average purchase price of steel, which is one of our major raw materials; (ii) direct labour cost; (iii) consumables; and (iv) manufacturing overheads. For the years ended 31

RISK FACTORS

December 2015, 2016 and 2017, our average purchase price for steel was approximately RMB3,307, RMB3,757 and RMB4,683 per tonne, respectively. Please refer to “Financial Information — The Year Ended 31 December 2017 Compared to the Year Ended 31 December 2016 — Cost of Sales” for further details.

We adjust prices of our products in accordance with the terms of our sales agreements with our customers upon changes in the prices of key raw materials. Generally, price review is conducted once or twice a year. Please refer to “Business — Sales and Marketing — Pricing Policy” for further details. If our cost of sales rises significantly in the future, there can be no assurance that we will be able to pass on increasing cost of sales to our customers within a short period of time, and our results of operations and financial condition may be adversely affected.

We concentrate on the manufacturing and processing of components ultimately used in the home appliance products

During the Track Record Period, majority of our products were subsequently applied for the production of home appliance products, in particular home washing machines and home refrigerators. The demand for our products relies on the developments and sales of these home appliance products in the PRC, which may fluctuate over time. Should the demand for these products in the PRC fall as a result of adverse economic cycles and/or financial crisis or change in consumer buying behaviors, the demand for our products may also fall, and in which case our business, operations, and financial performance could be adversely affected.

We generally rely on short term purchase orders from our major customers

Sales to our five largest customers, in aggregate, amounted to approximately RMB36.5 million, RMB53.7 million and RMB71.5 million, which accounted for approximately 65.6%, 67.8% and 73.4%, respectively, of our total revenue for the years ended 31 December 2015, 2016 and 2017.

We entered into framework agreements with six customers, which are all our five largest customers during the Track Record Period and there is no assurance that our Group will be successful in renewing these sale contracts or obtaining new sale contracts upon expiry.

In addition, we do not have minimum purchase commitments or long-term purchase commitments from our customers as our contracts with them do not set out any minimum or fixed purchase amount. Our sales to them are made on the basis of individual short term purchase orders placed by our customers from time to time.

Although revenue generated from our five largest customers has been increasing during the Track Record Period, if any of them were to substantially reduce the volume and/or the value of the purchase orders it places with us or were to terminate its business relationship with us entirely, there can be no assurance that we will be able to obtain purchase orders from new customers or other existing customers on comparable prices and/or volume. Assuming other factors affecting our gross profit

RISK FACTORS

remain unchanged, reduction of sales to our five largest customers by approximately 6.8%, 6.5% and 4.8% for the years ended 31 December 2015, 2016 and 2017, respectively, would result in 15% decrease in our gross profit for the respective years. In the event of reduction of sales to our five largest customers in the future, our results of operations may be adversely affected.

We depend on third party suppliers for our raw materials and we may not be able to secure a stable supply of raw materials with acceptable quality or on acceptable prices and terms which would adversely affect our operations and financial condition

The success of our business depends on our ability to obtain sufficient quantities of quality raw materials (such as steel, steel parts, plastic parts, oil paint and paint powder) at commercially acceptable prices and terms and in a timely manner. Purchases from our five largest suppliers, in aggregate, amounted to approximately RMB10.3 million, RMB20.8 million and RMB32.3 million for the years ended 31 December 2015, 2016 and 2017, respectively, accounting for approximately 47.2%, 55.8% and 62.6% of our total purchases for the same periods.

As at the Latest Practicable Date, the business relationship with our five largest suppliers during the Track Record Period ranged from less than one year to more than six years. Failure to maintain good relationships with our suppliers and/or unfavourable fluctuations in the price, quality or availability of the raw materials from them may have a material adverse effect on our profit margins and our ability to meet the demands of our customers. Furthermore, we cannot assure that our suppliers will not consolidate their businesses to obtain a stronger bargaining position in their negotiations with us. If we are unable to procure our raw materials on commercially acceptable terms, or at all, our cost of sales may increase and our profitability may be materially and adversely affected.

If the quantity of our raw material supplies substantially decreases or if the price of our raw material supplies substantially increases, we may incur additional costs to acquire sufficient quantity of these materials in a timely manner in order to meet our manufacturing and/or processing schedules. We may not be able to transfer these additional costs fully to our customers. In addition, if we cannot identify alternative sources of raw materials when needed, or obtain sufficient quantity of raw materials when required, the resulting loss of manufacturing and/or processing volume may materially and adversely affect our ability to deliver products to our customers in a timely manner, or at all, which may in turn materially and adversely damage our reputation, financial condition and operating results. Since December 2015, there has been an increase in the average purchase prices of steel, one of the principal raw materials used in our manufacturing and processing, which have had and may continue to have an unfavourable effect on our business, results of operations and financial condition. Continuing volatility in the prices of raw materials used in the manufacturing and processing of our products may have an adverse effect on our business, results of operations and financial condition.

We may face rising labour cost and shortage of labour in the PRC which would adversely affect our operations and financial condition

According to the Ipsos Report, the plastic and steel component manufacturing and processing industry for white goods is usually labour intensive. Labour cost in the PRC has been on a rising trend over the years and it may rise further in the future. Our total labour cost increased by approximately 27.0% from approximately RMB11.3 million for the year ended 31 December 2015 to RMB14.4

RISK FACTORS

million for the year ended 31 December 2016. Our total labour cost increased by approximately 19.3% from approximately RMB14.4 million for the year ended 31 December 2016 to approximately RMB17.1 million for the year ended 31 December 2017. We may not be able to fully transfer the increased labour cost to our customers or offset the increase in labour cost against corresponding increases in the prices of our products. In the event that we are unable to cope with the increasing labour cost, our business and financial condition may be adversely affected.

In addition, our continued success is related to a stable supply of manufacturing and/or processing labour. During the Track Record Period, we did not experience any shortage of labour. However, we cannot assure that we will not experience any shortage of labour in the future, in which case we may need to increase our compensation and other benefits to attract and retain key personnel, technicians and skilled labour. We cannot assure that we will have the resources to fully achieve our staffing needs. Any failure to attract and retain competent personnel or any increase in staffing costs to retain such personnel could have a negative impact on our competitive position and our business, and as a result, our financial condition and operating results may be materially and adversely affected.

We may be exposed to payment delays and/or defaults by our customers which would adversely affect our operations and financial condition

We may not be able to collect our trade receivables in a timely manner and some of our customers may delay payments due to various reasons beyond our control. In general, we grant an average credit period of 30 to 180 days upon issuance of invoices to our customers. For the years ended 31 December 2015, 2016 and 2017, our trade receivables turnover days were approximately 124 days, 145 days and 149 days, respectively. As at 31 December 2015, 31 December 2016 and 31 December 2017, our trade receivables, net of allowance for doubtful debts, of approximately RMB0.6 million, RMB0.6 million and RMB1.4 million, respectively, were past due but not impaired, representing approximately 2.1%, 1.8% and 3.2% of our total trade receivables for the same periods. We are thus exposed to the risk that customers may delay or even be unable to pay us when the payments are due, which may in turn put our cash flow and working capital under pressure. In this regard, there is no assurance that payment from customers will be made in a timely manner or that delays or defaults in payments will not affect our financial condition and results of operations.

Mismatch in turnover days for trade receivables and trade payables may adversely affect our cash inflow

During the Track Record Period, we were generally offered shorter credit periods by our suppliers than we offered to our customers. Accordingly, there are often time lags between making payments to our suppliers and receiving payments from our customers, which could result in mismatch in our cash inflow and cash outflow. Our trade receivables turnover days were approximately 124 days, 145 days and 149 days whereas our trade payables turnover days were approximately 96 days, 89 days and 95 days, respectively, for the years ended 31 December 2015, 2016 and 2017. We rely on cash inflow from our customers to meet our payment obligations to our suppliers. For the years ended 31 December 2015, 2016 and 2017, we had net cash from operating activities of approximately RMB3.7 million, RMB3.7 million and RMB12.2 million. In the event that there is net cash outflow in our operating activities, our liquidity will be materially and adversely affected.

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Current manufacturing and processing capacity may not be able to meet the future manufacturing and processing demands

The Group's manufacturing and processing facilities for manufacturing and/or processing stamping components, powder-coating peripheral components and spray-painting peripheral components have reached a utilisation rate of approximately 98.5%, 74.1% and 108.6%, respectively, for the year ended 31 December 2017. The current manufacturing or processing capacity of the Group's manufacturing and processing facilities may not be sufficient to meet future manufacturing and/or processing demands. In the event that the current manufacturing and processing capacity is insufficient to meet future manufacturing and/or processing demands, we may not be able to further increase our market share and the Group's business and profitability will be materially and adversely affected.

We have historically benefited from government grants and there can be no assurances that we will continue to receive such grants

We have received government grants in the form of subsidies or rewards in relation to our performance assessment, employment, land use and Listing application. For the years ended 31 December 2015, 2016 and 2017, our government grants amounted to approximately RMB0.1 million, RMB1.8 million and RMB4.2 million, respectively. These government grants are non-recurring in nature, and there can be no assurances that we will continue to receive similar levels of government grants, or at all. Any loss of or reduction in government grants may adversely affect our financial condition and results of operations.

We may be subject to product liability claims

Currently, we do not maintain any product liability insurance. Although our PRC Legal Adviser has confirmed that we are not required to maintain any product liability insurance under the relevant PRC laws and regulations, we may still be subject to product liability claims in the event of any allegation that our products are found to be defective, unfit for use or consumption, harmful to health or fail to meet the relevant merchantable quality and/or safety standards. In such event, we may incur liabilities and have to compensate our customers or end customers for any loss and damage they suffered as a result of using our products as required under the principal laws and regulations governing this area, such as the Tort Law of the PRC (中華人民共和國侵權責任法) and Product Quality Law of the PRC (中華人民共和國產品質量法). If there is any loss incurred for product liabilities, it would cause material and adverse effect on our business, financial condition and results of operations. In addition, reporting of such incidents may cause adverse publicity to our Group and our reputation will be adversely affected.

RISK FACTORS

We may experience shortage of supply of power or significant increase in electricity and natural gas prices, which would affect our operations and financial results

Our manufacturing and processing require an adequate and stable supply of power, in particular, electricity and natural gas. For the years ended 31 December 2015, 2016 and 2017, the cost of electricity and natural gas, in aggregate, amounted to approximately RMB1.8 million, RMB2.5 million and RMB2.8 million, respectively. Any significant increase in electricity and natural gas price in the future could have an adverse effect on our operations and profitability.

During the Track Record Period, we procured electricity from the national power grid in the PRC. Although we have not experienced material power shortages during the Track Record Period, there can be no assurance that power shortage will not occur in the future. Any shortage of supply of power could have an adverse effect on our operations and profitability.

The operations of our manufacturing and processing facilities may be disrupted which would adversely affect our operations and financial condition

Our revenue is dependent on the continued operations of our manufacturing and processing facilities. Our manufacturing and processing operations are subject to risks including, among other things, the breakdown, failure or sub-standard performance of machinery and equipment, natural disasters, and the need to comply with all applicable laws, regulations and standards such as environmental compliance in the PRC. The occurrence of any material operational problems at our manufacturing and processing facilities in the future may have a material adverse effect on our business, financial condition and operating results.

We may not have adequate insurance coverage and payments for any uninsured liabilities and loss may adversely affect our financial condition

Our business operations, in particular, our manufacturing and processing activities, involve inherent industrial risks and occupational hazards which may not be completely eliminated through implementing safety measures. There is no assurance that accidents, which may result in property damage, body injuries or even fatalities, will not occur at our manufacturing and processing facilities. We only maintained limited insurance coverage during the Track Record Period. As a result, we may have to pay for any uninsured financial or other loss, damages and liabilities, litigation or business disruption out of our own resources. The occurrence of certain incidents, including earthquake, fire, severe weather, war, floods, power outages, terrorist attacks or other disruptive events and the consequential damages and disruptions resulting from such events may not be fully covered by our insurance policies. 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 operation results.

RISK FACTORS

We may not be able to implement our business development strategies or future plans successfully

The successful implementation of our Group's business strategies is subject to various uncertainties and contingencies, such as continued growth of the home appliance market in the PRC, availability of funds, competition and government policies. Factors such as delay in the delivery of raw materials, labour disputes, compliance with laws and regulations, delays in securing requisite government approvals, economic downturn or changes in market conditions, may delay or impede the implementation of the Group's business strategies. Any delay or failure to successfully implement the Group's business strategies could result in the loss or delay in sales, increase in financing costs, and failure to meet profit and earnings projections, any of which may adversely affect the Group's business, operational results and financial condition.

Failure to comply with relevant laws and regulations relating to social insurance and housing provident fund and environmental protection laws could lead to imposition of penalties or other liabilities on our Group

During the Track Record Period, Xiezhong Home Appliances failed to make full contributions to social insurance contribution and housing provident fund for all its employees and pay the housing provident fund contributions within the prescribed time limit. For details relating to these non-compliance incidents, please refer to the section headed "Business — Legal Compliance" in this prospectus.

The aggregate outstanding social insurance contribution during the Track Record Period and up to the Latest Practicable Date was approximately RMB1.9 million, which we had made full provision for. As advised by our PRC Legal Adviser, we may be ordered to pay the unpaid social insurance amount within a prescribed time limit and a daily default fine of 0.05% on any outstanding social insurance balance from the date of delay, and if we fail to do so, the social insurance authorities may apply to the relevant government authorities or PRC courts to enforce us to make the payment, and a fine ranging between one to three times of the outstanding social insurance balance may be imposed on us. With respect to housing provident fund, the aggregate outstanding amount during the Track Record Period and up to the Latest Practicable Date was approximately RMB0.4 million, which we had made full provision for. As advised by our PRC Legal Adviser, there is no prescribed late penalties or fine in relation to housing provident fund contributions, but we may be ordered to pay the unpaid housing provident fund contributions within a prescribed time limit, and if we fail to do so, the housing provident fund authorities may apply to the PRC courts for compulsory enforcement.

In addition, we failed to submit environmental impact appraisal documents, apply for environmental assessment inspection within the prescribed time limit and construct environmental protection supporting facilities within the prescribed time limit which, as advised by our PRC Legal Adviser, may subject our Group to fines imposed by the relevant environmental protection authority pursuant to the applicable PRC laws and regulations. Considering that we have obtained from the relevant environmental protection authority confirmation confirming that Xiezhong Home Appliances will not be subject to any administrative penalties and, as advised by our PRC Legal Adviser, the risk

RISK FACTORS

of the Group being penalised for such non-compliances is low, no provision had been made for such non-compliances. For details of the relevant non-compliance incidents and potential liabilities, please refer to the paragraphs headed “Business — Legal Compliance” and “Regulatory Overview — Laws and Regulations on Environmental Protection” in this prospectus.

Under the applicable PRC laws and regulations, the relevant social insurance, housing provident fund and environmental protection authorities have discretion as to the manner and amount of penalties to be imposed on our Group, and as advised by our PRC Legal Adviser, given we have obtained from the relevant social insurance, housing provident fund and environmental protection authorities confirmations confirming that Xiezhong Home Appliances will not be subject to penalties in relation to the aforesaid non-compliance incidents, the risk for our Group being penalised by the relevant social insurance, housing provident fund and environmental protection authorities for our past non-compliances is low. However, we cannot assure that new laws and regulations will not make us subject to penalties by the relevant government authorities for our past non-compliance. Such penalties imposed on us may adversely affect our business, financial condition, results of operations and prospects.

We were previously involved in loan financing arrangements that were not in compliance with the General Rules of Loans (貸款通則) which may subject our Group to penalties and other liabilities

Xiezhong Home Appliances, our operating subsidiary, applied various loan contracts in 2014 and 2015 which required Xiezhong Home Appliances to apply the loan proceeds for payment of raw materials and all the loan proceeds have been fully paid up on or before 30 June 2016. As advised by our PRC Legal Adviser, since all the loan proceeds were paid to an entity with no actual transaction with Xiezhong Home Appliances and such loan proceeds were subsequently transferred to Xiezhong Home Appliances, such financing arrangements and the Non-compliant Loans as defined in the section headed “Business — Legal Compliance — Non-compliant Loan Financing Arrangements” in this prospectus were not in compliance with provisions under the General Rules of Loans (貸款通則), particularly, Article 19. As advised by our PRC Legal Adviser, considering that the relevant loan contracts were fully performed and all principals and interests were fully repaid and that we had obtained the confirmations from the relevant bank and competent PRC government authorities as set out in the paragraph headed “Business — Legal Compliance” in this prospectus, the risk for Xiezhong Home Appliances, its directors, senior management or any responsible officers to be penalised by the relevant government authorities is low. However, there is no guarantee that Xiezhong Home Appliances will not be liable to any administrative penalty or other liabilities. Should the non-compliant loan financing arrangements by Xiezhong Home Appliances incur any administrative penalty or claim, the financial position of the Group may be adversely affected. For details of the relevant non-compliance incidents, please refer to the paragraph headed “Business — Legal Compliance” in this prospectus.

We rely on our key management and experienced technical professionals, and any discontinuance of their present positions would adversely affect our operations and financial condition

The success of our business has been, and will continue to be, heavily dependent upon the continuing service of our senior management and key employees. In particular, we rely on the expertise and experience of Mr. Fan, our founder and chief executive officer. Mr. Fan has been a key

RISK FACTORS

member of our management team since our incorporation and has been playing a pivotal managerial role in areas such as conducting our daily operations and formulating our long term business strategies. If Mr. Fan and/or one or more of our members of senior management or key employees is/are unable or unwilling to continue in their present positions and we are not able to replace them in a timely manner, or at all, our business may be severely disrupted and our financial condition and operating results may be materially and adversely affected.

We may not maintain an effective quality control system at our manufacturing and processing facilities and any failure or deterioration of our quality control system would adversely affect our operations and financial condition

The quality of our products is critical to the success of our business. Our product quality depends significantly on the effectiveness of our quality control systems, which, in turn depends on a number of factors, including the design and implementation of our quality control policies and guidelines. Any significant failure of or deterioration in our quality control systems could seriously damage our product quality and have a material adverse effect on our reputation in the market among current or prospective customers, which could in turn lead to decrease in our orders in the future, and adversely affect our financial condition and operating results.

We may be unable to keep up with the changes in the market needs in our industry and may not be able to expand into new markets which would adversely affect our operations and financial condition

Our competitiveness depends largely on our ability to keep up with changes in market needs so that we are able to continuously refine our products to meet our customers' needs. There is no assurance that our products will be well accepted by the market at all times. In the event that we are unable to meet the needs of our customers or that our competitors have developed new products which are more popular with our customers, our business, financial condition and results of operations may be materially and adversely affected.

Inaccurate sales forecasts could adversely affect our profitability and financial results

We estimate our sales orders based on our sales forecast and past experience with our customers. Our sales forecast is partially based on the verbal indication of the volume and specification of products to be ordered by our customers. With reference to these sales forecasts, we may place orders for certain raw materials and components with our suppliers prior to receipt of formal purchase orders issued by our customers. If we fail to correctly estimate the level of demand from our customers, we may misallocate resources and order excessive raw materials or components. As such, the raw materials or components may become obsolete and our profitability and results of operations could be adversely affected.

RISK FACTORS

RISKS ASSOCIATED WITH OUR INDUSTRY

Any change in PRC government’s policies on home appliance products could affect our business

The PRC government had implemented various policies in respect of the home appliance market mainly including, the “Rural Area Subsidized Electrical Appliances Purchase Policy (家電下鄉)”, the “Home Appliances Replacement Policy (家電以舊換新)” and the “Energy Efficient Product Subsidy Policy (節能產品惠民工程)”, which encouraged, to a certain extent, the demand for home appliance products. Under the policies, consumers may purchase home appliance products at lower and subsidised prices and more consumers may find such home appliance products affordable which in turn encouraged the sales of such home appliance products. The increase in sales of home appliance products also encouraged the demand for stamping and peripheral components for white goods, which comprised our main products.

According to the Ipsos Report, with the cessation of “Home Appliances Replacement Policy (家電以舊換新)” and “Rural Area Subsidized Electrical Appliances Purchase Policy (家電下鄉)” in December 2011 and in January 2013, respectively, the sales in home appliance products experienced a decrease, which in turn had an adverse impact on the demand of our products accordingly. Save for the “Energy Efficient Product Subsidy Policy (節能產品惠民工程)”, we cannot assure that the PRC government will implement or launch favourable policies to home appliance market in the future. Upon the expiry of all the aforesaid main policies, the demand in home appliance products may experience a decrease, which in turn have an adverse impact on the demand of our products accordingly.

We may fail to compete successfully against the supply of alternative component products and the large number of suppliers by offering competitive pricing

The introduction of alternative component products as a result of new technologies and raw materials or changes in customers’ preferences may affect our sales performance. According to the Ipsos Report, most of the peripheral components of home appliance products are made of either steel or plastic. However, there are also components being made of coloured resins which are driven by increasing emphasis on reducing volatile organic compound emissions and consumer preference of using more environmentally friendly products. If white goods manufacturers adopt alternative component products made of coloured resins for the design of white goods, we may not be able to adjust our production lines to cope with this change in a short period of time. Our current manufacturing and processing facilities are principally designed for manufacturing or processing components made of steel or plastic, and our operations may be disrupted and hence business would be adversely affected.

RISK FACTORS

In addition, we face fierce competition in our business, in terms of pricing, ability to meet customers' delivery schedules, product quality and reliability, and design, technical and manufacturing and processing capabilities. There are many suppliers of similar products in our industry and terms of pricing offered by such suppliers can be very competitive. In addition, we also face competition from competitors in Southeast Asian countries such as Vietnam and Thailand as a result of more favourable investment policies and relatively cheaper labour costs in those countries. Our customers may require us to lower the pricing of our products in order to remain competitive. In the PRC, the white goods manufacturing industry is dominated by a few renowned white goods brands as compared to the highly fragmented plastic and steel component manufacturing and processing industry for white goods. Accordingly, the Group has a relatively weaker bargaining power in terms of price negotiation with the white goods manufacturers. The control over our manufacturing and processing and overheads costs is therefore important for us to maintain our price competitiveness. Suppliers with comparatively larger scale of operation are considered advantageous in achieving better economies of scale and keeping manufacturing and processing costs at a lower level. Furthermore, the location of manufacturing and processing facilities and related transportation cost and time are also considered crucial in attracting purchase orders from our customers as customers may at times require us to deliver products under short notice and timeframe.

There is no assurance that our business and products will remain competitive in any of the above areas. As we expand our range of products to target a wider base of customers, we expect to face stronger competition from a larger number of established players in the market and these competitors may have more abundant financial, manufacturing and processing, sales, marketing and other resources than we have. Should we fail to compete effectively in the future, our business, operations and financial performance could be adversely affected.

Changes in applicable laws and regulations or additional or more stringent laws and regulations on environmental protection in the PRC may cause us to incur additional capital expenditure

PRC environmental protection laws and regulations require manufacturers that may cause environmental wastes to adopt effective measures to control and dispose of industrial wastes. As our manufacturing and processing generate noise, waste water, waste gas and other industrial wastes, we are required to comply with national and local environmental laws and regulations. For details, please refer to the section headed "Regulatory Overview — Laws and Regulations on Environmental Protection". If we fail to comply with present or future environmental laws and regulations, in particular, in relation to the use of or discharge of hazardous substances, if any, we may be required to pay potentially significant monetary damages and fines, suspend production or cease operations, which would have a material adverse effect on our business and operating results. There can also be no assurance that the PRC authorities will not change the applicable laws or regulations, or impose additional or more stringent laws or regulations, or interpret or implement the applicable laws and regulations more strictly in order to seek better environmental protection. Compliance with any of these additional or more stringent laws or regulations or more stringent implementations may cause us to incur additional capital expenditure, which we may be unable to pass on to our customers by increasing the prices for our products.

RISK FACTORS

RISKS ASSOCIATED WITH CONDUCTING BUSINESS IN THE PRC

Uncertainties with respect to the PRC legal system could adversely affect us

As at the Latest Practicable Date, we operated our operating subsidiary in the PRC and our operations in the PRC are governed by PRC laws and regulations. The PRC legal system is mainly based on written status and the legal interpretation by the competent authorities. Prior court decisions could be cited for reference but have limited precedential value. Since 1979, the PRC government has been developing a comprehensive system of commercial laws and considerable progress has been made in introducing laws and regulations when dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation, trade and trademark protection. As these laws, regulations and legal requirements are not fully developed and are subject to change, interpretation and enforcement of such laws and regulations could be uncertain. These uncertainties could limit the reliability of legal protections available to us and could negatively affect our business, results of operations and financial condition. In addition, any litigation in the PRC could be protracted and result in substantial costs and diversion of resources and management attention.

Changes to the PRC regulatory regime for the plastic and steel manufacturing and processing industry for white goods may have an adverse impact on our results of operations

As at the Latest Practicable Date, our operations are subject to a range of PRC laws, regulations, policies, standards and requirements in relation to, among other things, production, taxation, labour standards, occupational health and safety, waste treatment and environmental protection and operation management. Any changes to these laws, regulations, policies, standards and requirements or to the interpretation or enforcement thereof may increase our operating costs and thus adversely affect our results of operations.

There is no assurance that we will be able to comply with any changes to any of these laws, regulations, policies, standards and requirements applicable to the plastic and steel component manufacturing and processing industry for white goods, or at all. Further, any such new PRC laws, regulations, policies, standards and requirements or any such change in existing laws, regulations, policies, standards and requirements may also constrain and disrupt our future plans and adversely affect our profitability.

Changes in the economic, political and social conditions in the PRC and governmental policies adopted by the PRC government could affect our business and prospects

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

- political structure;
- level of the PRC government involvement and control;
- growth rate and level of development;

RISK FACTORS

- level and control of capital investment and reinvestment;
- control of foreign exchange; and
- allocation of resource.

The PRC government is committed to the continued reform of the PRC economic system. The PRC government's reform policies have emphasised the independence of enterprises and the use of market mechanisms. Since the introduction of these reforms, significant progress has been achieved in economic development, and enterprises have enjoyed and improved environment for their development. Although the PRC government has implemented economic reform measures to introduce market forces and establish sound corporate governance in business enterprises, such economic reform measures may be adjusted, modified or applied inconsistently from industry to industry, or across different regions of the country. Any changes in the PRC's political, economic and social conditions may have a material and adverse effect on our business, financial condition, results of operations and prospects.

China has experienced a slowdown in its economic growth and the future performance of the PRC's economy is uncertain

We primarily operate our business in the PRC, and substantially all of our revenue is derived from our operations in the PRC. Therefore, the performance of the Chinese economy affects, to a significant degree, our business, financial condition, results of operations and prospects. The Chinese economy experienced a rapid growth in the past 30 years. However, there has been a slowdown in the growth of China's GDP since the second half of 2013, which has raised market concerns that the historically rapid growth of the Chinese economy may not be sustainable. According to the National Statistics Bureau of the PRC, the annual growth rate of the China's GDP decreased from 7.3% in 2014 to 6.9% in 2015, which further decreased to 6.7% in 2016. In March 2016, Moody's Investors Service and S&P Ratings changed the China's credit rating outlook from "stable" to "negative", and Moody's Investors Service further downgraded China's long-term local currency and foreign currency issuer rating to "A1" from "Aa3" and changed the outlook from "stable" to "negative" in May 2017, which highlighted the country's surging debt burden and questioned the government's ability to enact reforms.

The future performance of the PRC's economy is not only affected by the economic and monetary policies of the PRC government, but may also be affected by material changes in global economic and political environment as well as the performance of certain major developed economies in the world. There may exist a continued uncertainty for the overall prospects for the global and the PRC economies in the foreseeable future.

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Foreign exchange restrictions imposed by the PRC government could negatively affect the business operations of our Group

The PRC government regulates the conversion between RMB and foreign currencies. Over the years, the PRC government has significantly reduced control over routine foreign exchange transactions under current accounts, including trade and service-related foreign exchange transactions and payment of dividends. However, strict foreign exchange control continues to apply to capital account transactions. These transactions must be approved by or registered with SAFE or its branches, and repayment of loan principal, distribution of return on direct capital investment and investment in negotiable instruments are also subject to restrictions. As at the Latest Practicable Date, we operated our business in the PRC. Any tightening of such restriction may adversely affect the performance of our operations.

We rely principally on dividends paid by our operating subsidiary to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiary to pay dividends to us could have a material adverse effect on our ability to pay dividends to our Shareholders

We are a holding company incorporated in the Cayman Islands and rely principally on dividends paid by our subsidiaries for cash requirements, including the funds necessary to service any debt we may incur. If our operating subsidiary incurs debt in its own name in the future, the instruments governing the debt may restrict dividends or other distribution to us.

Furthermore, applicable PRC laws, rules and regulations permit payment of dividends by our PRC operating subsidiary only out of their net profit, if any, calculated in accordance with PRC accounting standards. Our PRC operating subsidiary is required to set aside a certain percentage of its after tax profits based on PRC accounting standards each year to its reserve fund in accordance with the requirements of relevant laws and provisions in its respective articles of association. As a result, our PRC operating subsidiary is restricted in its ability to transfer a portion of its net profit to us whether in the form of dividends, loans or advances. Any limitation on the ability of our operating subsidiary to pay dividends to us could materially and adversely limit our ability to pay dividends to our Shareholders.

Dividends payable by us to our foreign investors and gain on the sale of our Shares by our foreign investors may become subject to withholding income tax under PRC tax laws

Under the PRC EIT Law and its implementation rules issued by the State Council, PRC withholding income tax at the rate of 10% is applicable to dividends payable by a PRC tax resident enterprise to investors (excluding individual natural persons) that are “non-resident enterprises” (and that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but where the relevant income is not effectively connected with the establishment or place of business) to the extent that such dividends have their sources within the PRC, unless it is entitled to a reduction of such withholding tax under applicable tax treaties. Similarly, any gain realised on the transfer of shares of a PRC tax resident enterprise by such investors is also subject to 10% (or a lower treaty rate) PRC income tax if such gain is regarded as income derived from sources within the PRC. Ambiguities exist with respect to the interpretation of the provisions of the PRC EIT

RISK FACTORS

Law and its implementation rules relating to identification of PRC-sourced income. If we were considered to be a PRC “resident enterprise” under the PRC EIT Law, the dividends we pay with respect to our Shares, or the gain our foreign shareholders (excluding individual natural persons) may realise from the sale of the Shares, may be treated as income derived from sources within the PRC and be subject to PRC income tax. If we are required under the PRC EIT Law to withhold PRC income tax on our dividends payable to our foreign shareholders, or if they are required to pay PRC income tax on the transfer of the Shares, the value of their investment in our Shares may be materially and adversely affected.

RISKS ASSOCIATED WITH THE SHARE OFFER AND OUR SHARES

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

Prior to the Share Offer, there was no public market for the Shares. The listing of, and the permission to deal in, the Shares on the Stock Exchange do not guarantee the development of an active public market or the sustainability thereof following completion of the Share Offer. Factors such as variations in our Group’s revenue, earnings and cash flows, loss of key personnel, and the liquidity of the market for the Shares, could cause the market price and trading volume of the Shares to change substantially. In addition, both the market price and liquidity of the Shares could be adversely affected by factors beyond our Group’s control and unrelated to the performance of our Group’s business, especially if the financial market in Hong Kong experiences a significant price and volume fluctuation. In such cases, investors may not be able to sell their Shares at or above the Offer Price or at all.

The trading volume and market price of the Shares following the Share Offer could be volatile

The price and trading volume of the Shares could be volatile. Factors such as variations in our Group’s revenue, earnings, cash flows, announcements of new investments and strategic alliances or acquisitions could result in large and sudden changes in the volume and price at which the Shares will trade. Volatility in the trading price of the Shares could also be caused by factors outside our Group’s control and could be unrelated to our Group’s operating results, such as investors’ perception of our Group’s business plans, changes in our Group’s senior management personnel and macroeconomic factors. These fluctuations may materially and adversely affect the prevailing market price of the Shares.

Our Controlling Shareholders’ interests may not be aligned with the interests of our other shareholders

Upon completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares may be issued pursuant to be exercise of the Offer Size Adjustment Option and any option which may be granted under the Share Option Scheme), Mr. Fan and Wang Mao Investments, being our Controlling Shareholders, will in aggregate own 53.25% of our share capital. At times, the interests of our Controlling Shareholders may not be consistent with the interests of our other Shareholders. In the event that any potential conflict of interest materialises, Mr. Fan, who is our

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executive Director as well as Controlling Shareholder, will abstain from voting at the relevant meetings in the Board in accordance with the GEM Listing Rules and the Articles of Associations. However, there can be no assurance that our operation will not be adversely affected shall such conflict of interest arises.

Investors may experience dilution effect if our Group issues additional Shares in the future

Our Company may issue additional Shares upon exercise of options which may be granted under the Share Option Scheme in the future. The increase in the number of Shares outstanding after such issue would result in the reduction in the percentage ownership of the Shareholders and may result in a dilution in the earnings per Share and net asset value per Share.

In addition, our Group may need to raise additional funds in the future to finance business expansion or new development plans and 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, then (i) the percentage ownership of those existing Shareholders in our Company may be reduced, and they may experience subsequent dilution in the percentage ownership; and/or (ii) such newly issued securities may have preferred rights, options or privileges superior to those of the Shares of the existing Shareholders.

Future sales or perceived sales of a substantial number of the Shares in the public market could materially and adversely affect the prevailing market price of the Shares

There is no assurance that our Controlling Shareholders will not dispose of their Shares following the expiration of their lock-up period after the Share Offer. We cannot predict the effect, if any, of any future sales of the Shares by our Controlling Shareholders, or that the availability of the Shares for sale by our Controlling Shareholders may have on the market price of the Shares. Sales of a substantial number of the Shares by our Controlling Shareholders or the market perception that such sales may occur could materially and adversely affect the prevailing market price of the Shares.

Our Shareholders may experience difficulties in protecting their interests because we are a Cayman Islands company

We are a Cayman Islands company and our corporate affairs are governed by the Companies Laws, the Memorandum and the Articles and other laws of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders may differ from those under statutes and judicial precedents in existence in Hong Kong and other jurisdictions. Such differences may mean that the remedies available to our minority shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions. Please refer to the section headed “Summary of the Constitution of our Company and Cayman Islands Company Law — Cayman Islands Company Law” in Appendix IV to this prospectus for further details.

RISK FACTORS

Investors may experience difficulties in effecting service of legal procedures, enforcing foreign judgements or bringing original actions in the PRC against us

We conduct all of our operations in the PRC and all of our assets are located in the PRC. In addition, some of our executive Directors and senior management reside within the PRC. As a result, it may not be possible to effect service of legal procedures outside the PRC, upon some of our executive Directors and senior management with respect to matters arising under applicable securities laws. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgements of courts with most western countries. Therefore, it may be difficult for you to enforce against us and/or our management in the PRC any judgement obtained from non-PRC courts.

We may be unable to pay any dividend on our Shares, and dividends declared in the past may not be indicative of our dividend policy in the future

We are a holding company incorporated in the Cayman Islands and operate our business through our operating subsidiary in the PRC. Therefore, the availability of funds to us to pay dividends to our Shareholders and to service our indebtedness will depend in large part upon dividends received from our PRC operating subsidiary. If the PRC operating subsidiary incurs debt or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to us. As a result, our ability to pay dividends and to service our indebtedness will be restricted.

Our ability to declare dividends in relation to our Shares will also depend on our future financial performance, which, in turn, depends on our success in implementing our business development strategies and future plans and on financial, competitive, regulatory, and other factors, general economic conditions, demand for and prices of our services, costs of supplies and other factors specific to our industry, many of which are beyond our control. The receipt of dividends from our PRC operating subsidiary may also be affected by the passage of new laws, adoption of new regulations and or changes to, or in the interpretation or implementation of existing laws and regulations and other events out of our control. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions. In addition, restrictive covenants in our credit facilities or other agreements that we may enter into in the future may also restrict the ability of our PRC operating subsidiary to make distributions to us. Therefore, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our Shareholders.

We declared an interim dividend of approximately RMB1.9 million and RMB4.3 million for the years ended 31 December 2016 and 2017, respectively. No assurance can be given that dividends of similar amounts or at similar rates will be paid in the future or that dividends will be paid at all. Any future dividend declaration and distribution by us will be made at the discretion of our Directors and will depend upon, among others, our financial results, general business conditions, business development strategies and future plans, our capital requirements, the payment by our operating subsidiary of cash dividends to our Company, possible effects on liquidity and financial position of our Company and such other factors as the Board may consider relevant. As a result, there is no

RISK FACTORS

reference to the basis for forecasting the amount of dividend payable in the future in this prospectus. The past distribution record should not be used as a reference of the amount of dividends payable in the future and historical dividend distributions are not indicative of our future dividend distribution policy.

RISKS ASSOCIATED WITH THE STATEMENTS MADE IN THIS PROSPECTUS AND OTHER SOURCES

Facts and statistics in this prospectus relating to the industry in which our Group operates may not be fully reliable

Some of the facts and statistics in this prospectus relating to the plastic and steel component manufacturing and processing industry for white goods in which our Group operates, including those relating to the PRC economy and home appliance market, are derived from various publications of the PRC and relevant governmental departments and agencies and obtained in communication with various governmental departments and agencies that the Directors believe are reliable. However, the Directors cannot guarantee the quality or reliability of such materials. The Directors believe that the sources of the information are appropriate and they have taken reasonable care in extracting and reproducing such information. They do not believe that such information is false or misleading in any material aspect or that any material fact has been omitted that would render such information false or misleading. The information has not been independently verified by our Group, the Sole Sponsor, any Underwriter or any other party involved in the Share Offer and no representation is given as to its accuracy or completeness. You should consider how much weight or importance such facts or statistics carry and should not place undue reliance on them.

Forward-looking statements in this prospectus could prove inaccurate

This prospectus contains certain forward-looking statements relating to the plans, objectives, expectations and intentions of our Directors. Such forward-looking statements are based on numerous assumptions as to our present and future business strategies and the development of the environment in which we operate. Our actual financial results, performance or achievements could differ materially from those discussed in this prospectus. Investors should be cautious against placing undue reliance on any forward-looking statements as these statements involve known and unknown risks, uncertainties and other factors which could cause our actual financial results, performance or achievements to be materially different from our anticipated financial results, performance or achievements expressed or implied by these statements. We are not obliged to update or revise any forward-looking statements in this prospectus, whether by reason of new information, future events or otherwise.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE 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 Companies Ordinance, the Securities and Futures (Stock Marketing Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the GEM Listing Rules for the purpose of giving information with regard to our Company. 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, and there are no other matters the omission of which would make any statement in this prospectus misleading and all opinions expressed in the prospectus have been arrived at after due and careful consideration and are found on bases and assumptions that are fair and reasonable.

INFORMATION ON THIS PROSPECTUS AND THE SHARE OFFER

This prospectus is published solely in connection with the Share Offer, comprising the Public Offer and the Placing. For applicants under the Public Offer, this prospectus and the Application Forms set out the terms and conditions of 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 Share Offer or to make any representation not contained in this prospectus and the relevant Application Forms, and any information or representation not contained herein and therein must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective director, agents, employees or advisers or any other person or party involved in the Share Offer. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Offer Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a 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.

STRUCTURE OF THE SHARE OFFER AND UNDERWRITING

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

The Listing is sponsored by the Sole Sponsor. The Public Offer is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement. The Placing Underwriting Agreement relating to the Placing is expected to be entered into on or around the Price Determination Date. The Placing will be fully underwritten by the Placing Underwriters under the terms of the Placing Underwriting Agreement to be entered into subject to agreement and pricing of the Offer Shares between the Joint Bookrunners (on behalf of themselves and the Underwriters) and us.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

If, for any reason, our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) are unable to reach agreement on the Offer Price, the Share Offer will not proceed and will lapse. For full information about the Underwriters and the underwriting arrangements, please refer to the section headed “Underwriting” in this prospectus.

RESTRICTIONS ON OFFER OF THE OFFER SHARES

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

No action has been taken to permit an offering of the Offer Shares or the distribution of this prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus and/or the Application Forms may not be used for the purpose of, and does not constitute, an offer or invitation nor is it calculated to invite or solicit offers in any jurisdiction 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. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable laws, rules and regulations of such jurisdictions pursuant to registration with or authorisation by the relevant regulatory authorities or as an exemption therefrom. In particular, the Offer Shares have not been publicly offered and sold, and will not be offered or sold directly or indirectly in the PRC or the United States.

APPLICATION FOR LISTING ON GEM

We have applied to the Listing Division for the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Capitalisation Issue and the Share Offer as mentioned in this prospectus (including any new Shares which may be issued upon the exercise of the Offer Size Adjustment Option or any options which may be granted under the Share Option Scheme).

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 Share 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, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at all times after the Listing, 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).

Save as disclosed in this prospectus, no part of our share capital or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the Stock Exchange granting the listing of, and permission to deal in, our Shares on the Stock Exchange and we complying with the stock admission requirements of HKSCC, our 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 necessary arrangements have been made for the Shares to be admitted into CCASS. All activities under CCASS are subject to the general rules of CCASS and CCASS operational procedures in effect from time to time. You should seek the advice of your stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect your rights and interests.

COMMENCEMENT OF DEALINGS IN OUR SHARES AND SETTLEMENT

Dealings in our Shares are expected to commence at 9:00 a.m. on Monday, 23 April 2018. Shares will be traded in board lots of 5,000 Shares each and are freely transferable. The GEM stock code for our Shares is 8151.

Our Company will not issue any temporary document of title.

HONG KONG BRANCH SHARE REGISTRAR AND STAMP DUTY

All of our Shares will be registered on our Company's branch register of members to be maintained in Hong Kong by our Hong Kong Branch Share Registrar and transfer office, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. Our Company's principal register of members will be maintained by the principal share registrar and transfer office, Estera Trust (Cayman) Limited, at PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KY1-1108, Cayman Islands.

Only Shares registered on our Company's Hong Kong branch register of members maintained in Hong Kong may be traded on GEM. Dealings in our Shares registered on the branch register of members of our Company in Hong Kong will be subject to Hong Kong stamp duty.

Unless determined otherwise by our Company, dividends payable in HK dollars in respect of our Shares will be paid to the Shareholders registered on our Company's Hong Kong branch register of members maintained in Hong Kong, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder or if joint Shareholders, to the first-named therein in accordance with the Articles.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

PROFESSIONAL TAX ADVICE RECOMMENDED

If investors are unsure about the taxation implications of the subscription for, purchase, holding or disposal of, dealings in, or exercise of any rights in relation to, the Offer Shares, they should consult an expert. None of our Company our Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of our or their respective directors, advisers, officers, employees, agents, affiliates and/or representatives or any other persons or parties involved in the Share Offer accepts responsibility for any tax effects on or liabilities of any person resulting from the subscription for, purchase, holding or disposal of, dealings in, or the exercise of any rights in relation to, the Offer Shares.

LANGUAGE

If there is any inconsistency between the English version of this prospectus and the Chinese translation of this prospectus, this English version of this prospectus shall prevail.

ROUNDING

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

EXCHANGE RATE CONVERSION

In this prospectus, unless otherwise stated, certain amounts denominated in Renminbi have been translated into HK dollars and vice versa at an exchange rate of RMB0.8082 = HK\$1.00.

No representation is made that any amounts in the abovementioned currencies could have been or would be converted at the above rates or at any other rates at all.

WEBSITE

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

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. Fan Baocheng (樊寶成)	Room 402, Block 5 Square Homeland Chuzhou City Anhui Province PRC	Chinese
Mr. Zhou Zhen Dong (周振鵬)	B9, 9 Andar Edif. Regent No.22 Praca Lobo De Avila Macau	Chinese
<i>Independent non-executive Directors</i>		
Mr. Liang Chi (梁赤)	Room A802, Block 9 Hua Cheng CITIC Hongshu Wan Nanshan District Shenzhen City Guangdong Province PRC	Chinese
Mr. Ho Ka Chun (何家進)	Flat 03, 19/F Block B Perfect Mount Garden 1 Po Man Street Hong Kong	Chinese
Mr. Chan Chun Chi (陳駿志)	Flat D, 28/F Locwood Court Block 4 Kingswood Villas 1 Tin Wu Road New Territories Hong Kong	Chinese

Please refer to the section headed “Directors and Senior Management” of this prospectus for further information.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

PARTIES INVOLVED IN THE SHARE OFFER

Sole Sponsor

Cinda International Capital Limited
A licensed corporation under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities
45/F, COSCO Tower
183 Queen's Road Central
Hong Kong

Joint Bookrunners

Cinda International Capital Limited
A licensed corporation under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities
45/F, COSCO Tower
183 Queen's Road Central
Hong Kong

Head & Shoulders Securities Limited
A licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities
Room 2511, 25/F, COSCO Tower
183 Queen's Road Central
Hong Kong

Joint Lead Managers

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Co-Lead Manager

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Legal advisers to our Company

As to Hong Kong laws
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Property valuer	Asset Appraisal Limited Rm 901, 9/F On Hong Commercial Building No. 145 Hennessy Road Wanchai Hong Kong
Industry research consultant	Ipsos Limited 22/F, Leighton Centre 77 Leighton Road Causeway Bay Hong Kong

CORPORATE INFORMATION

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Principal Place of business in Hong Kong under Part 16 of the Companies Ordinance	Room 1603, 16/F China Building 29 Queen's Road Central Central, Hong Kong
Company website	<u>www.baoshen.com.hk</u> <i>(information contained in this website does not form part of this prospectus)</i>
Company Secretary	Mr. Tsoi Ka Shing (蔡嘉誠)(<i>Certified Public Accountant, HKICPA</i>) 1/F, No. 51 Sheung Wo Che Shatin, New Territories Hong Kong
Compliance officer	Mr. Fan Baocheng (樊寶成) Room 402, Block 5 Square Homeland Chuzhou City Anhui Province, PRC
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Audit Committee	Mr. Chan Chun Chi (陳駿志)(<i>chairman</i>) Mr. Liang Chi (梁赤) Mr. Ho Ka Chun (何家進)

CORPORATE INFORMATION

Remuneration Committee	Mr. Ho Ka Chun (何家進)(<i>chairman</i>) Mr. Liang Chi (梁赤) Mr. Chan Chun Chi (陳駿志)
Nomination Committee	Mr. Liang Chi (梁赤)(<i>chairman</i>) Mr. Ho Ka Chun (何家進) Mr. Chan Chun Chi (陳駿志)
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Principal banker	Chuzhou Wandong Rural Commercial Bank Chengzhong Subbranch No. 248 Qing Liu West Road Chuzhou City Anhui Province PRC
Compliance Adviser	Cinda International Capital Limited 45/F, COSCO Tower 183 Queen's Road Central Hong Kong
Receiving Bank	DBS Bank (Hong Kong) Limited 16/F, The Center 99 Queen's Road Central Hong Kong

INDUSTRY OVERVIEW

We have extracted and derived the information and statistics in the section below, unless otherwise specified, from the Ipsos Report. We believe that the sources of the information and statistics in this section are appropriate sources for such information and statistics and have taken reasonable care in the extraction and reproduction of such information and statistics. We have no reason to believe that such information and statistics is false or misleading or that any fact has been omitted that would render such information and statistics false or misleading. The information in this section has not been independently verified by us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective affiliates, directors or advisers or any other persons or parties involved in the Share Offer, and no representation is given as to its completeness, accuracy or fairness. Accordingly, you should not place undue reliance on the information in this section.

SOURCES OF INFORMATION

Our Group commissioned Ipsos, an independent market research company to analyse and report on the industry development and competitive landscape of the steel and plastic component manufacturing and processing industry for white goods in the PRC with a focus in the Anhui province for the period from 2012-2021 at a fee of approximately RMB676,820.

Ipsos is one of the largest research companies in the world, employing approximately 16,000 personnel worldwide across 85 countries. Ipsos conducts research on market profiles, market size, share and segmentation analyses, distribution and value analyses, competitor tracking and corporate intelligence.

In compiling and preparing the research report, Ipsos obtained and gathered data by: (a) conducting desktop research for supporting facts and identifying trends; (b) performing client consultation to obtain background information of the Company; and (c) conducting primary research by interviewing key stakeholders and industry experts.

ASSUMPTIONS

The following assumptions are used in the Ipsos Report:

- The supply and demand of steel and plastic component manufacturing and processing for the white goods industry, which includes home washing machine and home refrigerator in China are assumed to be stable and without shortage over the forecast period; and
- there is no external shock such as financial crisis or natural disasters affecting the demand and supply for steel and plastic component manufacturing and processing for the white goods industry, which includes home washing machine and home refrigerator in mainland China over the forecast period.

Our Directors confirm that after making reasonable enquiries, the sources of all data and forecasts contained in this section, which are extracted from the Ipsos Report, are reliable and not misleading as Ipsos is an independent research agency with extensive experience and there is no material adverse change in the overall market information since the date of the Ipsos Report that would materially qualify, contradict or have an impact on such information.

INDUSTRY OVERVIEW

MACRO-ECONOMIC ENVIRONMENT IN THE PRC

The PRC has experienced steady economic growth in recent years. GDP per capita in the PRC grew steadily from about RMB39,954 in 2012 to about RMB53,908 in 2016, at a CAGR of about 7.8%. Along with the development of the macro-economy, the annual urban and rural household consumption expenditure in the PRC has increased from RMB48,355 and RMB22,923 in 2012 to RMB66,957 and RMB30,338 in 2016, at a CAGR of approximately 8.5% and 7.3%, respectively, indicating that China has been transforming towards a consumption-driven economy. In the following years, the Chinese economy is expected to maintain a steady growth with the GDP per capita expected to reach RMB78,529 in 2021 at a CAGR of approximately 7.7% from 2017 to 2021. Additionally, the annual urban and rural household consumption expenditure are expected to reach RMB95,402 and RMB53,713 in 2021, at a CAGR of approximately 7.2% and 12.0% from 2017 to 2021, respectively.

OVERVIEW OF WHITE GOODS INDUSTRY IN THE PRC AND ANHUI PROVINCE

Overview of White Goods Industry in the PRC

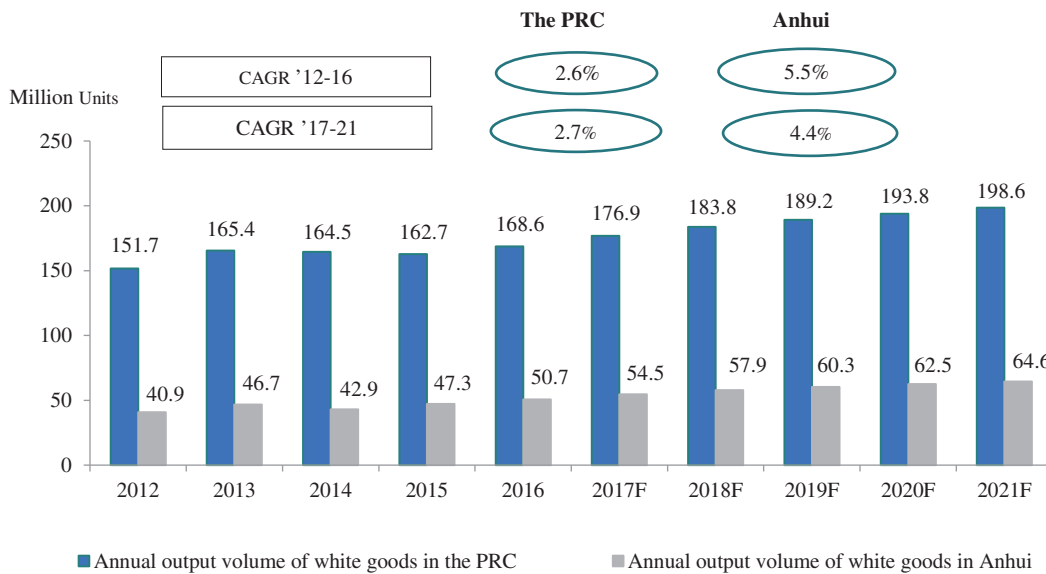
The annual output volume of white goods in the PRC has grown from about 151.7 million units in 2012 to 168.6 million units in 2016, representing a CAGR of 2.6%. Despite a slight drop in demand of certain white goods from 2013 to 2015 upon the cessation of the major governmental subsidies and national policies such as “Home Appliance Going to the Countryside” (家電下鄉), “Appliance Trade-In” (家電以舊換新), the overall output volume of white goods still increased due to the support by domestic replacement needs and strong export demands. During the forecast period, the annual output volume of white goods in the PRC is expected to increase from about 176.9 million units in 2017 to about 198.6 million units in 2021, representing a CAGR of 2.7%. The annual output volume of white goods in the PRC is expected to grow at a faster pace as a result of the reintroduction of energy saving related subsidies in Beijing, domestic replacement demands, increasing demand for new apartments due to property price control policies and overseas demand for white goods.

Overview of White Goods Industry in Anhui Province

Anhui province has been the largest white goods manufacturing base in China in terms of annual output volume since 2012. In 2016, the annual output volume of white goods in Anhui province accounted for about 30.1% of the total output volume of the PRC. With the setting up of the manufacturing hub in Anhui Industrial Park with TCL, a white goods manufacturer, as an anchor tenant in October 2014, more tenants are expected to follow. The annual output volume of white goods in Anhui province is expected to continue to grow faster than the national average from 54.5 million units in 2017 to 64.6 million units in 2021, at a CAGR of 4.4%.

INDUSTRY OVERVIEW

The chart below sets forth the annual output volume of white goods in the PRC and Anhui province from 2012 to 2016 and the forecast period during 2017 to 2021:



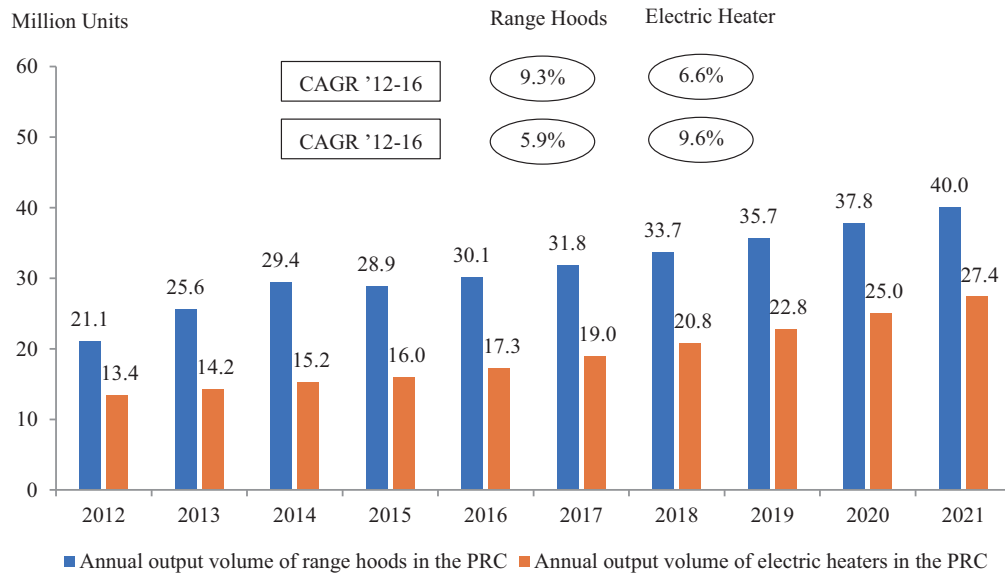
Source: STMA, Ipsos Research and Analysis

Overview of Market Demand of Range Hoods and Electric Heaters in the PRC

As the production techniques and processes for manufacturing and processing plastics and steel components used in various home appliances, including white goods, are similar, the production lines for plastic and steel components for home refrigerators and home washing machines can be used interchangeably for production of plastic and steel components for other home appliances, though slight adjustment on the production lines is necessary due to different shapes of the products and/or customer specifications. Therefore, in order to increase sales and widen business coverage, plastics and steel component processors for white goods generally also engage in manufacturing and processing plastics and steel components for other home appliances.

INDUSTRY OVERVIEW

Take range hoods and electric heaters as examples. In 2016, white goods manufacturers in the PRC produced approximately 30.1 million units of range hoods and approximately 17.3 million units of electric heaters in the PRC, which is expected to grow at CAGR of 5.9% and 9.6% respectively during the period of 2017-2021, as illustrated below:



Source: WIND, Ipsos Research and Analysis

Note: The output volume included output for domestic sales as well as export sales, which are indicative of the aggregate demand of range hoods and electric heaters produced in the PRC.

INDUSTRY OVERVIEW

Competitive Landscape of White Goods Industry in the PRC

The white goods industry is highly concentrated with the top five home washing machine brands accounting for 78.7% and top five home refrigerator brands accounting for 77.0% of the total market share in terms of sales revenue in 2016, as illustrated by the following table:

Top five home washing machine brands			Top five home refrigerator brands		
Rank	Brand name	Market share in 2016	Rank	Brand name	Market share in 2016
1	Haier	27.5%	1	Haier	30.5%
2	Midea	23.0%	2	Hisense	15.1%
3	Siemens	14.1%	3	Siemens	12.2%
4	Panasonic	7.5%	4	Midea	10.5%
5	Whirlpool	6.6%	5	Meiling	8.7%
Total		<u>78.7%</u>	Total		<u>77.0%</u>

Source: CMMC; Ipsos Research and Analysis

In the following years, the white goods industry is expected to further consolidate in line with the process of transformation from traditional product towards more high-tech and energy-saving products which requires substantial capital investments in research and development, work force and advanced equipment. Small white goods manufacturers are less likely to meet the substantial capital requirements, and are more likely to be eliminated, or acquired by larger market players. Larger manufacturers with stronger capital capabilities will continue to enlarge their market shares.

OVERVIEW OF PLASTIC AND STEEL COMPONENT MANUFACTURING AND PROCESSING INDUSTRY FOR WHITE GOODS IN THE PRC AND ANHUI PROVINCE

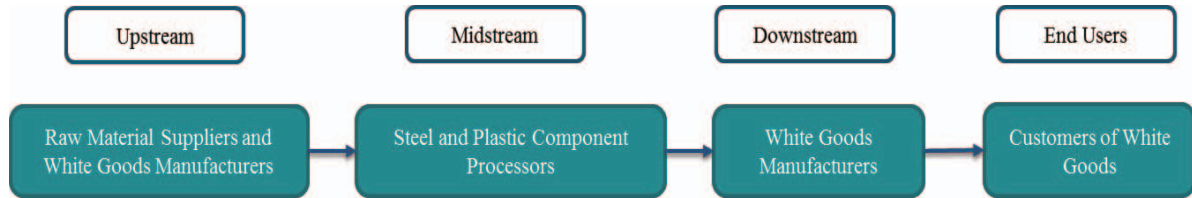
Plastic and steel component manufacturing and processing industry for white goods refers to the industry in which component processors manufacture stamping components through stamping (冲壓) and process steel parts and plastic parts through various types of peripheral techniques and processes including spray-painting, powder-coating, UV-coating and baking enamel into peripheral components for white goods.

Value Chain for Plastic and Steel Component Manufacturing and Processing Industry for White Goods in the PRC

The major suppliers for the plastic and steel component processors include: (i) suppliers of raw materials, such as cold-roll steel, galvanised steel, thermoplastic elastomer (“TPE”, one type of plastic), oil paint, and paint powder; and (ii) white goods manufacturers, who require their plastic and steel component processors to manufacture stamping components and/or peripheral components with raw materials and/or semi-finished peripheral components supplied by themselves or from their appointed suppliers for the following reasons: (a) to ensure the quality of the finished stamping

INDUSTRY OVERVIEW

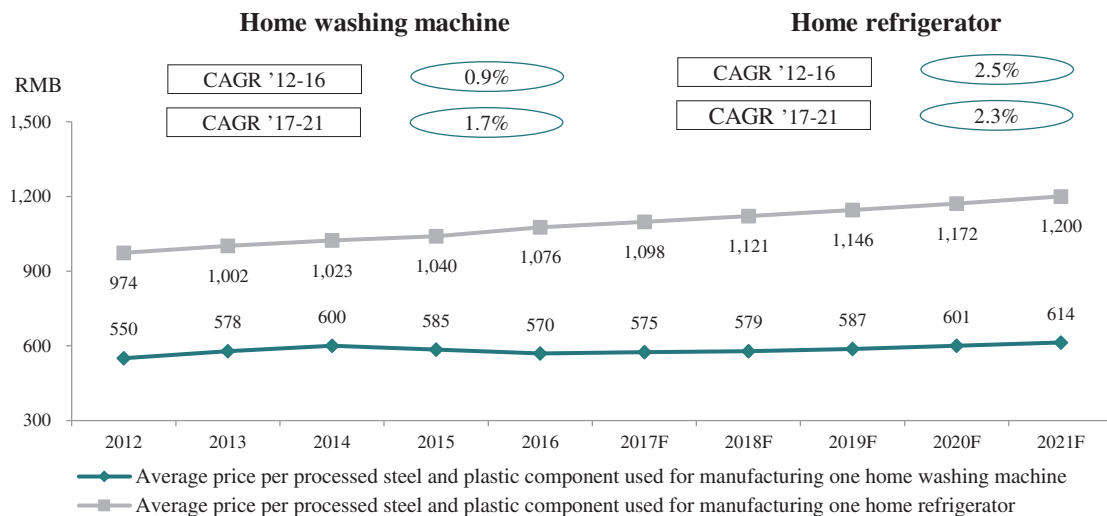
components and/or the peripheral components produced by the components processors; and (b) to control the cost of the raw materials. The diagram below sets out the value chain for the plastic and steel component processing industry for white goods in the PRC:



Source: Ipsos Research and Analysis

Overview of Plastic and Steel Component Manufacturing and Processing Industry for White Goods in the PRC

With the increasing demand for white goods driven by domestic replacement demand and exports demand, the average price per processed plastic and steel components used for a home washing machine and a home refrigerator in the PRC is expected to continue to increase in the forecast period from RMB575 in 2017 to RMB614 in 2021 at a CAGR of 1.7% and from RMB1,098 in 2017 to RMB1,200 in 2021 at a CAGR of 2.3%, respectively, as illustrated in the chart below:



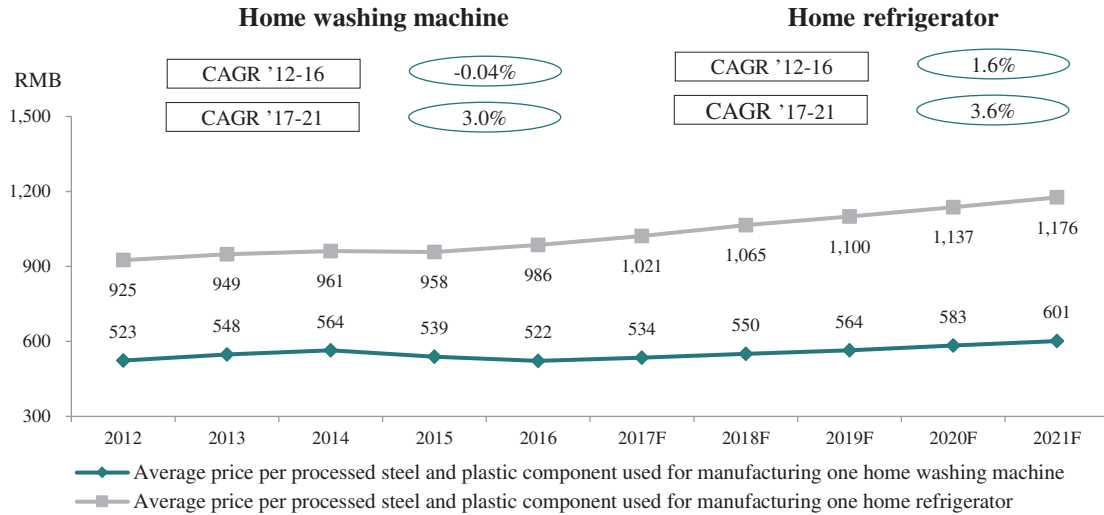
Source: the National Bureau of Statistics of the PRC; Ipsos Research and Analysis and WIND

Overview of Plastic and Steel Component Manufacturing and Processing Industry for White Goods in Anhui Province

As the leading province in white goods manufacturing, Anhui province is expected to concentrate in the production of more high-end and intelligent white goods. Therefore, the average price per processed steel and plastic components used for a home washing machine and a home refrigerator in Anhui province is expected to increase at a faster rate than the national level from RMB534 in 2017

INDUSTRY OVERVIEW

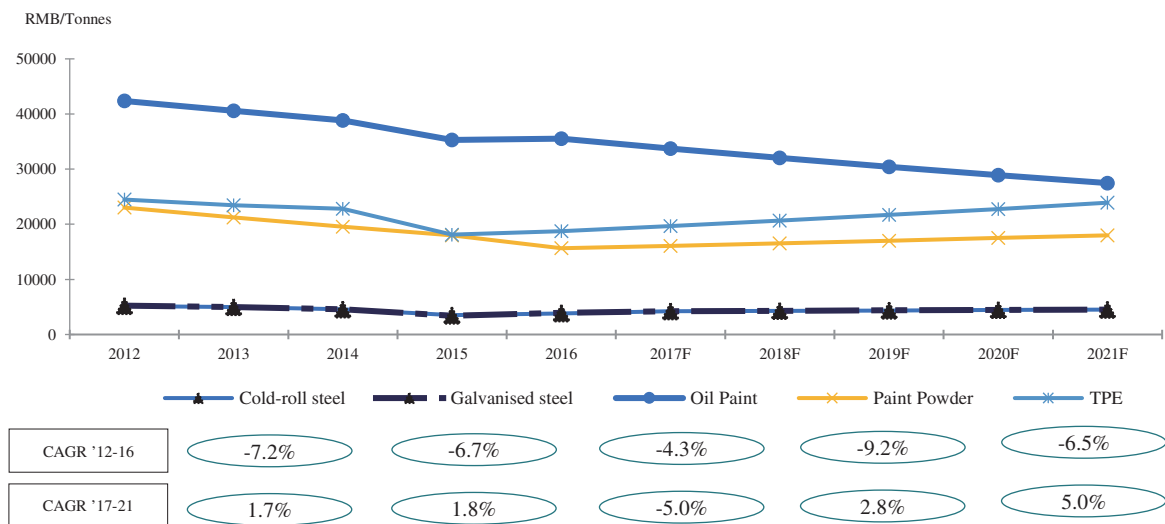
to RMB601 in 2021 at a CAGR of 3.0% and from RMB1,021 in 2017 to RMB1,176 in 2021 at a CAGR of 3.6%, respectively, as illustrated in the chart below:



Source: the National Bureau of Statistics of the PRC; Statistical Bureau of Anhui Province; Ipsos Research and Analysis and WIND

Raw Materials Cost

The chart below sets forth the average price of our major raw materials, including cold-roll steel, galvanised steel, TPE, oil paint and paint powder in the PRC from 2012 to 2016 and the forecast period during 2017 to 2021:



Source: the National Bureau of Statistics of the PRC and Ipsos Research and Analysis

INDUSTRY OVERVIEW

The average price per tonne of cold-roll steel in the PRC decreased from RMB5,160 in 2012 to RMB3,517 in 2015. However, driven by the development of the real estate and automobile industries, the demand for cold-roll steel increased in 2015 to 2016, resulting in an increase in price of 8.7% for the corresponding year. Affected by the environment protection policies and steel industry capacities reduction reform, which sharply reduced steel supply, the average price per tonne of cold-roll steel surged to RMB5,667 in January 2017, and subsequently cooled down and dropped to RMB4,160 in June 2017. Given that the long-run demand will be more stable in the future, the average price per tonne of cold-roll steel is not expected to increase substantially in the future. It is expected that the average price per tonne of cold-roll steel will increase to RMB4,500 in 2021 at a CAGR of 1.7%.

The average price per tonne of galvanized steel in the PRC decreased from RMB5,238 in 2012 to RMB 3,401 in 2015. Since galvanized steel is produced by coating cold-roll steel with zinc, the price per tonne of galvanized steel followed the price trend of cold-roll steel and increased by 16.5% from 2015 to 2016, and further increased to RMB5,228 in February 2017. The price of galvanized steel begun to cool down and dropped to RMB4,539 per tonne in June 2017. It is expected that the average price per tonne of galvanized steel will increase to RMB4,525 in 2021 at a CAGR of 1.8%.

TPE is the major raw material of plastic components and parts, which are raw materials for peripheral components. The average price per tonne of TPE in the PRC decreased from RMB24,480 in 2012 to RMB18,740 in 2016 at a CAGR of 6.5%. In 2016, the prices of raw materials used to produce TPE, such as crude oil and styrene, increased and subsequently, drove up the average price of per tonne of TPE. The average price per tonne of TPE continued to rise in the first half year of 2017, and is expected to grow from RMB19,677 in 2017 to RMB23,918 in 2021 at a CAGR of 5.0%, due to the continuous increase in price of raw materials of TPE. Therefore, the price of plastic parts and components as raw materials for peripheral component is expected to increase accordingly.

The average price per tonne of oil paint in the PRC decreased from RMB42,360 in 2012 to RMB35,500 in 2016 at a CAGR of 4.3%. The average price per tonne of oil paint continued declining in the first half year of 2017. It is anticipated that the average price per tonne of oil paint in the PRC will further decrease from RMB33,725 in 2017 to RMB27,469 in 2021 at a CAGR of 5.0%, since more environmentally-friendly water and powder-coating materials will gradually replace oil paint in manufacturing processes.

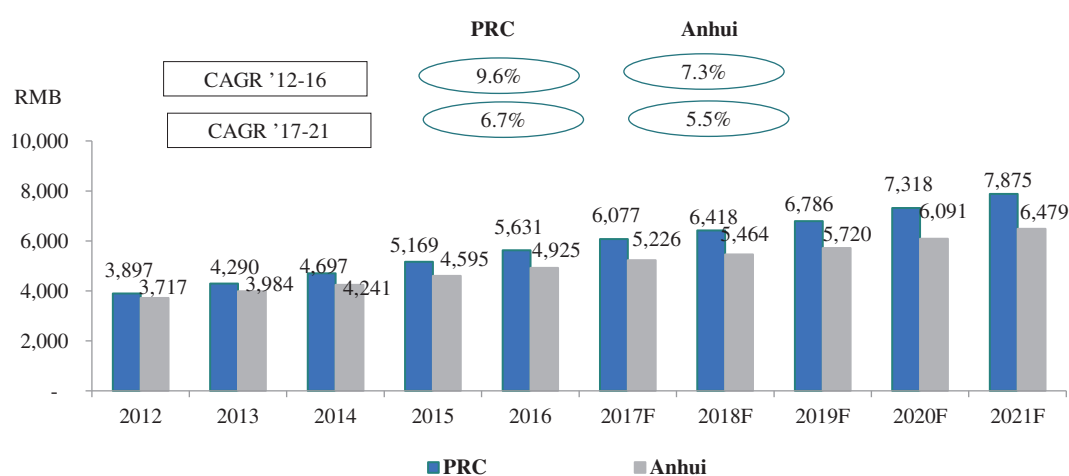
The average price per tonne of paint powder in the PRC decreased from RMB23,029 in 2012 to RMB15,650 in 2016 at a CAGR of 9.2%. However, the average price per tonne of paint powder started to increase in 2017. It is expected that the average price per tonne of paint powder in the PRC will increase from RMB16,094 in 2017 to RMB17,998 in 2021 at a CAGR of 2.8%, as prices for raw materials of paint powder are expected to increase.

The sharp increases in the prices of major raw materials, in particular the significant increase in prices of cold-roll steel and galvanized steel for the period of 2016 to early 2017, significantly increased the manufacturing and processing costs of plastic and steel component processors, and thus reduced their profit margin in the same period. In the long run, such raw material prices is expected to stabilize. Therefore, it is expected that the profit margin for plastic and steel component processors will not be substantially affected by the raw material price changes in the future.

INDUSTRY OVERVIEW

Labour Costs

The average monthly wage level in the PRC continuously increased from RMB3,897 in 2012 to RMB5,631 in 2016, and is expected to further increase from RMB6,077 in 2017 to RMB7,875 in 2021. In 2016, the GDP of Anhui province was approximately RMB2,412 billion, accounting for approximately 3.2% of the total GDP in the PRC. As a relatively less developed area in the PRC, the income of residents in Anhui province remained at a lower level than the national average level. As of 2016, the average monthly wage level in Anhui province was approximately RMB4,925, and is expected to increase at a slower pace than the national level from RMB5,226 in 2017 to RMB6,479 in 2021. The chart below sets forth the average monthly wage in the PRC and Anhui province from 2012 to 2016 and the forecast period during 2017 to 2021:



Source: the National Bureau of Statistics of the PRC; the Economist Intelligence Unit; WIND; and Ipsos Research and Analysis

COMPETITIVE LANDSCAPE OF PLASTIC AND STEEL COMPONENT MANUFACTURING AND PROCESSING INDUSTRY FOR WHITE GOODS IN THE PRC AND ANHUI PROVINCE

Plastic and Steel Component Manufacturing and Processing Industry for White Goods in the PRC

The plastic and steel component manufacturing and processing industry for white goods in the PRC is highly fragmented. A large number of plastic and steel component processors for white goods are competing in the market and most of them are small-sized companies with an annual sales revenue of less than RMB20 million. The total number of plastic and steel component processors for white goods in the PRC increased from approximately 15,277 in 2012 to approximately 17,704 in 2016.

INDUSTRY OVERVIEW

Plastic and Steel Component Processor for White Goods in the PRC

The following table sets forth the information of the top five plastic and steel component processors for white goods in the PRC for 2016:

Ranking	Company	Sales Revenue ¹ in 2016 <i>(RMB million)</i>	Market Share in 2016	Key Products and Manufacturing Processes
1	Company A	1,528.2	1.07%	Spray-painting, stamping, powder spraying of steel components
2	Company B	857.1	0.60%	Pre-coated metal, vinyl-coated metal products
3	Company C	649.1	0.45%	Pre-coated metal, vinyl-coated metal
4	Company D	579.8	0.41%	Pre-coated metal, vinyl-coated metal
5	Company E	429.2	0.3%	Stamping, steel sheet components
Total		4,043.4	2.83 %	

¹ Revenue of steel and plastic component manufacturing and processing for white goods including home washing machine and home refrigerators, etc.

Source: WIND; Ipsos Research and Analysis

In Anhui province, our Group ranked the first among all plastic and steel component processors for white goods in terms of sales revenue in 2016 with a market share of 0.17% in Anhui province. Our Group's market share in the overall PRC market was 0.06% in 2016.

Market Drivers and Opportunities

Increasing wealth and replacement demands. Continuous economic development in the PRC and increasing wealth are expected to drive and enable end users of white goods to replace or upgrade their existing white goods with newer and higher quality products. In turn, this would boost the demand of plastic and steel components for white goods.

Urbanisation and the development of third-tier and fourth-tier cities. China is experiencing a fast urbanisation process. The urbanisation rate is expected to grow from about 57.4% in 2017 to 61.1% in 2021. As a result, the living standards and income level of residents in third-tier (mainly prefecture-level) and fourth-tier (mainly county-level) cities improve, which in turn, will stimulate their demand for white goods, and subsequently increase the demand for plastic and steel components for white goods in the supply chain.

Steady growth in overseas demand. White goods exports has grown at a CAGR of 4.5% from 2012 to 2016. The export volume of white goods for the first half of 2017 has increased by 10.0% as compared to the first half of 2016, indicating that the overseas demand for exports of white goods will remain strong in the future, which in turn will support the demand for plastic and steel components.

INDUSTRY OVERVIEW

Rapid development of e-commerce. Online sales volume of white goods accounted for 29.3% of the total retail sales volume of white goods in 2016, increasing by 46.9%, as compared to 2015. The development of e-commerce is expected to further stimulate the demand for white goods. In particular, demand in third-tier (mainly prefecture-level) and fourth-tier (mainly county-level) cities is expected to increase with increasing accessibility of white goods for rural communities via online shopping platforms.

Entry Barriers

Substantial capital investment. Apart from initial and operating investment in land, equipment and staff hiring, in light of the increasing demand for more high-ended white goods with better quality and higher performance and more stringent environmental regulatory requirements, the plastic and steel component processors for white goods are required to continuously upgrade their production equipment and quality control systems and to source quality raw materials. Therefore, new entrants will be required to initially prepare an abundant amount of initial capital to support their operations at the initial stages of development.

High requirement for industry experience and proven track record. The plastic and steel component manufacturing and processing industry for white goods is highly competitive and fragmented. Industry experience and track record are typically regarded by white goods manufacturers as key evaluation criteria in selecting stamping component provider. Therefore, new entrants with limited experience and track record without a solid reputation may face difficulties in building up their customer base.

Rising Environmental and regulatory standards. National and local PRC governments have been introducing more stringent requirements, such as more stringent pollution emission load, with an aim to reduce pollutions. The amount of resources required to keep up with these environmental and regulatory standards can be a challenge for new entrants.

Threats

Increasing competition from plastic and steel component processors for white goods in other countries. The production environment in the PRC has deteriorated recently with rising production and labour costs, which weakened the comparative advantage of setting up production facilities in the PRC as compared to other Southeast Asian countries such as Vietnam and Thailand, due to favourable investment policies and relatively cheaper labour costs in those countries.

Intense price competition. Given that the white goods manufacturing industry in the PRC is dominated by a few renowned white goods brands, the plastic and steel component processors for white goods are positioned with weaker bargaining power in terms of price. In order to receive orders from white goods brands, plastic and steel component processors tend to offer competitive prices, which creates strong price competition in the industry that may reduce profit margins.

INDUSTRY OVERVIEW

Development of highly automated production lines and new plastic materials. The development of automatic production lines, which integrates stamping, spraying and galvanising processes with the use of alternative materials such as colored resins may threaten the demand for plastic and steel component processors for white goods. The increased emphasis on reducing volatile organic compounds emissions and consumer preference of using more environmental friendly products may steer white goods manufacturer toward using colored resins. However, the production cost will increase by 15% to 20% by using colored resins as raw material. In addition, the appearance of products made of colored resins is less appealing than coated plastics components in terms of glossiness. Therefore, the level of substitution threats from the use of colored resins is low to medium in short term, from both cost and technical perspectives.

OUR COMPETITIVE ADVANTAGES

Advantageous Geographic Location. Our production bases are located in Anhui province, which is near to Jiangsu province. As of 2016, Anhui province and Jiangsu province is the largest and the third largest white goods manufacturing province in the PRC, respectively. In addition, benefiting from the provincial government's commitment to promote Anhui province as a manufacturing hub of white goods, a great number of white goods manufacturers have set up factories in Anhui province. Given our close proximity to white goods manufacturers, our Group is able to save transportation costs and react quickly to changing demands or order specifications from white goods manufacturers.

Wide Business Coverage. Our Group is the only plastic and steel component processor for white goods in Anhui province that offers five types of services for peripheral components processing, including spray-painting, powder-coating and baking enamel for steel components and spray-painting and UV-coating for plastic components and stamping service for production of stamping components, as compared to our major competitors in Anhui province whom generally offer three to four types of plastic and steel component processing services.

Well-managed Customer Relationship. Our Group has maintained long term relationships with leading white goods brands, such as Group A, TCL, and Midea. Our Group is able to provide high quality products and services to these prominent white goods brands which usually require high standards and stringent requirements on quality of products to adhere to. The stable business relationship between our Group and our quality clients demonstrates our high product quality standard, fast response and short lead time, which are highly valued by our clients.

Stable Raw Materials' Sourcing. Our Group is able to acquire reliable sources of major raw materials, including cold-roll steel, galvanised steel, plastic parts, oil paint and paint powder for manufacturing and processing from reputable suppliers in the PRC. The solid business relationship between our Group and our suppliers enable us to source quality raw materials at competitive prices in a timely manner.

REGULATORY OVERVIEW

REGULATORY OVERVIEW

We operate mainly inside China, we are therefore required to comply with relevant PRC laws, regulations and other regulatory provisions when we operate. These laws, regulations and regulatory provisions are summarised as follows:

LAWS AND REGULATIONS ON FOREIGN INVESTMENT

Company Law

Pursuant to the PRC Company Law (中華人民共和國公司法) promulgated by the SCNPC on 29 December 1993, first becoming effective on 1 July 1994, and afterwards revised on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013, the establishment, operation and management of corporate entities in the PRC are governed by the PRC Company Law. The PRC Company Law basically defines two types of companies: limited liability companies and limited stock companies.

Our PRC operating subsidiary is a limited liability company. Unless otherwise stipulated in the related laws on foreign investment, foreign invested companies are also required to comply with the provisions of the PRC Company Law.

Wholly Foreign-owned Enterprise Law

The SCNPC promulgated and effected the “Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法, the “**Wholly Foreign-owned Enterprise Law**”) on 12 April 1986, and afterwards revised it on 31 October 2000 and 3 September 2016. In addition, the Implementation Rules for the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法實施細則) was promulgated by the Ministry of Foreign Economic Relations and Trade and became effective on 12 December 1990, and was afterwards revised by the State Council on 12 April 2001 and 19 February 2014. Pursuant to the latest amendment of the Wholly Foreign-owned Enterprise Law, where the establishment of a wholly foreign-owned enterprise does not involve the implementation of special market entry management measures prescribed by the state, the approval matters stipulated in Article 6, Article 10 and Article 20 of this law shall be subject to record-filing management. The special market entry management measures prescribed by the state shall be promulgated by or promulgated upon approval by the State Council.

Our PRC operating subsidiary is standing as a wholly foreign-owned enterprise. It has the status of an independent legal entity, the ability to independently bear civil liability and enjoy civil rights, and the independent possession, use and sale of properties. It shall also be subject to the procedures for the establishment of wholly foreign-owned enterprises, approval and record-filing management, registered capital requirements, land use management, foreign exchange control, accounting standards, employment and all other relevant requirements.

REGULATORY OVERVIEW

Guidance Catalogue of Industries for Foreign Investment

The Guidance Catalogue of Industries for Foreign Investment (2017 revision) (外商投資產業指導目錄(2017年修訂)) was promulgated by the NDRC and MOFCOM on 28 June 2017 and became effective on 28 July 2017.

Our PRC operating subsidiary is currently engaged in the home appliance accessories manufacturing industry which does not belong to the restricted or prohibited category of industries for foreign investment. Therefore, the foreign investment (in our case, including our Company and its investment holding company) in our PRC operating subsidiary is not restricted.

Provisional Measures on Record-filing Administration over the Establishment and Change of Foreign Invested Enterprises

The Provisional Measures on Record-filing Administration over the Establishment and Change of Foreign Invested Enterprises (外商投資企業設立及變更備案管理暫行辦法, the “**Measures**”) was promulgated by the MOFCOM and first becoming effective on 8 October 2016, and was afterwards revised and re-implemented on 30 July 2017. The Measures apply to the establishment and change of foreign invested enterprises which are not subject to special market entry administrative measures stipulated by the state. According to the Measures, in the case of certain changes of a foreign invested enterprise, such as change in basic information of the foreign invested enterprise, change in basic information of investors, change in basic information of establishment of foreign invested enterprise through M&A, change in equity (shares) or cooperative interests and etc., the representative or agent designated or entrusted by the foreign invested enterprise shall fill in and submit online a “Filing Declaration Form for Change of Foreign Invested Enterprise” and related documents, and complete record-filing formalities for the change through the integrated management system within 30 days from occurrence of the change event.

Our PRC operating subsidiary falls under the scope of record-filing administration stipulated by the Measures, and shall file for its changes according to the Measures.

LAWS AND REGULATIONS ON MERGER AND ACQUISITION

The Regulations on Merger and Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定, the “**M&A Rules**”) was promulgated jointly by the MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the CSRC, the SAT, the State Administration for Industry and Commerce and the SAFE on 8 August 2006, first becoming effective on 8 September 2006, and afterwards revised and re-implemented on 22 June 2009.

According to the M&A Rules, foreign investors merging with domestic enterprises to establish foreign invested enterprises should obtain the approval of relevant approval authority and apply to the registration authority for establishment registration or change in registration matters. A “domestic enterprise” refers to an enterprise in the PRC with no foreign investment. Pursuant to Article 11 of the M&A Rules, if a company legitimately established or controlled by PRC natural persons or enterprises outside the PRC intends to merge with or acquire any PRC domestic enterprise affiliated with such PRC natural persons or enterprises, the proposed merger or acquisition (the “**Connected M&A**”) shall

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be reported to the MOFCOM for approval. This requirement shall not be evaded through domestic investments by foreign-invested enterprises or any other means. A “Special Purpose Company” refers to an overseas company directly or indirectly controlled by a PRC natural person or company for the purpose of the overseas listing of the interests actually held by such PRC natural person or company in domestic enterprises. The overseas listing of a Special Purpose Company shall be approved by the CSRC. According to the Decision of the Ministry of Commerce on Revising the “Provisional Measures on Record-filing Administration over the Establishment and Change of Foreign-invested Enterprises” (商務部關於修改《外商投資企業設立及變更備案管理暫行辦法》的決定) promulgated and becoming effective on July 30, 2017, record-filing administration shall apply to the merger and acquisition of domestic non-foreign-invested enterprises by foreign investors except for those involving special market entry management measures and Connected M&A.

Pursuant to the Notice on Distributing the Manual of Guidance on Administration for Foreign Investment Access (2008 edition) (商務部外資司關於下發《外商投資准入管理指引手冊》(2008年版)的通知) promulgated by the Foreign Investment Department of MOFCOM and becoming effective on 18 December 2008, the transfer of equity interest from Chinese parties to foreign parties in existing foreign-invested enterprises does not refer to the M&A Rules, regardless of whether there is any affiliated relationship between the Chinese and foreign parties, and whether the foreign party is the original shareholder or new investor; the M&A Rules only refers to the merger and acquisition of domestic non-foreign-invested enterprises.

Since before the acquisition of the entire equity interest in our PRC operating subsidiary by our Group, our PRC operating subsidiary is a sino-foreign joint venture, hence the M&A Rules is not applicable to the said acquisition and approval by MOFCOM or CSRC is not required.

LAWS AND REGULATIONS ON FOREIGN EXCHANGE

Foreign Exchange Administration

The Regulations of the PRC on Foreign Exchange Administration (中華人民共和國外匯管理條例) was promulgated by the State Council on 29 January 1996 and first became effective on 1 April 1996 and was revised and implemented on 14 January 1997 and 5 August 2008. According to this Regulations, together with other regulations promulgated by the SAFE and other PRC regulatory authorities, the foreign exchange payments for the current account transactions are not restricted but shall be made, in accordance with the regulations of the SAFE on the payment and purchase of foreign exchange by presenting effective documents, with their own foreign exchange or through purchase of foreign exchange from financial institutions. However, foreign exchange earnings or payments for capital account transactions are subject to the approval or registration of SAFE and/or its local branches and other relevant PRC government authorities.

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Foreign Exchange Registration for Round-trip Investment by Domestic Residents

Notice of the State Administration of Foreign Exchange on Issues Relating to Foreign Exchange Administration for Overseas Investment and Financing and Round-trip Investment Conducted by Domestic Residents through Special Purpose Companies (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知, the “**Circular No.37**”) was promulgated and implemented by the SAFE on 4 July 2014.

According to the provisions of Circular No.37, “Special Purpose Company” refers to the overseas enterprises directly established or indirectly controlled by domestic residents (including domestic institutions and domestic resident individuals) for investment and financing purposes, with their legally held assets or interests of domestic enterprises, or legally held overseas assets or interests.

“Round-trip Investment” refers to direct investment activities in China undertaken by domestic residents directly or indirectly through special purpose companies, i.e. the establishment of foreign invested enterprises or projects in China by way of set-up, merger and acquisition, and obtaining the ownership, control, business management and other rights and interests thereof.

Prior to making capital contribution to a Special Purpose Company by a domestic resident using its legitimate assets or interests in China or overseas, the domestic resident shall apply to the foreign exchange bureau for completion of foreign exchange registration formalities for overseas investments. A domestic resident making capital contribution using its legitimate assets or interests in China shall apply to the foreign exchange bureau at its place of registration or the foreign exchange bureau at the location of the enterprise assets or interests to complete registration formalities. A domestic resident making capital contribution using its legitimate assets or interests overseas shall apply to the foreign exchange bureau at its place of registration or foreign exchange bureau at its place of home register to complete registration formalities.

For an overseas Special Purpose Company which has completed registration formalities, where there is any change in the basic information such as the domestic resident individual shareholders, the company name and the term of business, or a change of important matters such as capital increase or reduction by domestic resident individuals, equity transfer or swap, merger or division, the change formalities of foreign exchange registration shall be promptly completed with the foreign exchange bureau.

Pursuant to the attachment of Circular No. 37, the domestic resident individuals only need to complete foreign exchange registration for directly established or controlled Special Purpose Companies.

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Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving the Foreign Exchange Administration Policies for Direct Investment

Pursuant to the Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving the Foreign Exchange Administration Policies for Direct Investment (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) promulgated on 13 February 2015 and implemented on 1 June 2015, two administrative approval items (foreign exchange registration approval under domestic direct investment and foreign exchange registration approval under overseas direct investment) are cancelled. The banks are now responsible for reviewing and carrying out foreign exchange registration under domestic direct investment as well as foreign exchange registration under overseas direct investment (collectively known as “direct investment foreign exchange registration”) directly, and the SAFE and its branches shall implement indirect supervision over foreign exchange registration of direct investment via the banks.

Mr. Fan, an executive Director the chief executive of our Company and one of our Controlling Shareholders, has already gone through the foreign exchange registration procedures for his overseas Special Purpose Company, namely Wang Mao Investments.

LAWS AND REGULATIONS ON TAXATION AND DIVIDEND DISTRIBUTION

Enterprise Income Tax

Pursuant to the Enterprise Income Tax Law (中華人民共和國企業所得稅法, the “**ELT Law**”) promulgated by the NPC on 16 March 2007 first becoming effective on 1 January 2008 and revised on 24 February 2017 and the Implementation Rules for Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施細則, the “**ELT Rules**”) promulgated by the State Council on 6 December 2007 and becoming effective on 1 January 2008, taxpayers include both resident enterprises and non-resident enterprises.

“Resident Enterprises” means enterprises lawfully incorporated in China, or lawfully incorporated pursuant to the laws of foreign countries (regions) but whose actual management organisation is located in China.

“Non-resident Enterprises” means enterprises lawfully incorporated in accordance with the laws of foreign countries (regions) with no actual management organisation China, but having an office or premises established in China, or having income derived from China although it does not have an office or premises in China.

Our PRC operating subsidiary, as a resident enterprise, shall pay enterprise income tax on its income from China and abroad. The tax rate of enterprise income tax applicable to our PRC operating subsidiary is 25%.

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Value Added Tax

The State Council promulgated the Provisional Regulations of the PRC on Value-Added Tax (中華人民共和國增值稅暫行條例, the “**Provisional Regulations on Value-Added Tax**”) on 13 December 1993 which was first implemented on 1 January 1994, but afterward revised on 5 November 2008, 6 February 2016, and 19 November 2017 respectively. The Ministry of Finance first promulgated and implemented the Implementation Rules for the Provisional Regulations of the PRC on Value-added Tax (中華人民共和國增值稅暫行條例實施細則, the “**Implementation Rules for VAT**”) on 25 December 1993 which was revised on 15 December 2008 and 28 October 2011.

Pursuant to the Provisional Regulations on Value-Added Tax and the Implementation Rules for VAT, units and individuals engaged in sales of goods, provision of processing, repair and replacement services and importation of goods in the territory of PRC, are considered as VAT taxpayers, and shall therefore pay VAT. The tax rate of 17% or 11% applies to taxpayers selling or importing goods, depending on the variety of the goods. Our PRC operating subsidiary pays VAT at the rate of 17%.

Dividend Distribution

The PRC laws and regulations regulating dividend distribution of foreign-invested enterprises mainly include the PRC Company Law, the Law of the PRC on Sino-foreign Equity Joint Ventures and the Regulations for the Implementation of the Law of the PRC on Sino-foreign Equity Joint Ventures, the Wholly Foreign-owned Enterprise Law and the Implementation Rules for the Wholly Foreign-owned Enterprises Law.

Pursuant to the PRC Company Law, a company shall retain 10% of the profits as the company’s statutory reserve funds when the company distributes the profits after tax of the then financial year, and the retention can be stopped upon the company’s statutory reserve funds has accumulated up to 50% of the registered capital of the company. If the statutory reserve funds of the company is not sufficient to cover its losses in previous years, the company shall use the profits of the current year to cover the losses before retaining statutory reserve funds. The remaining after-tax profits after the losses have been made up for and the statutory reserve funds has been retained can be distributed to its shareholders.

According to the Regulations for the Implementation of the Law of the PRC on Sino-foreign Equity Joint Ventures (中華人民共和國中外合資經營企業法實施條例), an enterprise shall, after payment of income tax in compliance with the PRC Enterprise Income Tax Law, retain reserve funds, staff incentive and welfare funds and enterprise development funds from profits after tax at such proportion at the discretion of the board of directors of the enterprise.

Pursuant to the Implementation Rules for the Wholly Foreign-owned Enterprise Law (中華人民共和國外資企業法實施細則), wholly foreign-owned enterprises in China shall, after payment of income taxes on their profits pursuant to the tax laws of China, retain at least 10% of their after-tax profits each year as reserve funds, and the retention can only stop when the cumulative amount of the reserve funds reaches 50% of the registered capital. These reserve funds cannot be reallocated as cash dividends. In addition, wholly foreign-owned enterprises should retain some of their after-tax profits as staff incentive and welfare funds, the proportion of which may be determined by themselves.

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Besides, pursuant to the EIT Law, dividends paid to non-resident enterprises and other passive income from China should be taxed at the standard rate of 20% withholding tax. The EIT Rules reduced the tax rate from 20% to 10%.

Pursuant to the Arrangements between the Mainland China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Tax Evasion 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) signed by the Mainland China and the HKSAR on 21 August 2006 and the Notice of the State Administration of Taxation on Issues Concerning the Implementation of Dividend Clauses of Tax Treaties (國家稅務總局關於執行稅收協定股息條款有關問題的通知) promulgated and implemented by the SAT on 20 February 2009 the withholding tax rate for dividends paid by a Chinese resident company to a Hong Kong resident should be no more than 5%, with the requirement that the Hong Kong resident must be a company that has been holding at least 25% of the Chinese company's equity interests for 12 consecutive months before receipt of the dividends.

Pursuant to the Administrative Measures for Non-Resident Taxpayers to Enjoy the Treatment under Tax Treaties (非居民納稅人享受稅收協定待遇管理辦法) promulgated by the SAT on 27 August 2015 and implemented on 1 November 2015, where a non-resident taxpayer who receives dividends from a Chinese resident enterprise satisfies the terms and conditions for the treatment under tax treaties, it may, at the time of tax declaration, or through withholding agent, enjoy the treatment of the tax treaties and accept the subsequent administration of the tax authority.

Real Estate Tax

The Provisional Regulations of the PRC on Real Estate Tax (中華人民共和國房產稅暫行條例) was promulgated by the State Council on 15 September 1986 and implemented on 1 October 1986 and then amended on 8 January 2011. Real estate tax will be calculated on the residual value, following the subtraction of between 10% and 30% of the original value of the property, at a rate of 1.2%, or on the rental income from the property at a rate of 12%, and will be collected annually with payment by instalments. The rate of real estate tax applicable to our PRC operating subsidiary is 1.2%.

Land Use Tax

The Provisional Regulations of the PRC on Urban and Township Land Use Tax (中華人民共和國城鎮土地使用稅暫行條例) was promulgated by the State Council on 27 September 1988 and implemented on 1 November 1988, and afterwards revised on 31 December 2006, 8 January 2011 and 7 December 2013. According to the regulations, the annual amount of land use tax per square metre for small cities shall be RMB0.9 to RMB18, and the specific applicable tax amount standard shall be formulated by the People's Government of municipalities and counties upon approval by the People's Government at the provincial level. The annual amount of land use tax per square metre of our PRC operating subsidiary is RMB9.

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LAWS AND REGULATIONS ON ENVIRONMENTAL PROTECTION

As pollutant emissions are involved in the production process of our PRC operating subsidiary, our operations should comply with the relevant environmental protection laws and regulations of the PRC as outlined below:

Environmental Protection Law

The Environmental Protection Law of the PRC (中華人民共和國環境保護法, the “**Environmental Protection Law**”) established the legal framework for China’s environmental protection efforts. It was promulgated and implemented by the SCNPC on 26 December 1989 and amended on 24 April 2014.

Pursuant to the Environmental Protection Law, any organisation that discharges pollutants shall take effective measures to prevent and control the environmental pollution and harm caused by waste gas, waste water, waste residues and etc. generated in the production, construction or other activities.

Environmental impact assessment shall be carried out in the formulation of relevant development and utilisation plans and construction of projects which have an impact on environment. Pollution prevention facilities in construction projects shall be designed, constructed and put into use simultaneously with the main projects. Pollution prevention facilities shall comply with the requirements of the approved environmental impact assessment document, and shall not be arbitrarily demolished or left idle.

Environmental Impact Assessment of Construction Projects

The Environmental Impact Assessment Law of the PRC (中華人民共和國環境影響評價法, the “**Environmental Impact Assessment Law**”) was promulgated by SCNPC on 28 October 2002 and implemented on 1 September 2003, and then revised on 2 July 2016 and implemented on 1 September 2016. Pursuant to the provisions of the Environmental Impact Assessment Law, the Chinese government put forth the environmental impact evaluation system to construction projects and implemented classification management according to the degree of environmental impact of the construction project.

In the event of possible significant environmental impact, an environmental impact report shall be prepared for comprehensive assessment of the environmental impact. In the event of possible slight environmental impact, an environmental impact statement shall be prepared for analysis or specific assessment of the environmental impact. In the event of minimal environmental impact which does not warrant an environmental impact assessment, an environmental impact registration form shall be completed. Where the environmental impact assessment documents of a construction project are not examined or not approved after examination by the relevant approval department pursuant to law, the construction unit shall not commence the construction of the project. Even after the approval of the environmental impact assessment documents, if the construction project’s nature, scale, location or production craft, or the measures taken for prevention and control of pollution and for prevention of ecology damage have significantly changed, the construction unit should resubmit the environmental impact assessment documents of the construction project for approval.

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Environmental Protection Management of Construction Projects

The State Council promulgated and implemented the Regulations on Environmental Protection Management of Construction Projects (建設項目環境保護管理條例) on 29 November 1998, which was revised on 16 July 2017 and implemented on 1 October 2017. The Ministry of Environmental Protection of the PRC promulgated the Administrative Measures for Environmental Protection Acceptance of Construction Projects upon Completion (建設項目竣工環境保護驗收管理辦法) on 27 December 2001, which was first implemented on 1 February 2002, and revised and re-implemented on 22 December 2010.

Upon completion of a construction project, the construction unit shall apply to the department responsible for environmental protection which originally examined and approved the environmental impact statement, environmental impact report or environmental impact registration form relating to the said construction project, for examination and acceptance of the environmental protection facilities used in the construction project. In the event of any violation of the Administrative Measures for Environmental Protection Acceptance of Construction Projects upon Completion, the administrative department of environmental protection shall have the right to impose administrative penalties, including orders to stop operation, stop production and fines of less than RMB100,000.

Our PRC operating subsidiary is continuously supervised by Chuzhou Environmental Protection Bureau of Anhui Province of China and Nanqiao Branch of Chuzhou Environmental Protection Bureau. Our construction projects have finished the completion acceptance or phased completion acceptance of environmental protection. According to the confirmations by the competent environmental protection authorities of our PRC operating subsidiary, our construction projects can be put into production and operation.

Pollutant Discharge License and Pollutant Discharge Fees

The Ministry of Environmental Protection promulgated and implemented the Interim Regulations on the Management of Pollutant Discharge License (排污許可證管理暫行規定) on 23 December 2016 and the Administrative Measures for Pollutant Discharge Licensing (for Trial Implement) (排污許可管理辦法(試行)) on 10 January 2018 to regulate the application, issuance, implementation, supervision and other acts of Pollutant Discharge License.

Environmental protection authorities, in accordance with the application and commitment of pollutant discharging units, through the issuance of legal document in the form of Pollutant Discharge License, lay out the environmental management requirements, regulate and restrict the pollutant discharge behaviours of discharging units in accordance with laws and regulations, and implement the environmental administration and supervision on discharging units according to the Pollutant Discharge License.

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The State Council promulgated on 2 January 2003 and implemented on 1 July 2003 the Administrative Regulations on the Collection and Use of Pollutant Discharge Fees (排污費徵收使用管理條例), collecting pollutant discharge fees from units and self-employed individuals that directly discharge pollutants into the environment. The Administrative Regulations on the Collection and Use of Pollutant Discharge Fees was repealed by the Implementing Regulations for the Environmental Protection Tax Law of the PRC (中華人民共和國環境保護稅法實施條例) promulgated on 25 December 2017 and implemented on 1 January 2018 by the State Council.

The environmental protection authority of our PRC operating subsidiary has confirmed that the PRC operating subsidiary has not been included in the local range of issuing Pollutant Discharge Licence at this stage, thus the PRC operating subsidiary does not need to obtain a Pollutant Discharge Licence at the moment. Meanwhile, the production pollutants have been disposed to comply with the discharging standards, thus the PRC operating subsidiary does not need to pay pollutant discharge fees.

LAWS AND REGULATIONS ON WORK SAFETY

The Work Safety Law of the PRC (中華人民共和國安全生產法) was promulgated by the SCNPC on 29 June 2002 and became effective on 1 November 2002, with its latest amendment promulgated on 31 August 2014 and implemented on 1 December 2014.

According to the Work Safety Law, companies in production and operation should meet the conditions for work safety as specified by relevant laws and regulations and national standards or industry standards. If a company does not meet the conditions for work safety, it may not engage in production and business activities. The company should carry out work safety education and training, to ensure that employees have the necessary knowledge of work safety, are familiar with the relevant work safety rules and regulations and safe operation procedures, master the safe operation skills of their position, understand the emergency measures for accidents, and are aware of their rights and obligations in respect of work safety. The design, manufacture, installation, use, testing, maintenance, transformation and retirement of safety equipment should comply with the national standards or industry standards. The production, operation, transportation, storage, use of dangerous goods or disposal of abandoned dangerous goods should comply with the relevant laws and regulations and national standards or industry standards, establish a special safety management system, take reliable security measures, and accept the supervision and management of the relevant departments in accordance with the law.

Our PRC operating subsidiary meets the conditions for work safe as stated in the laws and regulations, and is under the continuous supervision of Chuzhou Administration of Work Safety.

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LAWS AND REGULATIONS ON PRODUCT QUALITY

The SCNPC promulgated the Product Quality Law of the PRC (中華人民共和國產品質量法, the “**Product Quality Law**”) on 22 February 1993 and implemented it on 1 September 1993, which was revised on 8 July 2000 and 27 August 2009.

Engaging in the manufacturing and sale of any product in China shall comply with the Product Quality Law. The state, in accordance with the quality management standards commonly used internationally, implements enterprise quality certification system. Enterprises may, on a voluntary basis, apply to a certification body acknowledged by the department for product quality supervision under the State Council or by a department authorised by the aforesaid department for enterprise quality system certification.

The quality management system of our PRC operating subsidiary complies with the standard ISO 9001: 2008, and obtained a certificate.

LAWS AND REGULATIONS ON THE PROTECTION OF CONSUMER RIGHTS AND INTERESTS

Business operators, in the supply of goods manufactured and sold by them or services to consumers, shall comply with the Law of the PRC on the Protection of Consumer Rights and Interests (中華人民共和國消費者權益保護法, the “**Consumer Rights Protection Law**”) promulgated by the SCNPC on 31 October 1993, first becoming effective on 1 January 1994 and then revised on 27 August 2009 and 25 October 2013.

According to the Consumer Rights Protection Law, business operators must ensure that the goods or services provided by them meet the requirements for safeguarding personal and property safety. For goods and services that may endanger personal and property safety, the consumers should be provided with a true description and an explicit warning, as well as a description and indication of the proper way to use the goods or accept the services and the methods of preventing the occurrence of hazard. If the goods or services provided by the business operators cause personal injuries to consumers or third parties, the business operators shall compensate for the loss.

LAWS AND REGULATIONS RELATING TO PROPERTY

Land Administration Law

According to the Land Administration Law of the PRC (中華人民共和國土地管理法), which was promulgated by the SCNPC on 25 June 1986 and implemented on 1 January 1987, and was afterward revised on 29 December 1988, 29 August 1998 and 28 August 2004, the state implements the system of compensated use of state-owned land and the system of control over the usages of land. The ownership and use right of land registered according to law shall be protected by law. Any units and individuals who need to use land for construction purpose shall apply for the use of state-owned land in accordance with the law, and obtain the state-owned land use right by way of paying land use right assignment fees and other fees and expenses according to the standards and ways prescribed by the State Council.

REGULATORY OVERVIEW

Our PRC operating subsidiary has obtained the state-owned land use rights by way of assignment, and fully paid the relevant fees.

Property Law

The Property Law of the PRC (中華人民共和國物權法, the “**Property Law**”) was promulgated by the NPC on 16 March 2007 and implemented on 1 October 2007.

Pursuant to the Property Law, “property right” refers to the right of the obligee to enjoy direct control and exclusive right of a particular property according to law, including ownership, usufruct and security interest. The creation, alteration, transfer and extinction of the immovable property right shall be made effective through registration, unless it is otherwise provided for by law. The property rights of the state, the collectives, the individuals and other rights holders are protected by law.

Our PRC operating subsidiary has legally acquired its land use right and house ownership rights, hold the land use right certificate and the real estate ownership certificates according to law, and also made all mortgage registrations for related mortgage guarantee in accordance with the laws and regulations.

Rental Properties

The SCNPC promulgated the PRC Urban Real Estate Management Law (中華人民共和國城市房地產管理法, the “**Urban Real Estate Management Law**”) on 5 July 1994, which was implemented on 1 January 1995, and revised on 30 August 2007 and 27 August 2009.

Pursuant to the Urban Real Estate Management Law, in the lease of a house, the lessor and the lessee shall conclude a written lease agreement with the term, purpose and price of the lease, repair responsibility and other rights and obligations of the parties, and shall register the lease with the property administrative department for record.

Our PRC operating subsidiary has two leased properties, which are used for production purposes. The PRC operating subsidiary has entered into a legal and effective written lease agreement with the owner of the leased properties and filed the lease agreement for registration.

LAWS AND REGULATIONS ON LABOUR SECURITY

Labour Relationship

The SCNPC promulgated the Labour Law of the PRC (中華人民共和國勞動法) on 5 July 1994, which became effective on 1 January 1995, and was revised on 27 August 2009. The SCNPC promulgated the Labour Contract Law of the PRC (中華人民共和國勞動合同法) on 29 June 2007, which became effective on 1 January 2008, and was then revised on 28 December 2012. The State Council promulgated the Regulations on the Implementation of Labour Contract Law of the PRC (中華人民共和國勞動合同法實施條例) (collectively the “**PRC labour laws**”) on 18 September 2008, which became effective on the same date.

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Pursuant to the PRC labour laws, a written labour contract shall be concluded to establish a labour relationship. In addition, the PRC labour laws have certain provisions relating to (including but not limited to) the signing and termination of labour contracts, payment of remuneration to employees, economic compensation and compensation, minimum wages, working hours, time limits for probation periods and social security payments.

Our PRC operating subsidiary has concluded written labour contracts or labour service agreements with all of its employees and has complied with the provisions of PRC labour laws.

Labour Dispatch

According to the Interim Provisions on Labour Dispatch (勞務派遣暫行規定) promulgated by the Ministry of Human Resources and Social Security on 24 January 2014 and becoming effective on 1 March 2014, a company can only use dispatched workers on temporary, ancillary or alternative positions, and the number of dispatched workers shall not exceed 10% of the total number of employees.

As of 31 December 2017 and the Latest Practicable Date, our PRC operating subsidiary had 26 and 23 dispatched workers in the production department for spray and incidental ancillary works, respectively, which is in compliance with the provisions of the Interim Provisions on Labour Dispatch.

Social Insurance

The SCNPC promulgated the Social Insurance Law of the PRC (中華人民共和國社會保險法) on 28 October 2010, which became effective on 1 July 2011. The State Council promulgated and implemented the Provisional Regulations on Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例) (collectively the “**PRC social insurance laws**”) on 22 January 1999.

Pursuant to the Social Insurance Law of the PRC, the state shall establish social insurance systems, including basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance. The basic pension insurance, basic medical insurance and unemployment insurance premiums shall be paid jointly by the employers and employees. The work-related injury insurance and maternity insurance premiums shall be paid by the employers, while the employees are not required to pay. Enterprises in China shall apply for social insurance registration with social insurance institutions, and pay social insurance premiums for their employees.

Our PRC operating subsidiary has registered with the social insurance institution and paid social insurance premiums for its employees, and has complied with the provisions of PRC social insurance laws since 1 May 2016.

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Housing Provident Fund

Pursuant to the Regulations on Management of Housing Provident Fund (住房公積金管理條例) promulgated and implemented by the State Council on 3 April 1999 and then amended on 24 March 2002, domestic enterprises shall apply for housing provident fund registration with the relevant housing provident fund management centre, set up housing provident fund accounts at the entrusted bank, and make housing provident fund deposits for their employees.

Our PRC operating subsidiary has made housing provident fund registration and paid housing provident funds for its employees. Since 1 May 2016, our Company has been complying with the provisions of the Regulations on Management of Housing Provident Fund.

LAWS AND REGULATIONS ON LOANS

General Rules of Loans

The People's Bank of China promulgated the General Rules of Loans (貸款通則) on 28 June 1996, which became effective on 1 August 1996.

Legal persons, other economic organisations, industrial and commercial sole proprietorships and individuals trying to obtain loans from Chinese-funded financial institutions legally established within the territory of China that are engaged in lending business should comply with the General Rules of Loans.

According to the General Rules of Loans, the borrower has the obligation to truthfully provide the materials required by the lender, accept the supervision by the lender, use loans in accordance with the purposes stated in the loan contract, and pay off loan principal and interest on schedule. After the disbursement of loans, the lender has a responsibility to conduct follow-up investigation and inspection on the borrower. In case of default by the borrower, the lender may charge additional interest on all or part of the loan; if the circumstances are especially serious, the lender have the right to suspend the remaining part of the loan, and recover part or all of the loan ahead of schedule. The People's Bank of China and its branch offices are the regulatory bodies for the implementation of the General Rules of Loans.

Working Capital Loan Management

The China Banking Regulatory Commission promulgated and implemented the Interim Measures for the Administration of Working Capital Loans (流動資金貸款管理暫行辦法) on 12 February 2010.

According to the Interim Measures for the Administration of Working Capital Loans, "working capital loans" refer to the local and foreign currency loans disbursed by the lender to an enterprise, institution or other organisation permitted to act as a borrower for the daily production, operation and turnover of the borrower. The lender shall agree on the specific and legitimate purpose of the loans with the borrower. Working capital loans shall not be misappropriated or used for investment in fixed assets or equities, nor shall they be used in the areas of production and operation, and for the purposes

REGULATORY OVERVIEW

prohibited by the state. The lender shall examine them according to the contract. Where the borrower defaults, the lender has the right to take measures in accordance with the loan contract. The China Banking Regulatory Commission shall exercise supervision and administration over the working capital loans.

Our PRC operating subsidiary made several non-compliant working capital loans during the Track Record Period, but all of them have been paid off, which have not caused any disputes. Save as disclosed, all other loans of the PRC operating subsidiary are in compliance with the above regulations.

HISTORY, REORGANISATION AND GROUP STRUCTURE

BUSINESS DEVELOPMENT

Overview

We are principally engaged in plastic and steel component manufacturing and processing business for white goods. For details of our business and operation during the Track Record Period up to and including the Latest Practicable Date, please refer to the section headed “Business” in this prospectus.

The history of our Group can be traced back to 2010 when Mr. Fan, being an executive Director, the chief executive officer of our Company and one of our Controlling Shareholders, established our operating subsidiary, Xiezhong Home Appliances in Anhui province of the PRC.

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 14 December 2015 in anticipation of the Share Offer and is the holding company of our Group after Reorganisation. As at the Latest Practicable Date, we operate our business through Wealthy Square Developments, Dragon Shiner Development and Xiezhong Home Appliances, each a direct or indirect wholly-owned subsidiary of our Company. Wealthy Square Developments and Dragon Shiner Development are investment holding companies. Xiezhong Home Appliances is our operating subsidiary which performs our daily operation.

Business Milestones

The following is a summary of our Group’s key business development milestones:

Year	Major Events
2010	<ul style="list-style-type: none">Establishment of Xiezhong Home Appliances and the First Base commenced operation
2011	<ul style="list-style-type: none">Awarded with the “Quality Innovation Supplier for second quarter of 2011” excellent award from one of our major customers
2012	<ul style="list-style-type: none">The Second Base commenced operation
2014	<ul style="list-style-type: none">Accredited with ISO 9001:2008 in relation to our quality management system

CORPORATE DEVELOPMENT

Our Company

On 14 December 2015, our Company was incorporated in the Cayman Islands with an authorised share capital of HK\$380,000 divided into 38,000,000 ordinary Shares with a par value of HK\$0.01 per Share. One Share was allotted and issued as fully paid at par to the subscriber to the memorandum and articles of association upon incorporation of our Company, which was later transferred to Wang Mao Investments on the same date. On the same date, 74 and 25 Shares were allotted and issued as fully

HISTORY, REORGANISATION AND GROUP STRUCTURE

paid at par to Wang Mao Investments and Season Empire Group, respectively. After the aforesaid transfer and allotment of Shares, 75 Shares and 25 Shares were held by Wang Mao Investments and Season Empire Group, respectively and our Company was held by Wang Mao Investments as to 75% and by Season Empire Group as to 25%. On 1 April 2016, 7,025 Shares and 2,875 Shares were allotted and issued as fully paid to Wang Mao Investments and Season Empire Group, respectively. As a result, our Company was held by Wang Mao Investments as to 71% and by Season Empire Group as to 29%.

Xiezhong Home Appliances

Xiezhong Home Appliances is our operating subsidiary and has been principally engaged in plastic and steel component manufacturing and processing business for white goods since its establishment.

On 16 November 2010, Xiezhong Home Appliances was established in the PRC with limited liability by Mr. Fan, Mr. Fan Baoyi, Ms. Fan Xiaohong and Mr. Xu with a registered capital of RMB2,000,000 to which Mr. Fan, Mr. Fan Baoyi, Ms. Fan Xiaohong and Mr. Xu had contributed RMB800,000, RMB540,000, RMB360,000 and RMB300,000, respectively. The total registered capital of RMB2 million was paid fully in cash on 15 November 2010. Xiezhong Home Appliances obtained the business licence on 16 November 2010.

Upon establishment, the respective equity interest ratio of each equity holder in Xiezhong Home Appliances was as follows:

Equity holder	Capital Contribution	Percentage of Equity Interest
Mr. Fan	RMB800,000	40%
Mr. Fan Baoyi	RMB540,000	27%
Ms. Fan Xiaohong	RMB360,000	18%
Mr. Xu	RMB300,000	15%
Total	RMB2,000,000	100%

According to the equity interest entrustment agreements dated 19 August 2010 and entered into between Mr. Fan and Mr. Fan Baoyi, Ms. Fan Xiaohong and Mr. Xu, respectively, the equity interests in Xiezhong Home Appliances held by Mr. Fan Baoyi, Ms. Fan Xiaohong and Mr. Xu were held on behalf of Mr. Fan. As advised by our PRC Legal Adviser, the aforesaid equity interest entrustment agreements are legally valid and binding. The equity interest entrustment arrangement was arrived at after negotiation between Mr. Fan and Mr. Fan Baoyi, Ms. Fan Xiaohong and Mr. Xu, who are members of Mr. Fan's family and was primarily due to (i) the unwillingness of Mr. Fan Baoyi, Ms. Fan Xiaohong and Mr. Xu to invest in Xiezhong Home Appliances; and (ii) Mr. Fan's belief that such arrangement would enhance confidence in customers taking into account the status of Xiezhong Home Appliances as a newly established enterprise.

HISTORY, REORGANISATION AND GROUP STRUCTURE

In contemplation of the Listing, on 15 May 2015, Mr. Fan entered into an equity interest transfer agreement with Mr. Fan Baoyi, Ms. Fan Xiaohong and Mr. Xu, pursuant to which, (i) Mr. Fan Baoyi agreed to transfer his 27% equity interest in Xiezhong Home Appliances to Mr. Fan at the consideration of RMB594,000; (ii) Ms. Fan Xiaohong agreed to transfer her 18% equity interest in Xiezhong Home Appliances to Mr. Fan at the consideration of RMB396,000; and (iii) Mr. Xu agreed to transfer his 15% equity interest in Xiezhong Home Appliances to Mr. Fan at the consideration of RMB330,000.

On 2 June 2015, the registered capital of Xiezhong Home Appliances increased from RMB2 million to RMB5 million. Such increase in registered capital was contributed by Mr. Fan and was fully paid up by 29 July 2015.

Following the aforesaid transfers of equity interests and increase of registered capital, Xiezhong Home Appliances was wholly-owned by Mr. Fan.

PRE-IPO INVESTMENT

On 18 August 2015, Gift Horizon, a company incorporated in Hong Kong and indirectly wholly-owned by Mr. Zhou, entered into an equity transfer agreement with Mr. Fan, pursuant to which Mr. Fan agreed to transfer 29% of his equity interest in Xiezhong Home Appliances to Gift Horizon at the consideration of RMB4.08 million. The consideration was determined after arm's length negotiations between the parties with reference to the assessed net asset value of Xiezhong Home Appliances as at 31 December 2014 in the amount of approximately RMB13.99 million. Such consideration was settled on 27 October 2015. As advised by our PRC Legal Adviser, the aforesaid equity transfer was approved by the competent PRC government authority on 15 September 2015 and registered by the competent PRC government authority on 25 September 2015. Following completion of the aforesaid equity transfer, Xiezhong Home Appliances became a sino-foreign joint venture and was owned as to 71% by Mr. Fan and 29% by Gift Horizon.

On 1 April 2016, Season Empire Group and our Company entered into a subscription agreement, pursuant to which Season Empire Group agreed to subscribe for 2,875 Shares at the consideration of HK\$36.9 million. The consideration was determined between the parties after arm's length negotiation taking into account the potential growth of our Group. On 1 April 2016, 2,875 Shares were allotted and issued to Season Empire Group and the consideration was settled on 5 May 2016.

On 8 May 2016, as part of the Reorganisation, Gift Horizon entered into an equity interest transfer agreement with Dragon Shiner Development pursuant to which Gift Horizon agreed to transfer 29% equity interests in Xiezhong Home Appliances to Dragon Shiner Development at the consideration of RMB4.08 million.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Details of the Pre-IPO Investment are summarised below:

Name of investor	Season Empire Group
Date of the agreement in relation to the Pre-IPO Investment	1 April 2016
Amount of consideration paid	HK\$36,900,000
Payment date of the consideration	5 May 2016
Effective cost per Share paid	approximately HK\$0.40 (<i>note</i>)
Discount to the Share Price	approximately 20%
Shareholding upon Listing	91,350,000 Shares, representing 21.75% of the issued share capital of our Company upon Listing (<i>note</i>)
Use of net proceeds and its utilisation by our Company	<p>The proceeds from the Pre-IPO Investment have been applied by us for general working purposes, payment of Listing expenses and payment of consideration to Mr. Fan and Gift Horizon for acquisition of Xiezhong Home Appliances as set out in the paragraph headed “— Reorganisation — (F) Acquisition of Xiezhong Home Appliances by Dragon Shiner Development” in this section.</p> <p>As at the Latest Practicable Date, approximately HK\$17.8 million (equivalent to approximately RMB14.4 million) of the Pre-IPO Investment had not been utilised. We intend to continue to apply the remaining proceeds to our general working capital.</p>
Shareholding in our Company upon Listing (taking into no account the Shares to be issued upon exercise of the Offer Size Adjustment Option and any option which may be granted under the Share Option Scheme)	21.75%
Public Float	All the Shares held by Season Empire Group will not be considered as part of the public float for the purpose of Rule 11.23 of the GEM Listing Rules since Season Empire Group will be a Substantial Shareholder and hence a connected person of our Company upon Listing.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Lock-up period	Season Empire Group and Mr. Zhou will not, and will procure, among others, his/its affiliates and associates (as defined in the GEM Listing Rules) will not enter into the transactions specified in the paragraphs (a), (b) or (c) of the section headed “Underwriting — Undertakings pursuant to the Public Offer Underwriting Agreement — Undertakings by our Controlling Shareholders, Mr. Zhou and Season Empire Group” during the First Six-Month Period and during the Second Six-Month Period as defined in the section headed “Underwriting” in this prospectus.
Any special rights enjoyed	Nil

Note: For illustration purpose only, assuming completion of the Capitalisation Issue and the Share Offer taking no account any Share to be issued upon exercise of the Offer Size Adjustment Option and any option to be granted under the Share Option Scheme.

Season Empire Group is a limited company incorporated in the BVI on 7 July 2015 and its entire issued share capital is owned by Mr. Zhou. Season Empire Group is principally engaged in investment holding.

Mr. Zhou was introduced by his father to Mr. Fan. Mr. Zhou’s father, Mr. Chao Pang Ieng, is a businessman with over 20 years of experience in packaging material business and investments. Mr. Chao and his spouse established Chuzhou Chuangce Packaging Materials Company Limited* (滁州創策包裝材料有限公司) (formerly known as Chuzhou Jingda Package Company Limited* (滁州景達包裝有限公司) (the “**Chuzhou Chuangce**”) in the PRC in 1997 which principally engaged in the design, manufacture and sale of packaging products made primarily of EPS (expanded polystyrene) and EPO (expanded polyolefin) for packaging of consumer electrical appliances, such as televisions, air conditioners, washing machines and refrigerators, in the PRC. Upon reorganization in about 2011, Chuzhou Chuangce became part of a company known as Jin Bao Bao Holdings Limited (now renamed as Teamway International Group Holdings Limited), which is listed on the Main Board of The Stock Exchange of Hong Kong Limited in November 2011 with stock code of 1239. Mr. Chao was the then chairman, chief executive officer, an executive director and a controlling shareholder of Jin Bao Bao Holdings Limited. Mr. Chao was first introduced to Mr. Fan through a staff working for Mr. Chao about 8 to 10 years ago. Subsequently, Mr. Zhou expressed interests in investing in our Group and was then invited to conduct several visits to our Group. As confirmed by Mr. Zhou, in order to make a sound investment decision, he has undertaken certain due diligence work, including discussion with our senior management, studying our manufacturing, processing and products, conducting researches on the prospect of our industry in the PRC. After such due diligence and review together with his educational background and working experience (for further details, please refer to the section headed “Directors and Senior Management” of this prospectus), he considered that our Group has good business prospect and decided to invest in us. Taking into consideration his investment experience in packaging material business in Chuzhou. Mr. Zhou’s father considered Chuzhou as a good place for investment and gave Mr. Zhou a sum of HK\$37 million as gift for Mr. Zhou’s own use and investment. Save as disclosed in this prospectus, Mr. Zhou has confirmed that (a) he has never been involved in

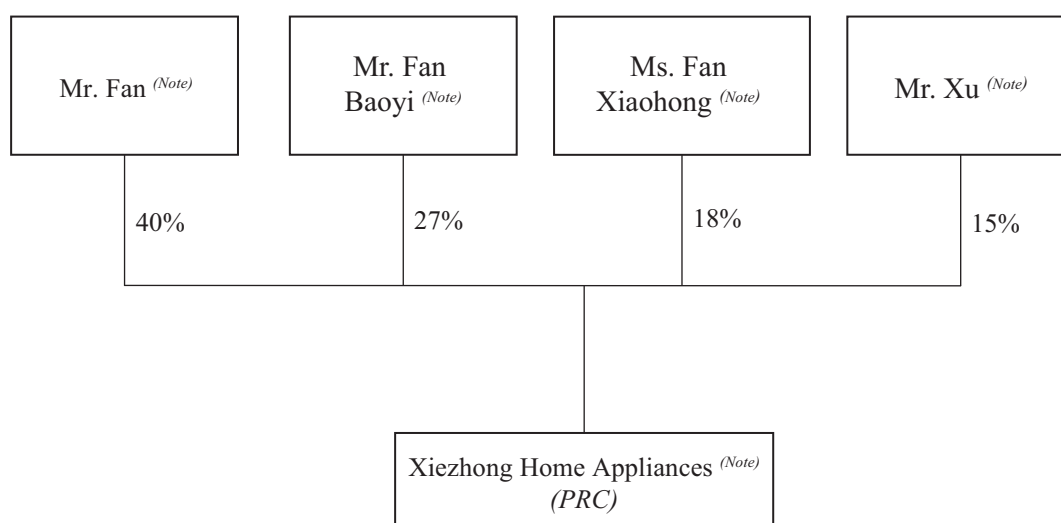
HISTORY, REORGANISATION AND GROUP STRUCTURE

any dealing or transaction with our Directors, the Controlling Shareholders, any member of our Group and any of their respective associates; (b) he did not acquire interests in our Company with finance provided directly or indirectly by our connected person(s); and (c) he does not take instructions from our connected person(s) in relation to the acquisition, disposal, voting or other disposal of his interest in our Company.

The Sole Sponsor has reviewed the relevant information and documentation to the investment of the Pre-IPO investor. On this basis and as the consideration under the Pre-IPO Investment was settled on 5 May 2016, which was more than 28 clear days before the first submission of the listing application form in respect of the Listing, the Sole Sponsor is of the view that the Pre-IPO Investment is in compliance with the Interim Guidance on Pre-IPO Investments (Guidance Letter HKEx-GL29-12) and Guidance Letter HKEx-GL43-12 issued by the Stock Exchange.

REORGANISATION

The following chart sets forth the corporate and shareholding structure of our Group immediately prior to the Reorganisation:



Note: According to the equity interest entrustment agreements dated 19 August 2010 and entered into between Mr. Fan and Mr. Fan Baoyi, Ms. Fan Xiaohong and Mr. Xu, respectively, the equity interests in Xiezhong Home Appliances held by Mr. Fan Baoyi, Ms. Fan Xiaohong and Mr. Xu were held on behalf of Mr. Fan.

HISTORY, REORGANISATION AND GROUP STRUCTURE

In preparation for the Listing, our Group underwent the Reorganisation, the major steps of which include:

(A) Incorporation of our Company

Our Company was incorporated in the Cayman Islands on 14 December 2015 with an authorised share capital of HK\$380,000 divided into 38,000,000 ordinary Shares with a par value of HK\$0.01 per Share. One Share was allotted and issued as fully paid at par to the subscriber to the memorandum and articles of association upon incorporation of our Company, which was later transferred to Wang Mao Investments on the same date.

(B) Transfer of equity interests in Xiezhong Home Appliances by Mr. Fan Baoyi, Ms. Fan Xiaohong and Mr. Xu to Mr. Fan

On 15 May 2015, Mr. Fan entered into an equity interest transfer agreement with Mr. Fan Baoyi, Ms. Fan Xiaohong and Mr. Xu, pursuant to which, (i) Mr. Fan Baoyi agreed to transfer his 27% equity interest in Xiezhong Home Appliances to Mr. Fan at the consideration of RMB594,000; (ii) Ms. Fan Xiaohong agreed to transfer her 18% equity interest in Xiezhong Home Appliances to Mr. Fan at the consideration of RMB396,000; and (iii) Mr. Xu agreed to transfer his 15% equity interest in Xiezhong Home Appliances to Mr. Fan at the consideration of RMB330,000.

(C) Acquisition of 29% equity interest in Xiezhong Home Appliances by Gift Horizon

On 18 August 2015, Gift Horizon entered into an equity transfer agreement with Mr. Fan, pursuant to which Mr. Fan agreed to transfer 29% of his equity interest in Xiezhong Home Appliances to Gift Horizon at the consideration of RMB4.08 million. As advised by our PRC Legal Adviser, the aforesaid equity transfer was approved by the competent PRC government authority on 15 September 2015 and registered by the competent PRC government authority on 25 September 2015. For further details of the above transaction, please refer the paragraph headed “Pre-IPO Investment” in this section.

(D) Incorporation of Season Empire Group, Dragon Shiner Development, Wealthy Square Developments and Wang Mao Investments

On 7 July 2015, Season Empire Group, an investment holding company, was incorporated in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On 19 October 2015, one fully paid share in Season Empire Group, representing the then entire issued share capital of Season Empire Group, was allotted and issued to Mr. Zhou at par. Since then, Season Empire Group has been wholly-owned by Mr. Zhou.

HISTORY, REORGANISATION AND GROUP STRUCTURE

On 24 July 2015, Dragon Shiner Development, an investment holding company and the intermediate holding company of our Group, was incorporated in Hong Kong with limited liability. On 24 December 2015, Wealthy Square Developments acquired one share in Dragon Shiner Development, representing the then entire issued share capital of Dragon Shiner Development, from the then founder member of Dragon Shiner Development at HK\$1.00. Since then, Dragon Shiner Development has been wholly-owned by Wealthy Square Developments.

On 28 September 2015, Wealthy Square Developments, an investment holding company and the intermediate holding company of our Group, was incorporated in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On 24 December 2015, one fully paid share in Wealthy Square Developments, representing its then entire issued share capital, was allotted and issued to our Company at par. Since then, Wealthy Square Developments has been a direct wholly-owned subsidiary of our Company.

On 28 September 2015, Wang Mao Investments, an investment holding company, was incorporated in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On 19 October 2015, one fully paid share in Wang Mao Investments, representing its then entire issued share capital, was allotted and issued to Mr. Fan at par. Since then, Wang Mao Investments has been wholly-owned by Mr. Fan.

(E) Subscription by Season Empire Group and further allotment of Shares

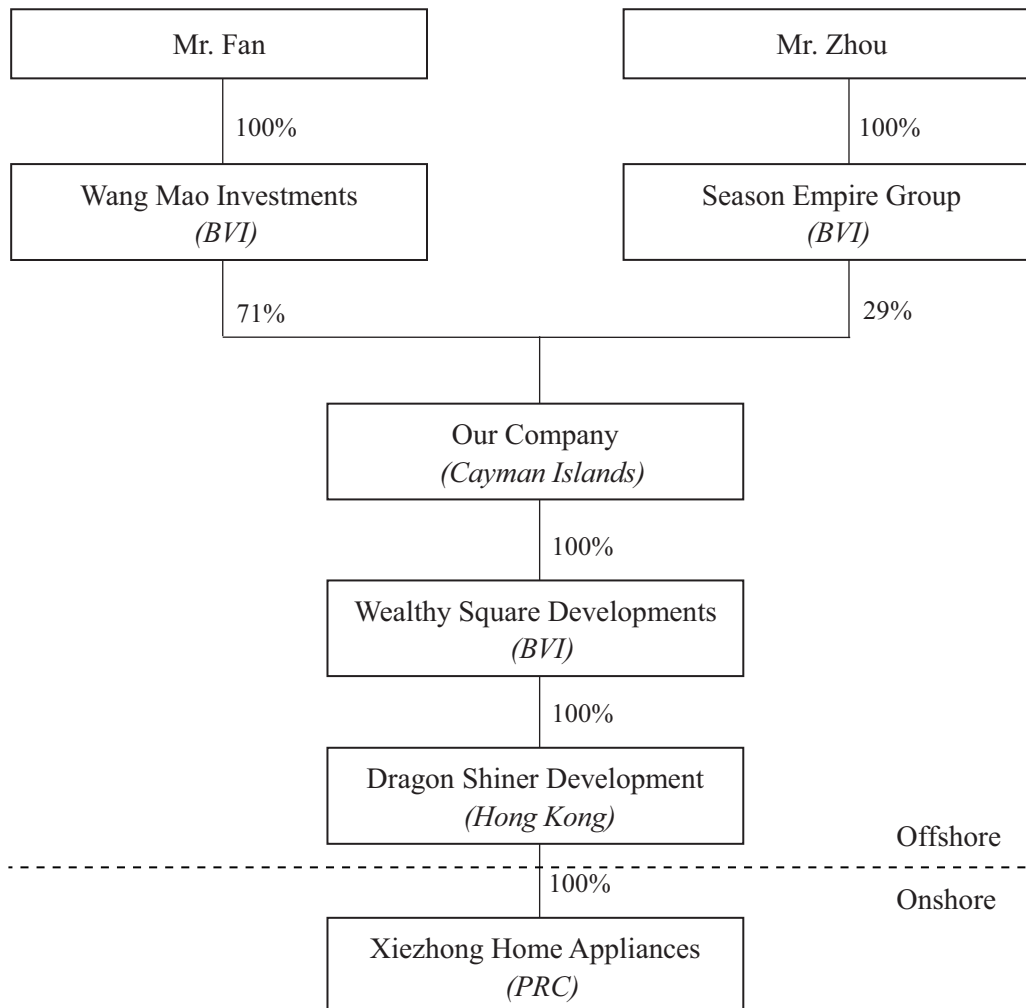
On 1 April 2016, Season Empire Group and our Company entered into a subscription agreement, pursuant to which Season Empire Group agreed to subscribe for 2,875 Shares at the consideration of HK\$36.9 million. For further details of the above transaction, please refer the paragraph headed “Pre-IPO Investment” in this section. On 1 April 2016, 2,875 Shares were allotted and issued to Season Empire Group and the consideration was settled on 5 May 2016.

(F) Acquisition of Xiezhong Home Appliances by Dragon Shiner Development

On 8 May 2016, Dragon Shiner Development entered into an equity interest transfer agreement with Mr. Fan pursuant to which Dragon Shiner Development agreed to acquire 71% equity interests in Xiezhong Home Appliances from Mr. Fan at the consideration of RMB9.99 million. The aforesaid consideration was determined after arm’s length negotiations between the parties with reference to the assessed net asset value of Xiezhong Home Appliances as at 31 December 2014. On the same date, Dragon Shiner Development entered into an equity interest transfer agreement with Gift Horizon pursuant to which Dragon Shiner Development agreed to acquire 29% equity interests in Xiezhong Home Appliances from Gift Horizon at the consideration of RMB4.08 million. The aforesaid consideration was determined after arm’s length negotiations between the parties with reference to the assessed net asset value of Xiezhong Home Appliances as at 31 December 2014. As advised by our PRC Legal Adviser, the aforesaid equity transfer was approved by the competent government authority on 18 May 2016 and registered by the competent PRC government authority on 20 May 2016. Thereafter, Xiezhong Home Appliances became a direct wholly-owned subsidiary of Dragon Shiner Development.

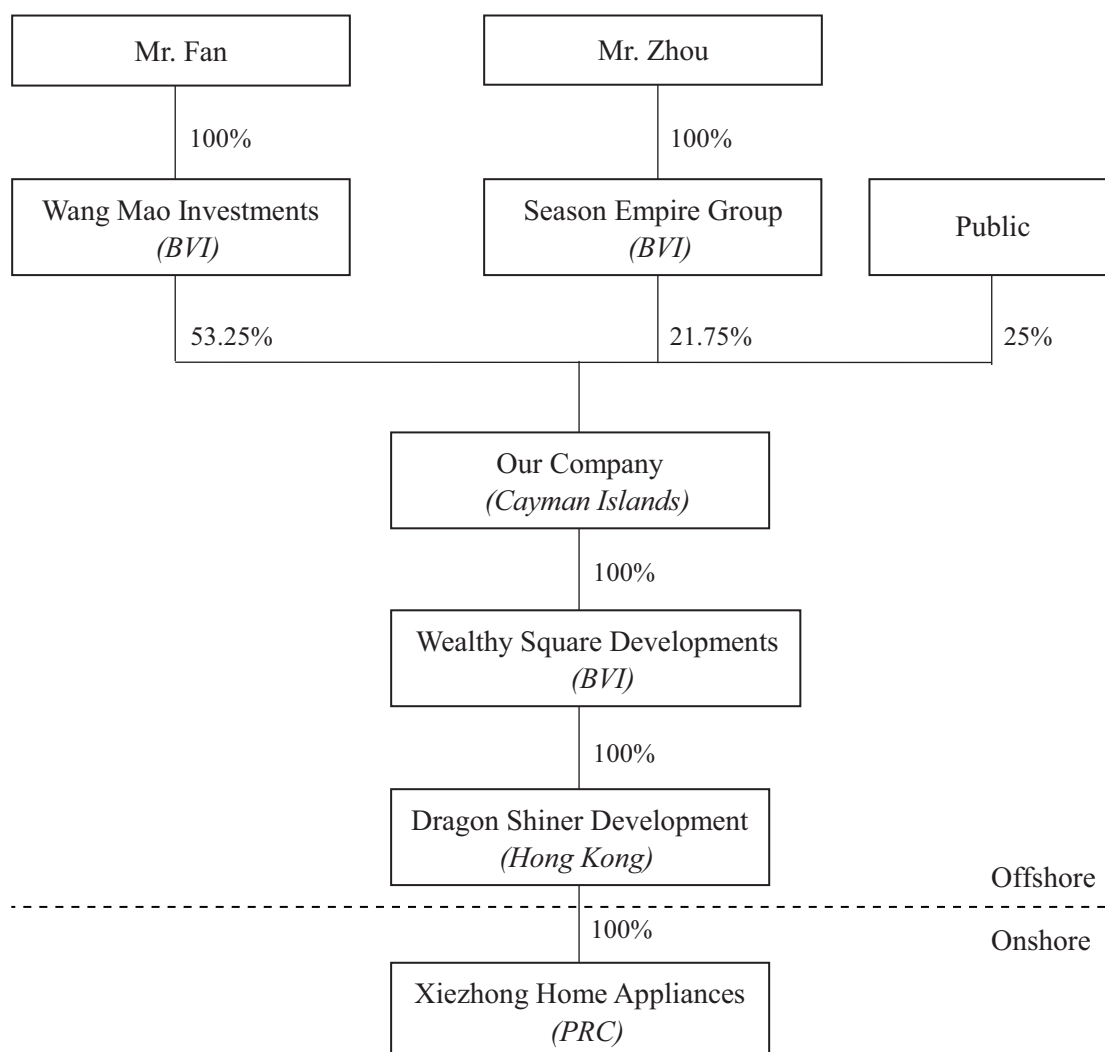
HISTORY, REORGANISATION AND GROUP STRUCTURE

The following chart sets forth the corporate and shareholding structure of our Group immediately following completion of the Reorganisation:



HISTORY, REORGANISATION AND GROUP STRUCTURE

The following chart sets forth the corporate and shareholding structure of our Group immediately following completion of the Share Offer and the Capitalisation Issue, taking no account any Shares that may be issued pursuant to the exercise of the Offer Size Adjustment Option and any option that may be granted under the Share Option Scheme:



PRC Legal Compliance

As provided in the M&A Rules, the merger and acquisition of a domestic enterprise by a foreign investor means that a foreign investor purchases the equity interest of any shareholder of a domestic non-foreign invested enterprise (the “**Domestic Company**”) or subscribes to the increased capital of a Domestic Company, and thus changing the Domestic Company into a foreign-invested enterprise; or a foreign investor establishes a foreign-invested enterprise, and through which it purchases by agreement the assets of a domestic enterprise, and then operates such assets, or a foreign investor purchases by agreement the assets of a domestic enterprise and then invests such assets to establish a foreign-invested enterprise to operate the assets. Where a domestic company or enterprise or a domestic natural person, through an offshore entity established or controlled by it/him, acquires a

HISTORY, REORGANISATION AND GROUP STRUCTURE

domestic company which is related to or connected with it/him, approval from MOFCOM is required. The M&A Rules, among other things, further require that an offshore special purpose vehicle directly or indirectly controlled by domestic companies or natural persons for the purpose of overseas listing of the interests actually held by such domestic companies or natural persons in a Domestic Company, shall obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle's securities on an overseas stock exchange.

As advised by our PRC Legal Adviser, when Gift Horizon acquired 29% equity interest in Xiezhong Home Appliances in August 2015, Gift Horizon was a foreign investor which was controlled by a non-PRC natural person independent from Xiezhong Home Appliances and its then owner, Mr. Fan. Therefore, even though Xiezhong Home Appliances was a Domestic Company, Article 11 of the M&A Rules was not applicable to such acquisition of Xiezhong Home Appliances by Gift Horizon, so it was not required to report to the MOFCOM for approval as required by the M&A Rules.

Besides, by virtue of the Notice of Ministry of Commerce on Further Improving Approval Works for Foreign Investment (No. 7 of 2009) (商務部關於進一步改進外商投資審批工作的通知 (商資函(2009)7號)), the Department of Commerce of Chuzhou City (滁州市商務局), being the department in charge for commerce in Chuzhou, has the competent authority to approve the equity transfer and the change in equity interest of Xiezhong Home Appliances. The equity transfer between Mr. Fan and Gift Horizon in Xiezhong Home Appliances in August 2015 had been approved by the Department of Commerce in Chuzhou and registered in September 2015.

As further advised by our PRC Legal Adviser, when the entire equity interest in Xiezhong Home Appliances was acquired by Dragon Shiner Development, Xiezhong Home Appliances was a sino-foreign joint venture and hence was not a Domestic Company within the M&A Rules. The Notice on Distributing the Manual of Guidance on Administration for Foreign Investment Access (2008 edition) (外商投資進入管理指引手冊) (2008年版) also stipulated that the equity transfer to foreign party by the Chinese party of an established foreign-invested enterprise shall not refer to the M&A Rules, no matter whether there is any affiliated relationship between the Chinese party and foreign party, and the target company of the M&A Rules shall only include domestic company with no foreign investment. Therefore, the M&A Rules was not applicable to the acquisition of the entire equity interests in Xiezhong Home Appliances by Dragon Shiner Development and approval by MOFCOM or CSRC is not required. Nevertheless, the approval from the original authority (i.e. the Department of Commerce of Chuzhou City) should be obtained under the Provisions for the Alteration of Investors' Equities in Foreign-funded Enterprises (外商投資企業投資者股權變更的若干規定), and such approval has been obtained in May 2016.

As confirmed by the Department of Commerce of Chuzhou City on 10 November 2017, Article 11 of the M&A Rules is not applicable to the acquisition of Xiezhong Home Appliances by Gift Horizon in August 2015, and the M&A Rules is not applicable to the acquisition of Xiezhong Home Appliances by Dragon Shiner Development in May 2016, and the change of Xiezhong Home Appliance from a Domestic Company to a foreign-invested enterprise complies with the relevant laws, regulations and administrative approval requirements.

HISTORY, REORGANISATION AND GROUP STRUCTURE

By reasons that (i) the acquisition of Xiezhong Home Appliances by Gift Horizon was a commercial investment decision made by Mr. Zhou after his research on Xiezhong Home Appliances' investment value and prospect, Gift Horizon was a foreign investor which was controlled by a non-PRC natural person independent from Xiezhong Home Appliances and its then owner, Mr. Fan, when Gift Horizon acquired 29% equity interest in Xiezhong Home Appliances and that, as confirmed by the Department of Commerce of Chuzhou City, Article 11 of the M&A Rules was not applicable to such acquisition; and (ii) the acquisition of Xiezhong Home Appliances by Dragon Shiner Development was a commercial arrangement made for the purpose of the listing application of our Company after Season Empire Group subscribed the 2,875 Shares in our Company, and that, as confirmed by the Department of Commerce of Chuzhou City, the M&A Rules were not applicable to Xiezhong Home Appliances as a Sino-foreign joint venture, our PRC Legal Adviser is of the view that the acquisitions of equity interests in Xiezhong Home Appliances, individually or as a whole, were not designed for the purpose of circumventing the relevant provisions of the M&A Rules and did not constitute circumvention of the relevant provisions of the M&A Rules.

The Circular of the SAFE on Issues Concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment Domestic Residents via Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (the “**Circular 37**”) became effective on 4 July 2017. Pursuant to the Circular 37, PRC residents, including PRC individuals and institutions, is required to register with the SAFE or its local branches in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests. Such offshore entity is referred to as a special purpose vehicle.

Pursuant to Circular on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (關於進一步簡化和改進直接投資外匯管理政策的通知) (“**Circular 13**”), the foreign exchange registration under domestic direct investment and the foreign exchange registration under overseas direct investment, including the registration of PRC residents who engage in overseas investment and financing and inbound investment via an offshore special purpose vehicles under Circular 37, will be directly reviewed and handled by banks, and the SAFE and its branches shall perform indirect regulation over the direct investment-related foreign exchange registration via banks. Circular 13 also provides that apart from PRC individuals who possess valid PRC identity documents, such as a PRC identity card or passport, individuals who have habitual residence in the PRC by reason of economic interests and fall within the following three categories (irrespective of whether they possess a valid PRC identity document or not) are also considered as PRC residents under Circular 37: (i) a natural person who has a permanent residence in the PRC and temporarily leaves that permanent residence due to overseas travel, study, work or other reason(s) and will be back to the permanent residence thereafter; (ii) a natural person who has domestic interests in a domestic company; and (iii) a natural person who used to have domestic interests in a domestic company and ultimately owns such interests after the nature of such interest changed to foreign interests.

Immediately before the Share Offer, the ultimate beneficial Shareholders of our Company are Mr. Fan who is a PRC natural person and Mr. Zhou who is a permanent resident in Macau.

HISTORY, REORGANISATION AND GROUP STRUCTURE

According to the Offshore Investment Foreign Exchange Registration Form for PRC Resident Individuals* (境內居民個人境外投資外匯登記表) signed by Mr. Fan and registered by bank, our PRC Legal Adviser advised that Mr. Fan has completed the offshore investment foreign exchange registration for PRC individuals by 4 December 2015. Further, since Mr. Zhou is a Macau resident and does not belong to any of the above three categories of natural person, he is not subject to the offshore investment foreign exchange registration requirement.

Our PRC Legal Adviser have further confirmed that all approvals, permits and licences required in connection with the Reorganisation have been obtained, and the Reorganisation have not violated any applicable PRC laws and regulations.

BUSINESS

OVERVIEW

We are the largest plastic and steel component processor for white goods in Anhui province in the PRC in terms of sales revenue in 2016 according to the Ipsos Report. However, according to the Ipsos Report, the plastic and steel component manufacturing and processing industry for white goods in the PRC is highly fragmented and a large number of plastic and steel component processors are competing in the market. Our products mainly include stamping components and peripheral components, which in turn are components and parts of our customers' products, inter alia, white goods including home washing machines and home refrigerators. For the years ended 31 December 2015, 2016 and 2017, our revenue derived from stamping components was approximately 21.9%, 24.7% and 17.4% of our total revenue, respectively, and our revenue derived from peripheral components was approximately 78.1%, 75.3% and 82.6% of our total revenue, respectively. The business of our Group has been conducted by our PRC operating subsidiary, Xiezhong Home Appliances, which was established in November 2010.

Currently, our manufacturing and processing facilities comprise two bases, namely, the First Base and the Second Base, which are both located in Chuzhou, Anhui province in the PRC. Our First Base, which is located at Danzi Industrial Park, is mainly engaged in peripheral components processing and has an average annual powder-coating processing output of approximately 4.0 million units during the Track Record Period. In order to expand our manufacturing and processing capacity, we commenced the operation of the Second Base in 2012 at No.719 Shuangying Road. Our Second Base is engaged in both stamping components manufacturing and peripheral components processing and has an average annual manufacturing and processing output of approximately 5.8 million units of stamping components and approximately 3.1 million units of peripheral components, respectively, during the Track Record Period.

During the Track Record Period, our customers are generally component processors and manufacturers of white goods under prominent brands, including Midea and TCL in the PRC, which we believe, was primarily attributable to our high product quality and extensive manufacturing and processing know-how with wide coverage in the industry where we operate. According to the Ipsos Report, we are the only company in Anhui province, the PRC, that can provide five types of plastic and steel peripheral component processing services for white goods, including spray-painting, powder-coating and baking enamel for steel components and spray-painting and UV-coating for plastic components and stamping service for stamping components manufacturing. Therefore, we believe we are more capable to meet the customers' needs compared to our competitors, which generally only offer three to four types of peripheral component processing services for white goods. Benefiting from our competitive strengths, we experienced significant growth during the Track Record Period. Our revenue increased by approximately 42.2% from approximately RMB55.7 million in 2015 to approximately RMB79.2 million in 2016. Our revenue increased by approximately 22.9% from approximately RMB79.2 million for the year ended 31 December 2016 to approximately RMB97.3 million for the year ended 31 December 2017.

BUSINESS

COMPETITIVE STRENGTHS

We believe that the following competitive strengths have contributed to our sustainable growth in the plastic and steel component manufacturing and processing industry for white goods:

We have established long-term business relationships with renowned white goods brands

We have established long-term business relationships with renowned white goods brands. During the Track Record Period, our five largest customers included white goods manufacturers for Midea and TCL. We also have strong business relationships with our five largest customers and, as at the Latest Practicable Date, such business relationships ranged from more than two years to more than six years. Indeed, our business relationship with Group A, our third largest, largest and largest customer for the years ended 31 December 2015, 2016 and 2017, respectively, commenced since 2012 after the establishment of our PRC operating subsidiary, Xiezhong Home Appliances. Such long-standing business relationships are a testament to our consistently high quality products. Our emphasis on and efforts in ensuring the quality of our products have also been recognised by our customers. In 2011, we received the excellent award as “Quality Innovation Supplier for second quarter of 2011” that praised us for the quality improvement of our products from one of our major customers, Midea, which is a renowned white goods brand.

We believe that our long-term business relationships with our major customers, many of which are reputable white goods brands, greatly enhance our reputation in the plastic and steel component manufacturing and processing industry for white goods and hence increase our ability to attract new customers which share similar profile and marketing position as our existing customers. This cannot be easily replicated by our competitors and has enabled us and will continue to enable us to differentiate ourselves from them.

We are the largest plastic and steel component processor for white goods in Anhui province in the PRC in terms of sales revenue in 2016 with extensive manufacturing and processing know-how and stringent quality control which ensures high quality products

According to the Ipsos Report, we are the largest plastic and steel component processor for white goods in Anhui province in the PRC by sales revenue in 2016. Since the establishment of Xiezhong Home Appliances in 2010, we have accumulated extensive expertise and know-how through stamping components manufacturing and peripheral components processing for many reputable white goods brands. Together with our technologically advanced production bases, we are able to consistently produce high quality products efficiently. As at the Latest Practicable Date, we had two processing lines and seven manufacturing and processing lines at our First Base and Second Base, respectively.

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We are committed to providing high quality products and we have adopted a comprehensive and stringent quality control system towards each step of our principal manufacturing and processing procedures. We believe that high quality product is critical to our success and retention of long-term customers. As at the Latest Practicable Date, our quality control team consisted of 12 employees and was led by an experienced senior management, Mr. Hong Wei, possessing over 20 years of experience in quality control in the relevant industry. Please refer to the section headed “Directors and Senior Management” in this prospectus for further details. Our major raw materials including steel, steel parts, plastic parts, oil paint and paint powder are subject to on-site sample checks. In addition to the manufacturing and processing line inspections performed by members of our production team, our quality control team carries out further quality inspections by conducting sample checks on our finished products before they are delivered to our customers. During the Track Record Period and up to the Latest Practicable Date, there has been no incident of failure in our quality control system which had a material adverse impact on us, and we had not received any complaints on material quality issues from our customers. For further information on our quality control system, please refer to the paragraph headed “Quality Control” below. In recognition of our quality control system, we were accredited with ISO 9001:2008 in relation to our quality management system since January 2014.

We believe that our strong manufacturing and processing expertise, extensive manufacturing and processing know-how and stringent quality control establish a solid foundation for our sustainable growth by enabling us to maintain long-term customer relationships and expand our customer base.

We have stable sources of quality raw materials

Our major raw materials include steel, steel parts, plastic parts, oil paint and paint powder. The quality and reliability of our stamping components and peripheral components highly depend on the quality of raw materials we source. Stable supply of quality raw materials is considered as one of the keys to our success of our business. We maintain stable business relationships with our suppliers. Three of our five largest suppliers for the years ended 31 December 2015, 2016 and 2017 had been our supplier for more than three years as at the Latest Practicable Date. Leveraging on the established long-term business relationships with our key suppliers, we are able to source quality raw materials to match with our prescribed standards for production at reasonable terms with acceptable credit periods. Most of our suppliers are located in Anhui province or other nearby provinces in the PRC, such close proximity to our key suppliers assures us of prompt delivery and lower transportation costs.

During the Track Record Period, we have generally maintained at least three different raw materials suppliers for procurement of each type of our major raw materials, all of which have been on our approved qualified supplier list. In the event that any of our raw materials suppliers fail to meet our needs on time or at all, our Directors believe that it is not difficult for our Group to procure the same raw materials at similar prices from alternative suppliers in our approved qualified suppliers list in a timely manner.

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Our production bases are strategically located

Our production bases are strategically located in Anhui province, which is near Jiangsu province. According to the Ipsos Report, as of 2016, Anhui province and Jiangsu province is the largest and third largest white goods manufacturing province in terms of output volume of white goods in the PRC, respectively. The total production volume of white goods in Anhui province and Jiangsu province accounted for 30.1% and 16.6% of the total output of the PRC in 2016, respectively. Considering the ongoing industrial consolidation in the white goods industry, Anhui province will benefit from the trend as four out of five largest white goods manufacturers have manufacturing base in Anhui province. As Anhui province is taking the lead in both home washing machine and home refrigerator production and due also to the proximity to the white goods manufacturing factories, local plastic and steel component processors are expected to gain more sales. We believe that the locations of our production bases, with their proximity to our key customers, minimise our transportation costs and enable us to offer competitive prices and better respond to our customers' needs in an efficient manner.

We have an experienced and dedicated management team with profound industry knowledge

We have an experienced and dedicated management team with extensive technical expertise and substantial experience in the stamping components manufacturing and peripheral components processing for white goods. Our management team has extensive industry experience and a proven track record. Led by our executive Directors, key members of our management team in charge of manufacturing and processing have in general over 20 years of experience in the industry where we operate. In particular, Mr. Fan, being our founder and executive Director, has accumulated over 23 years of experience in stamping components manufacturing and peripheral components processing for white goods. His knowledge, experience and vision in the plastic and steel component manufacturing and processing industry for white goods has led us to capture a number of business opportunities in the industry where we operate. For example, in 2013, benefiting from Mr. Fan's insight that processing of peripheral components for white goods is labour intensive in nature which requires substantial amount of human labour to increase processing capacity, we added one automatic spray-painting line to supplement and increase our processing capacity to meet the demands from our customers. In addition, Mr. Fan seized the new business opportunity to deepen our business relationship with Group A, one of our major customers, by expanding our product offering to provide display pedestals for home refrigerators and home washing machines in 2015 and cabinets for home washing machines in 2016. Further information of our Directors and senior management is set out in the section headed "Directors and Senior Management" in this prospectus.

BUSINESS

BUSINESS STRATEGIES

We intend to implement the following business strategies to strengthen our position and increase our market share in the future:

Continuing to invest in the field of our products with higher profit margins

For the years ended 31 December 2015, 2016 and 2017, the gross profit margin for our spray-painting peripheral components, including steel spray-painting peripheral components, plastic spray-painting peripheral components and plastic UV-coating peripheral components, which was approximately 33.8%, 34.1% and 41.3%, respectively, was higher than the gross profit margin for our powder-coating peripheral components, namely the steel powder-coating peripheral components, which was approximately 17.0%, 15.2% and 5.6%, respectively, as well as the gross profit margin for our stamping components, which was approximately 29.0%, 35.4% and 15.3%, respectively, for the same periods. We have therefore allocated considerable resources to the spray-painting peripheral components processing during the Track Record Period. For example, we added two production lines, one single station manual spray-painting line and one highlight polishing line to promote our corresponding processing capacity. As a result, our revenue from sales of spray-painting peripheral components increased by approximately 14.2% from approximately RMB33.1 million in 2015 to approximately RMB37.8 million in 2016 and our revenue from sales of spray-painting peripheral components increased by approximately 17.5% from approximately RMB37.8 million in 2016 to approximately RMB44.4 million in 2017. In this regard, we plan to use part of the net proceeds from the Share Offer to enhance our spray-painting peripheral component processing equipment to further improve the quality and/or increase the output of our spray-painting peripheral components, which we believe will enable us to further strengthen our market position and capture the potential growth opportunities in the industry where we operate. For details, please refer to the paragraph headed “Manufacturing and Processing — Expansion Plan — Expanding our Existing Manufacturing and Processing Facilities — Spray-painting Peripheral Components” below.

Continuing to enrich and expand our product offerings

Our established business relationships with our customers and network among industry peers represent potential cross-selling opportunities of our products. We intend to launch new products based on our technological development and according to specifications of our existing customers and potential customers. Leveraging on our industry knowledge, experience and network, we may diversify into stamping components manufacturing and peripheral components processing for home appliances other than home washing machines and home refrigerators.

Given that our current production facilities can also be used interchangeably for production of plastic and steel components for home appliances other than home washing machines and home refrigerators, although slight adjustment on our production facilities is necessary due to different product shapes and/or customer specifications, and according to the Ipsos Report, and we are the only company in Anhui province, the PRC, that can provide five types of plastic and steel peripheral component processing services for white goods and stamping service for stamping components manufacturing, we plan to pursue the following strategies to achieve our objectives: (i) further upgrade our technological skills and maintain the high quality of our products; (ii) establish and

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enhance our brand awareness in our industry and among our customers; and (iii) further enhance our sales and marketing team and optimize our sales and marketing channel mix. As a strategy to enrich and expand our product offerings, we entered into sales agreements with Group A for processing of spray-painting peripheral components for range hoods in 2016 and we were selected as qualified supplier by one of the prominent white goods brands in October 2017 for processing of spray-painting peripheral components for electric heaters. We also intend to co-operate with our industry peers which have sufficient capacity and adequate technical skills to expand our product offerings, in order for us to remain competitive and achieve continuous and sustainable growth in the future. For details, please refer to the paragraph headed “Expansion Plan” below.

We intend to enhance our market share

Given the limited manufacturing and processing capacity during the Track Record Period, we focused on sales to our existing customers. According to the Ipsos Report, the annual output volume of white goods in Anhui province is expected to grow faster than the national average from 54.4 million units in 2017 to 64.6 million units in 2021, at a CAGR of 4.5%. In order to capture business opportunities and to enlarge our customer base, we plan to further strengthen our marketing efforts to approach potential customers with an aim to enhance our market share. To this end, as at the Latest Practicable Date, we had 23 employees in our sales and marketing department. Our sales and marketing staffs will visit potential customers regularly to understand their needs and requirements for our products. In addition, we plan to further promote our business and expand our network by participating in trade shows and exhibitions in the PRC in the future.

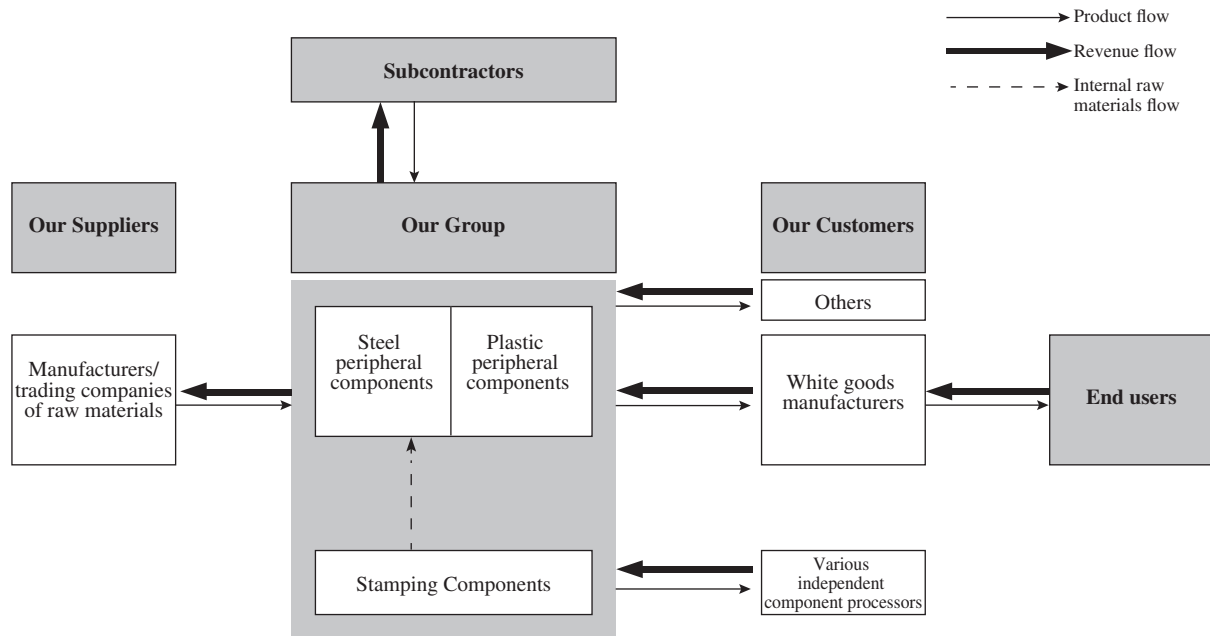
We intend to upgrade our manufacturing and processing facilities to enhance competitiveness

Over the years, we have continuously expanded our manufacturing and processing capacity by upgrading and expanding our manufacturing and processing facilities. As at the Latest Practicable Date, we operated two production bases, namely, the First Base and the Second Base, which are all located in Chuzhou, Anhui province in the PRC, with respective average annual manufacturing and processing capacity of 4.0 million units of peripheral components at the First Base and 5.8 million units of stamping components and 3.1 million units of peripheral components at the Second Base during the Track Record Period. In order to strengthen our market position, we intend to upgrade our two production bases to increase our manufacturing and processing capacity and to meet the market demands. We intend to purchase additional manufacturing and processing machines and equipments to increase our current manufacturing and processing capacity to an annual manufacturing and processing capacity of approximately 7.6 million units of stamping components and 11.8 million units of peripheral components, respectively, in the end of 2019. We expect to incur total capital expenditure of approximately RMB6.5 million, equivalent to approximately HK\$8.0 million, and would begin installation of certain new machines and equipments in second half of 2018. For details, please refer to the paragraph headed “Manufacturing and Processing — Expansion Plan” below.

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BUSINESS MODEL

The following chart summarises our value chain as well as our business model:



Our products primarily include stamping components and peripheral components, which in turn are components and parts of our customers' products, inter alia, white goods including home washing machines and home refrigerators. The stamping components we produced may be sold to our customers directly or used by ourselves as raw materials for the processing of our steel peripheral components. We process stamping components for our steel peripheral components. Our products are principally sold to white goods manufacturers and various independent component processors. Our products are sold to white goods manufacturers, being the downstream of the value chain in the industry where we operate, which produce and sell home washing machines and home refrigerators to end users. Various independent component processors may need our products primarily because (i) they do not produce stamping components, they need to purchase such stamping components from us for the processing of their own peripheral components; (ii) they cannot do peripheral components processing that meet the specifications of their customers, they purchase such peripheral components from us and then resell them to their customers without further processing; (iii) they do not have sufficient capacity to fully meet the demands from their customers, they purchase such peripheral components from us and then resell them to their customers; and (iv) they further assemble the peripheral components and/or do the peripheral components processing according to the demands of their customers and then sell to their customers.

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The table below sets out a breakdown of our revenue attributable to white goods manufacturers, various independent component processors and others for the periods indicated:

	Year ended 31 December					
	2015		2016		2017	
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
White goods manufacturers	23,169	41.6	38,947	49.2	57,634	59.2
Various independent component processors	26,825	48.2	36,166	45.7	36,462	37.5
Others	<u>5,689</u>	<u>10.2</u>	<u>4,054</u>	<u>5.1</u>	<u>3,228</u>	<u>3.3</u>
	<u><u>55,683</u></u>	<u><u>100.0</u></u>	<u><u>79,167</u></u>	<u><u>100.0</u></u>	<u><u>97,324</u></u>	<u><u>100.0</u></u>

Revenue generated from white goods manufactures included revenue generated from Group A, Customer B, Hefei Hualing, TCL Household and Jiangsu Shangling Electric Appliances Co., Ltd.* (江蘇上菱電器有限公司).

During the Track Record Period, we also derived a small portion of our revenue accounting for approximately 10.2%, 5.1% and 3.3% for the years ended 31 December 2015, 2016 and 2017, respectively, from peripheral components processing for non-white goods such as the peripheral components for motor vehicles, lighting and computers due to occasional purchase orders from Independent Third Parties. However, we expect that we will focus on stamping components manufacturing and peripheral components processing for white goods in the future.

Save as disclosed in the paragraph headed “Subcontracting” below, during the Track Record Period and up to and including the Latest Practicable Date, all of our products are manufactured and processed at our First Base and Second Base in Chuzhou, Anhui province, the PRC and we did not subcontract any part of the manufacturing and processing. For details of our manufacturing and processing, please refer to the paragraph headed “Manufacturing and Processing” below.

Our raw materials suppliers mainly include manufacturers and trading companies of steel, steel parts, plastic parts, oil paint and paint powder. Please refer to the paragraph headed “Procurement — Raw Materials” below for further information.

Note:

- For the years ended 31 December 2015, 2016 and 2017, to the best knowledge and belief of our Directors, 4, 2 and 4 suppliers who were our ten largest suppliers were also our customers, respectively, and 4, 3 and 3 customers who were our ten largest customers were also our suppliers, respectively. Please refer to the paragraph headed “Entities Who are both our Major Customers and Suppliers” in this section for further details. These customers and/or suppliers are principally either white goods manufacturers or various independent component processors. Our Directors believe that it is not uncommon for the white goods manufacturers to require the component processors to manufacture and/or process the stamping components and/or peripheral components with raw materials and/or semi-finished peripheral components supplied by white good manufacturers themselves or their appointed suppliers in the industry where we operate for the reasons (i) to ensure the quality of the finished stamping components and/or the peripheral components manufacture

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and/or processed by the components processors; (ii) to control the cost of the raw materials. For various independent component processors, they may not be able to supply all types of stamping components and/or peripheral components as required by their customers within the prescribed period of time, hence they may need to purchase stamping and/or peripheral components from us accordingly to supplement their production needs.

PRODUCTS

Our principal products are stamping components and peripheral components which are in turn used in the assembling of white goods including home washing machines and home refrigerators.

The following table sets forth the breakdown of our revenue by products during the Track Record Period:

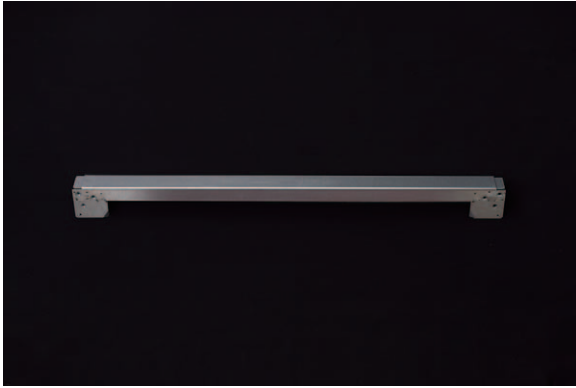
	Year ended 31 December					
	2015		2016		2017	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
Stamping components	12,204	21.9	19,567	24.7	16,947	17.4
Peripheral components	<u>43,479</u>	<u>78.1</u>	<u>59,600</u>	<u>75.3</u>	<u>80,377</u>	<u>82.6</u>
	<u>55,683</u>	<u>100.0</u>	<u>79,167</u>	<u>100.0</u>	<u>97,324</u>	<u>100.0</u>

Stamping components

Our stamping components are made of steel only and are used for processing of our steel peripheral components or principally sold to white goods manufacturers and various independent component processors in the PRC, which in turn will use our stamping components in the manufacturing of home washing machines and home refrigerators. In order to produce stamping components, we need to stamp raw materials, mainly steel sheets, by using different moulds with detailed specifications provided by our customers. During the Track Record Period, for the manufacturing of new type of stamping components, either our customers provided us with the required moulds or such moulds were produced and supplied to us by suppliers who are Independent Third Parties according to the specifications from our customers. Depending on our negotiation with our customers, we or our customers would pay for the moulds produced by such suppliers.

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Please refer to the paragraph headed “Manufacturing and Processing — Manufacturing of Stamping Components” for further information. Set out below are some examples of stamping components manufactured by us:



Bottom beam of home refrigerator*
(家用冰箱下樑)



Bottom base of home refrigerator compressor*
(家用冰箱壓縮機座)



Rail support of home refrigerator*
(家用冰箱導軌支架)

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Peripheral components

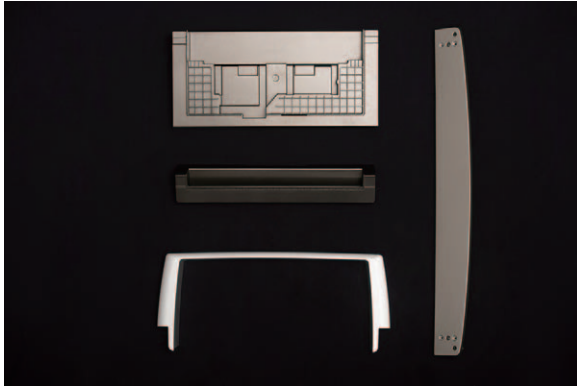
Our peripheral components can be classified into spray-painting peripheral components and powder-coating peripheral components according to the types of process applied, namely, spray-painting and powder-coating. The following table sets forth the breakdown of our sales revenue of peripheral components by types of process applied during the Track Record Period:

	Year ended 31 December					
	2015		2016		2017	
	<i>% of total revenue derived from peripheral components</i>	<i>% of total revenue derived from peripheral components</i>	<i>% of total revenue derived from peripheral components</i>	<i>% of total revenue derived from peripheral components</i>	<i>% of total revenue derived from peripheral components</i>	<i>% of total revenue derived from peripheral components</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Spray-painting peripheral components	33,090	76.1	37,778	63.4	44,380	55.2
Powder-coating peripheral components	<u>10,389</u>	<u>23.9</u>	<u>21,822</u>	<u>36.6</u>	<u>35,997</u>	<u>44.8</u>
<i>Total revenue derived from peripheral components</i>	<u><u>43,479</u></u>	<u><u>100.0</u></u>	<u><u>59,600</u></u>	<u><u>100.0</u></u>	<u><u>80,377</u></u>	<u><u>100.0</u></u>

We perform peripheral components processing by processing components through spray-painting or powder-coating. While our spray-painting peripheral components can be made of steel or plastic components, our powder-coating components are made of steel components only. During the Track Record Period, the majority of steel components used in processing of peripheral components were produced by ourselves and all plastic components used in processing of peripheral components were either purchased from suppliers or provided and/or purchased from our customers. Our peripheral

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components were mainly sold to various independent component processors during the Track Record Period. Please refer to the paragraph headed “Business Model” for further details. Set out below are some examples of peripheral components processed by us:



Home refrigerator frame*
(家用冰箱框架)



Home washing machine panel*
(家用洗衣機面板)

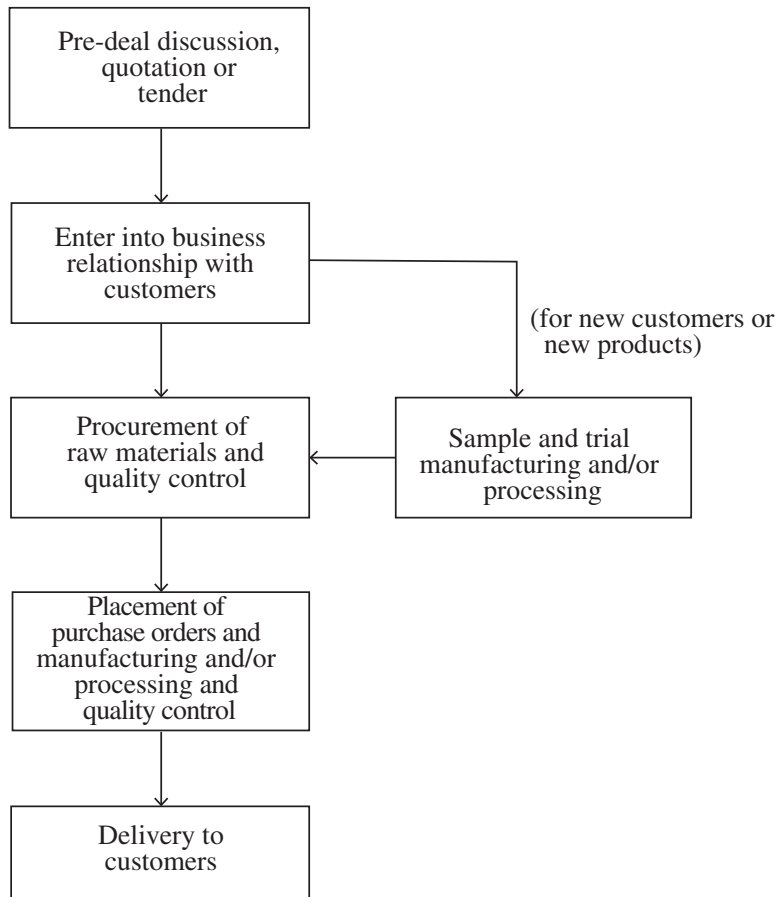


Home washing machine panel*
(家用洗衣機面板)

BUSINESS

OUR BUSINESS PROCESS

Set forth below are the major steps of our business process:



Pre-deal discussion, quotation or tender

When we are aware of potential business opportunities from our existing customers and potential customers, we will analyse manufacturing and/or processing feasibility taking into account factors including product specifications, budget, technical requirements and based on our relevant experience. After completion of feasibility analysis, our management will start pre-deal discussion with and provide quotation to our existing customers and potential customers. For some transactions, tender may be required before the customers agree to enter into business relationship with us. We will set our price based on the preliminary product specifications provided to us by our existing or potential customers, budget and the expected costs for our manufacturing and/or processing. The tender process in general takes around seven days. Our tender success rate was approximately 77.8%, 70.0% and 100.0% for the years ended 31 December 2015, 2016 and 2017, respectively. During the same periods, we were awarded 14, 7 and 8 tenders, respectively.

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Enter into business relationship with customers

After we have been selected as qualified suppliers by our customers through pre-deal discussion, quotation or tendering, we generally enter into framework agreement (the “**Framework Sales Agreement(s)**”) with them, incorporating the terms from our pre-deal discussion, quotation or tendering documents. The major terms of the Framework Sales Agreements are summarised in the paragraph headed “Sales and Marketing — Customers” in this section below. We will then receive detailed purchase orders from our customers under the Framework Sales Agreements from time to time. For customers who do not enter into Framework Sales Agreements with us, our sales and marketing personnel will negotiate sales agreements with them.

Sample and trial manufacturing and/or processing

For new customers or new products, we usually provide sample products to our customers to further understand and confirm their specifications and quality requirements of the products. Upon entering into the Framework Sales Agreements or sales agreements with our customers, we will provide certain sample products for our customers’ testing and inspection in accordance with the terms of such Framework Sales Agreements or sales agreements. Upon receipt of our customers’ confirmation on the sample, our customers may place purchase orders with us for trial production and adjustments may be made to the products based on request of the customers. If our customers are satisfied with the results of the trial production, they will usually place purchase orders for mass manufacturing and/or processing from time to time in the future in accordance with their own needs. Our production department is responsible for manufacturing and processing of sample and trial production.

Procurement of raw materials and quality control

We formulate our procurement schedule with reference to factors such as delivery time of our suppliers and the estimated demand of our customers. We maintain certain level of inventory of raw materials to ensure smooth operation and manufacturing and/or processing. Please refer to the paragraph headed “Inventory Control” for further information. Our quality control department will conduct quality checks on raw materials delivered by our suppliers and we are entitled to return the raw materials which fail to meet our quality standards to our suppliers. Please refer to the paragraph headed “Quality Control — Incoming Quality Control” for further information. Our material control department, which is responsible for the inventory management of raw materials, coordinates with our procurement department and closely monitors the purchase orders from our customers.

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Placement of purchase orders and manufacturing and/or processing and quality control

For white goods manufacturers, they generally provide us with purchase orders on a monthly or weekly basis, which sets out the product specifications, quantity and planned delivery schedule for our manufacturing and/or processing planning purposes. Our staff from the production department generally logs into the online supplier system of the white goods manufacturers on a daily basis to confirm purchase orders. Our production department will then begin procurement of raw materials and manufacturing and/or processing accordingly.

For various independent component processors, they normally place purchase orders with delivery notices based on their own production plan matching with the production schedule of their customers, which are the white goods manufacturers in general. After a purchase order has been received, our production department will then begin procurement of raw materials and manufacturing and/or processing accordingly.

For details regarding the manufacturing and processing, please refer to the paragraph headed “Manufacturing and Processing” in this section below. Our quality control team will also conduct various tests and inspections to ensure the quality of the products at different stages of the manufacturing and processing. Please refer to the paragraph headed “Quality Control” for further information.

Delivery to customers

We deliver our products to customers either through our in-house logistics team or logistics companies who are Independent Third Parties. Upon delivery, our customers will usually check the quantity and outer appearance of the products to see whether there is any damage or defect.

MANUFACTURING AND PROCESSING

Overview

We manufacture and process our stamping components and peripheral components in our two production bases, namely the First Base and the Second Base, all of which are located in Chuzhou, Anhui province in the PRC. According to the Ipsos Report, both stamping components manufacturing and peripheral components processing are highly labour intensive. The major raw materials used in stamping components manufacturing are steel sheets. Some of the larger stamping components are assembled together from smaller stamping components as per customers’ requirements. The major raw materials used in the peripheral components processing are steel, steel parts, oil paint, paint powder and plastic parts. During the Track Record Period, we also subcontracted a small portion of the production of our stamping components to our subcontractors to supplement our production capacity.

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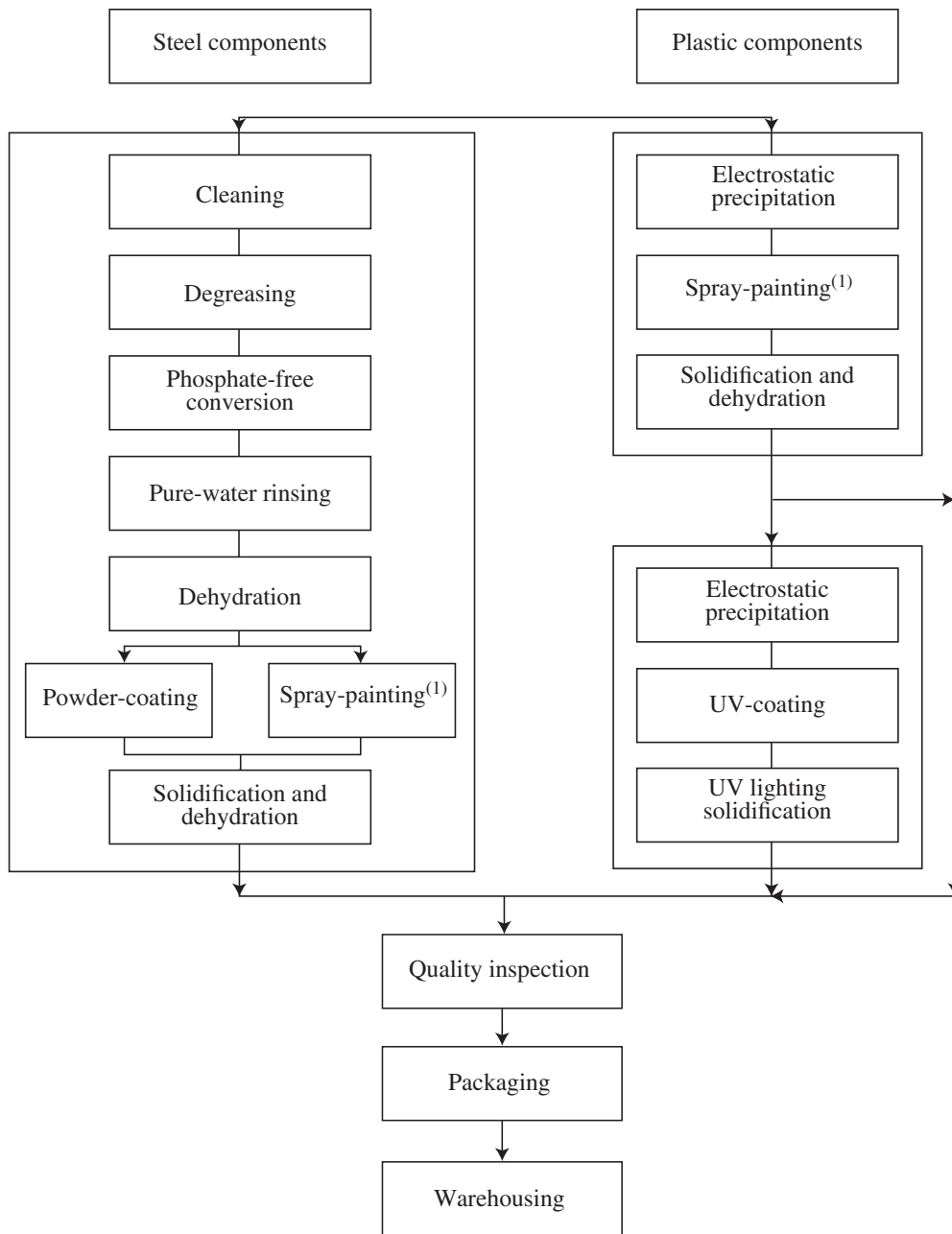
Our manufacturing and processing for both stamping components and peripheral components begin with inspection of raw materials. Incoming raw materials such as steel, steel parts, plastic parts, oil paint and paint powder are subject to on-site inspection on a sampling basis and raw materials which do not meet our standards will be returned to the suppliers.

Manufacturing of stamping components

- | | |
|---|--|
| (1) Cutting raw materials | Cut the steel sheets according to specific requirements from our customers. |
| (2) Shaping stamping components with moulds | Shape the steel sheets cut in step one with moulds into the required shapes according to customers' requirements.

For manufacturing of new types of stamping components, either our customers will provide us the moulds or moulds will be produced and supplied to us by suppliers who are Independent Third Parties according to the specifications from our customers. |
| (3) Assembling of stamping components | Depending on our customers' requirements, various small stamping components may be assembled into a single large stamping component. |
| (4) Quality inspection | Conduct sample checks on finished stamping components. |
| (5) Packaging | Package the finished stamping components based on customers' specifications and send to the warehouse or deliver to customers. |
| (6) Warehousing | Finished stamping components will either be sent to warehouse for (i) sale and delivery to customers; or (ii) further processing. |

Processing of peripheral components



Note:

1. Our customers may select types of spray-painting with more complex techniques applied, such as highlight polishing and baking enamel.

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Processing of steel components

- | | |
|------------------------------------|--|
| (1) Cleaning of components | Rinse all components before further processing. |
| (2) Degreasing of components | After rinsing, allow the components for degreasing in a degreasing machine. |
| (3) Phosphate-free conversion | A dilute solution of phosphate-free agent, the main ingredients of which include fluozirconic acid and silane, is applied to the surface of the components by spraying or immersion to form a layer of insoluble and crystalline phosphates. |
| (4) Pure-water rinsing | Rinse all components with pure-water. |
| (5) Dehydration | Allow the components for dehydration in a drying machine. |
| (6) Powder-coating processing | Spray paint powder onto the surface of the components. |
| or | or |
| Spray-painting processing | Spray oil paint onto the surface of the components. |
| (7) Solidification and dehydration | Send the components to a drying machine for solidification and dehydration. |
| Quality inspection | Conduct sample checks on finished peripheral components. |
| Packaging | Package the finished peripheral components based on customers' specifications and send to the warehouse or deliver to customers. |
| Warehousing | Packed finished peripheral components will be sent to warehouse before delivery to customers. |

BUSINESS

Processing of plastic components

Spray-painting

- | | |
|------------------------------------|--|
| (1) Electrostatic precipitation | Remove suspended particles (such as dust and acid mists) from the surface of the components by electrostatic precipitator. |
| (2) Spray-painting processing | Spray oil paint onto the surface of the components. |
| (3) Solidification and dehydration | Send the components to a drying machine for solidification and dehydration. |

UV-coating

- | | |
|---------------------------------|---|
| (1) Electrostatic precipitation | Remove suspended particles (such as dust and acid mists) from the surface of the spray-painted peripheral components by electrostatic precipitator. |
| (2) UV-coating processing | Spray ultraviolet curing paint onto the surface of the components. |
| (3) UV lighting solidification | Send the components to a drying machine for UV lighting solidification. |

Quality inspection	Conduct sample checks on finished peripheral components.
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Packaging	Package the finished peripheral components based on customers' specifications and send to the warehouse or deliver to customers.
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Warehousing	Packed finished peripheral components will be sent to warehouse before delivery to customers.
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Manufacturing and Processing Facilities

As at the Latest Practicable Date, our manufacturing and processing facilities comprised two production bases, namely the First Base and the Second Base, all of which are located in Chuzhou, Anhui province in the PRC.

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First Base

Our First Base is located at Danzi Industrial Park with an aggregate gross floor area of approximately 3,376.02 square metres. We are leasing the First Base from Chuzhou Genxing, which is an associate of Mr. Fan, our Controlling Shareholder. It comprises processing facilities, offices and warehouses. As at the Latest Practicable Date, the First Base was equipped with two steel powder-coating lines. There were 61 employees at the First Base as at the Latest Practicable Date.

Second Base

Our Second Base is located at No.719 Shuangying Road with an aggregate gross floor area of approximately 27,281.96 square metres. It comprises manufacturing and processing facilities, offices and warehouses. As at the Latest Practicable Date, the Second Base was equipped with seven manufacturing and processing lines, including one line for steel coating, one line for plastic spray-painting, one line for UV-coating, one line for stamping components, one line for highlight polishing, one automatic spray-painting line and one single station manual spray-painting line. There were 228 employees at the Second Base as at the Latest Practicable Date.

The fluctuations of our utilisation rates were in line with our revenue during the Track Record Period. The following table sets forth the designed manufacturing or processing capacity, actual manufacturing or processing volume and utilisation rate of the First Base and the Second Base during the Track Record Period:

		Year ended 31 December								
		2015			2016			2017		
		Designed manufacturing or processing capacity ^{(1), (2), (3) & (4)}	Actual manufacturing or processing volume (million units (approximately))	Utilisation rate ⁽⁵⁾ (approximately, %)	Designed manufacturing or processing capacity ^{(1), (2), (3) & (4)}	Actual manufacturing or processing volume (million units (approximately))	Utilisation rate ⁽⁵⁾ (approximately, %)	Designed manufacturing or processing capacity ^{(1), (2), (3) & (4)}	Actual manufacturing or processing volume (million units (approximately))	Utilisation rate ⁽⁵⁾ (approximately, %)
First Base	Powder-coating peripheral components	1.3	2.0	153.8 ⁽⁶⁾	5.4	3.8	70.4	5.4	4.0	74.1
Second Base	Stamping components	5.3	4.6	86.8	5.7	6.3	110.5 ⁽⁶⁾	6.5	6.4	98.5
	Spray-painting peripheral components	2.6	2.9	111.5 ⁽⁶⁾	3.2	3.4	106.3 ⁽⁶⁾	3.5	3.8	108.6 ⁽⁶⁾

Notes:

- The designed manufacturing or processing capacity is determined and calculated by multiplying the daily capacity of the manufacturing lines for stamping components, namely, one stamping components line, or the processing lines for powder-coating peripheral components and spray-painting peripheral components, including, two steel powder-coating lines, one steel coating line, one plastic spray-painting line, one UV spray-painting line, one highlight polishing line, one automatic spray-painting line and one single station manual spray-painting line with the applicable number of the days of operation per year.

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2. We assume the daily operating hours for our stamping components line to be 8, 8 and 8 for the years ended 31 December 2015, 2016 and 2017, respectively. It is assumed our stamping components line will operate 249 days, 250 days and 249 days for the years ended 31 December 2015, 2016 and 2017, respectively (taking into account factors primarily including staff holidays and public holidays) and is operated manually.
3. We assume the daily operating hours for our processing lines for spray-painting peripheral components to be 8, 8 and 8 for the years ended 31 December 2015, 2016 and 2017, respectively. It is assumed that our processing lines for spray-painting peripheral components will operate 249 days, 250 day and 249 days for the years ended 31 December 2015, 2016 and 2017, respectively (taking into account factors primarily including staff holidays and public holidays) and that they will operate at optimal processing speed.
4. We assume the daily operating hours for our processing lines for powder-coating peripheral components to be 8, 8 and 8 for the years ended 31 December 2015, 2016 and 2017, respectively. It is assumed that our processing lines for powder-coating peripheral components will operate 249 days, 250 days and 249 days for the years ended 31 December 2015, 2016 and 2017, respectively (taking into account factors primarily including staff holidays and public holidays) that they will operate at optimal processing speed.
5. The utilisation rate for each of the relevant periods is derived by dividing the actual manufacturing or processing output by the designed manufacturing or processing capacity, accordingly.
6. As we received more orders than expected for stamping components, spray-painting peripheral components and powder-coating peripheral components from our customers, we had to operate the respective manufacturing and/or processing lines longer than the presumed operating hours of 8 hours per day, and therefore resulting in the higher utilisation rate.

Machinery and Equipment

As at the Latest Practicable Date, major components and parts of all principal manufacturing and processing machines and equipments used in our manufacturing and processing process, including one automatic spray-painting line, two steel powder-coating lines, one steel coating line, one plastic spray-painting line, one highlight polishing line, UV-coating line, one stamping line and one single station manual spray-painting line, were subject to sale-leaseback arrangement. Please refer to the paragraph headed “Sale-leaseback and Mortgage Arrangement” below for further information.

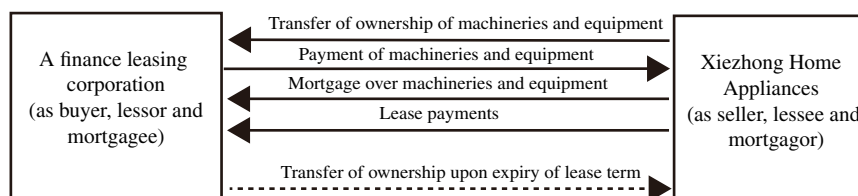
As at the Latest Practicable Date, our production lines range from more than one year to more than six years old. For the years ended 31 December 2015, 2016 and 2017, the total scheduled downtime for maintenance and repair of our production line for stamping components was approximately 894 hours, 903 hours and 829 hours, respectively, the total scheduled downtime for maintenance and repair of our processing lines for spray-painting peripheral components was approximately 712 hours, 764 hours and 842 hours, respectively, and the total scheduled downtime for maintenance and repair of our processing lines for powder-coating peripheral components was approximately 683 hours, 757 hours and 763 hours, respectively.

We conduct general cleaning and maintenance of our manufacturing and processing machines and equipments on a regular basis. We have upgraded our manufacturing and processing facilities and expanded our manufacturing and processing capacity through the addition of manufacturing and processing lines, machineries as well as improving our manufacturing or processing efficiency during the Track Record Period. During the Track Record Period and up to the Latest Practicable Date, there had been no major disruptions of our business operations due to machinery or equipment failure.

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Sale-leaseback and mortgage arrangement

The following diagram sets forth details of our sale-leaseback and mortgage arrangement:



The material contracts we entered into with the finance leasing corporation, an Independent Third Party, are set out as below:

- on 11 November 2016, a sale and purchase agreement in relation to the machineries and equipments was entered into between the finance leasing corporation and Xiezhong Home Appliances;
- on 11 November 2016, a sale-leaseback agreement in relation to the above mentioned machineries and equipments was entered into between the finance leasing corporation and Xiezhong Home Appliances; and
- on 22 November 2016, a mortgage agreement in relation to the above mentioned machineries and equipments was entered into between the finance leasing corporation and Xiezhong Home Appliances;

At the end of the leasing term under the above mentioned sale-leaseback agreement, when no event of default has occurred during the leasing period, the title/ownership of the aforesaid machineries and equipments will be transferred to Xiezhong Home Appliances at nil consideration.

As advised by our PRC Legal Adviser, during the Track Record Period and up to the Latest Practicable Date, our sale-leaseback and mortgage arrangement has complied with all applicable PRC laws and regulations and there was no material breaches or violations of the laws or regulations applicable to us that would have a material adverse effect on our business or financial condition.

Subcontracting

While we manufactured and processed the majority of our stamping components and peripheral components at the First Base and the Second Base during the Track Record Period, we subcontracted the production of a small portion of our stamping components to our subcontractors, which are all Independent Third Parties, to supplement our manufacturing capacity. We supplied the core raw materials to be used by our subcontractors in the production of our products. We conduct quality inspection upon receipt of semi-finished products from our subcontractors. For details of our subcontractors and the selection criteria of our subcontractors, please refer to the paragraph under this section headed “Procurement — Subcontractors”.

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Expansion Plan

Expanding our existing manufacturing and processing facilities:

Given that (i) the utilisation rate of our manufacturing and processing lines for stamping components, powder-coating peripheral components and spray-painting peripheral components had already reached approximately 98.5%, 74.1% and 108.6%, respectively, for the year ended 31 December 2017, and will restrict our ability to obtain new purchase orders in the future; (ii) according to the Ipsos Report, the production volume of white goods in the PRC is expected to grow at a CAGR of 2.7% during the period of 2017 to 2021, which in turn increase the demand for our products; and (iii) in particular, as we apply part of our stamping components as raw materials for processing of our peripheral components, we are unable to increase processing capacity of peripheral components due to the limited production capacity of stamping components, hence we plan to expand our manufacturing and processing lines for our (i) stamping components, (ii) powder-coating peripheral components and (iii) spray-painting peripheral components to further strengthen our manufacturing and processing capacity for future development. In addition, we expect that the demand for stamping components, spray-painting peripheral components and powder-coating peripheral components of other home appliances will continue to increase. For example, according to the Ipsos Report, the production volume of range hoods and electric heaters is expected to grow at a CAGR of 5.9% and 9.6%, respectively, for the period of 2017 to 2021. As a strategy to enrich and expand our product offerings, we started to process spray-painting peripheral components for range hoods in 2016 and we were selected as qualified supplier by one of the prominent white goods brands for processing of spray-painting peripheral components for electric heaters in October 2017. For further details, please refer to the paragraph headed “Business Strategies — Continuing to Enrich and Expand our Product Offerings” in this section. Therefore, in order to expand our manufacturing and processing capacity, we intend to use part of the net proceeds from the Share Offer to settle the payment of new manufacturing and processing lines and machineries, details of which are set out below:

(a) *Stamping components:*

We plan to purchase two automatic roll manufacturing lines and seven manufacturing machineries for stamping components as follows:

Location:	Second Base	
Expected year of purchase:	Second half of 2018	One automatic roll manufacturing line and four manufacturing machineries for stamping components
	First half of 2019	One automatic roll manufacturing line and three manufacturing machineries for stamping components

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Expected year of commencement of manufacturing:	First half of 2019	One automatic roll manufacturing line and four manufacturing machineries for stamping components
	Second half of 2019	One automatic roll manufacturing line and three manufacturing machineries for stamping components
Expected increase in annual manufacturing capacity:	Approximately 1.8 million units stamping components	
Estimated capital expenditure:	Approximately HK\$2.3 million, out of which approximately HK\$1.2 million and approximately HK\$1.1 million is expected to be paid in the second half of 2018 and the first half of 2019, respectively	
Source of funding:	Net proceeds from the Share Offer	
Estimated investment payback period⁽¹⁾:	Approximately 32 months	
Estimated breakeven period⁽²⁾:	Approximately 11 months	

Given that manufacturing of stamping components is labour-intensive in nature, our Directors believe that increasing our level of automation by acquisition of new automatic roll manufacturing lines can help reduce the level of our labour costs in our stamping components manufacturing in the long run.

(b) *Powder-coating peripheral components:*

We plan to purchase one processing line for powder-coating peripheral components as follows:

Location:	Second Base	
Expected year of completion of the construction:	First half of 2019	
Expected year of commencement of processing:	Second half of 2019	
Expected increase in annual processing capacity:	Approximately 4.3 million units powder-coating peripheral components	
Estimated capital expenditure:	Approximately HK\$3.6 million, which is expected to be paid in the first half of 2019	
Source of funding:	Net proceeds from the Share Offer	

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Estimated investment payback period⁽¹⁾: Approximately 56 months

Estimated breakeven period⁽²⁾: Approximately 18 months

(c) *Spray-painting peripheral components:*

We plan to purchase a processing line for spray-painting peripheral components as follows:

Location:	First Base
Expected year of completion of the construction:	First half of 2019
Expected year of commencement of processing:	Second half of 2019
Expected increase in annual processing capacity:	Approximately 380,000 units plastic spray-painting peripheral components
Estimated capital expenditure:	Approximately HK\$2.1 million, which is expected to be paid in the first half of 2019
Source of funding:	Net proceeds from the Share Offer
Estimated investment payback period⁽¹⁾:	Approximately 18 months
Estimated breakeven period⁽²⁾:	Approximately 8 months

Notes:

1. The investment payback period refers to the period of time required to recover the initial set-up costs in respect of such new manufacturing or processing line and/or manufacturing or processing machineries.
2. The breakeven period refers to the period of time required for the forecasted aggregate revenue to exceed the forecasted aggregate costs in respect of such new manufacturing or processing line and/or manufacturing or processing machineries.

As advised by our PRC Legal Adviser, we have (i) completed the recordation with the Nanqiao Office of Chuzhou Economic and Information Commission* (滁州市南譙區經濟和信息委員會) covering the acquisition of the aforesaid new manufacturing and processing lines and machineries; and (ii) save for the above, no other licenses, permits, recordation, registration or approvals are required from our Group at this stage. According to the applicable PRC laws and regulations, before we can commence the operation of the aforesaid new manufacturing and processing lines and machineries, we should pass the completion inspection for such manufacturing and processing lines and machineries.

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PROCUREMENT

Raw Materials

As at the Latest Practicable Date, we had a procurement department comprising three staff who are responsible for sourcing raw materials and other supplies. Our material control department coordinates with our procurement department to estimate the expected purchase volume of each raw material according to the manufacturing and processing plan formulated by our production departments and the specifications from our customers. Our procurement department is responsible for obtaining quotation from suppliers on our qualified suppliers list. Our procurement department then compares the quotations received from such suppliers and places purchase orders with reference to our raw materials requirements.

The major raw materials used in our manufacturing and processing of stamping components and peripheral components include steel, steel parts, plastic parts, oil paint and paint powder. For the years ended 31 December 2015, 2016 and 2017, our raw materials costs accounted for approximately 53.4%, 54.7% and 58.9%, respectively, of our total purchase.

During the Track Record Period, we purchased all of our raw materials in the PRC and settled the purchases in RMB. For steel, which is one of our major raw materials, we paid an advanced deposit to suppliers upon placement of purchase orders and our suppliers granted our Group a credit period of 60 days for the remaining balance. For other raw materials, we were granted a credit period of 30 to 180 days. During the Track Record Period, we have not experienced any major quality issue with our raw materials or shortages of raw materials during the course of our operations or have not experienced any difficulty in sourcing alternative suppliers for raw materials which materially affected our operations. Our Directors believe that the fluctuation of the prices of our major raw materials during the Track Record Period was influenced by a number of factors, including regulations and policies of the PRC government, transportation cost, manufacturing and processing costs and the supply of and demand for such raw materials in the PRC. For details relating to the impact on the price fluctuations in our raw materials, please refer to the section headed “Financial Information — Significant Factors Affecting our Results of Operations and Financial Condition — Cost of Raw Materials” in this prospectus. To manage price fluctuation of raw materials, we have introduced a number of measures, such as reviewing the possibility of material fluctuations in the prices of raw materials from time to time. If we foresee any material increase in the prices of raw materials in the near future, we may purchase the raw materials in advance with an aim to limit our exposure to higher manufacturing or processing costs. We have also taken various measures to monitor the use of raw materials by optimising the manufacturing and processing.

According to the Ipsos Report, the price of cold-roll steel, which is the major type of steel we used, increased by 8.7% from 2015 to 2016. Affected by the environmental protection policies and steel industry capacities reduction reform, which sharply reduced steel supply, the average per tonne steel price has increased significantly to RMB5,667 in January 2017 though the steel price dropped to RMB4,027 per ton in May 2017, it still increased to RMB5,167 per ton in December 2017. To alleviate the impact of price fluctuations on raw materials to our profitability, we have introduced a number of measures to lower the purchase costs of raw materials, including (i) monitoring fluctuations in steel prices; (ii) reserving capital to purchase certain level of steel with general specifications; (iii)

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sourcing for new suppliers; (iv) negotiating for price adjustments with customers; and (v) developing new customers and new products with a focus on spray-painting products which bring higher gross profit margin. In addition, we have also taken measures to optimise our manufacturing and processing procedures, for example, to boost productivity by linking part of our workers' wages to their output level, upgrading spray-painting processing equipments, purchasing automatic machine lines and robot machines to speed up automation of our processing. For the risks relating to the fluctuation of prices of our raw materials, please refer to the section headed "Risk Factors — Risks Associated with our Business — We Depend on Third Party Suppliers for our Raw Materials and We may not be able to Secure a Stable Supply of Raw Materials with Acceptable Quality or on Acceptable Prices and Terms Which would Adversely Affect Our Operations and Financial Condition" in this prospectus.

Suppliers

We generally purchase raw materials in the PRC from the suppliers on our qualified suppliers list maintained by our procurement department. We maintain at least three suppliers for each type of major raw materials in the list. As the quality of our raw materials will affect the quality of our products, we select our new suppliers based on an internal suppliers evaluation procedure which contains a stringent set of criteria, including quality, price, production capability and credibility which involves assessment of the quality of sample of raw materials supplied. Each of our suppliers is subject to our annual evaluation of quality of the raw materials supplied. Upon receipt of raw materials, we generally perform quality checks and are entitled to return raw materials which fail to meet our quality standards to our suppliers. For further details of our quality control measures on our raw materials, please refer to the paragraph headed "Quality Control — Incoming Quality Control" in this section for further information.

For steel, which is one of our major raw material, we paid an advanced deposit to suppliers upon placement of purchase orders and our suppliers granted our Group a credit period of 60 days for the remaining balance. For other raw materials, we were granted a credit period of 30 to 180 days. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any material problems with the quality of raw materials provided by our suppliers, any shortage of supply or any delay in delivery of raw materials that significantly affected our operations.

For the years ended 31 December 2015, 2016 and 2017, the total purchases from our five largest suppliers accounted for approximately 47.2%, 55.8% and 62.6% of our total purchases, respectively, and the total purchase from our largest supplier accounted for approximately 12.2%, 14.2% and 19.3% of our total purchases, respectively, for the same periods. As at the Latest Practicable Date, the business relationships with our five largest suppliers ranged from less than one year to more than six years. Each of our five largest suppliers is an Independent Third Party. To the best knowledge of our Directors, none of our Directors or their respective associates, or any Shareholders who owns 5% or more of our issued share capital, had any interest in any of our five largest suppliers during the Track Record Period. During the Track Record Period and up to the Latest Practicable Date, we have not encountered any material disputes with our suppliers.

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During the Track Record Period, we entered into framework agreements with two of our five largest suppliers for the Track Record Period, namely Group B and Supplier G, with key terms as follow:

- Term: either have a term of two years or with no specific term or are refreshed automatically upon expiry;
- Credit period: generally 60 days;
- Pricing policy: fixed unit prices;
- Settlement method: telegraphic transfer or bank acceptance note; and
- Quality specifications: we conduct quality inspection on all incoming raw materials and in the event that the quality of the raw materials does not meet our quality specifications as set out in the framework agreements, we are entitled to raise objection within 7 to 20 days after the delivery of the corresponding raw materials or return the relevant raw materials.

During the Track Record Period, we have also entered into two annual framework agreements with one of our five largest suppliers for the Track Record Period, namely Group A, who was also our customer. Our Directors believe that it is not uncommon for the white goods manufacturers to require the component processors to manufacture and/or process the stamping components and/or peripheral components with raw materials and/or semi-finished peripheral components supplied by white goods manufacturers themselves to ensure the quality of the finished stamping components and/or peripheral components manufactured and/or processed by the components processors.

The major terms of these annual framework agreements are summarised as follow:

- Term: one year;
- Usage: the raw materials purchased are for the sole processing for Group A; and
- Payment terms: we and Group A will reconcile the amounts due to/from each other pursuant to the sales and supplies transactions and settle the outstanding amount on a net basis.

During the Track Record Period and up to the Latest Practicable Date, there had been no material breach by any of our suppliers of any of our framework agreements or annual framework agreements.

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The chart below sets forth the particulars of our five largest suppliers during the Track Record Period:

For the year ended 31 December 2017

Rank	Name of supplier	Credit terms offered by the suppliers	Major settlement method	Background and principal business	Approximate years of relationship with our Group (up to 31 December 2017)	Types of products purchased	Purchases amount <small>(RMB'000)</small>	Percentage of our total purchase <small>(approximately, %)</small>
1	Group A	90 days	Telegraphic transfer	Group A, according to its website, is a subsidiary of a leading home appliances manufacturer in Europe with over 58,000 employees and over 40 factories over the world. Our Group had business relationship with Company B, Company C and Company D, which are subsidiaries of Company A, a private company established in the PRC in 2010, which principally engages in investment and management of its subsidiaries		2 Steel parts	9,962	19.3
2	Supplier H	Part of the purchase price to be paid upon placement of purchase orders in accordance to the terms of contracts and a credit of 60 days from the invoice date is offered for the remaining sum	Telegraphic transfer and bank acceptance note	A private trading company of metal products established in the PRC in 2017	less than 1 year	Steel	8,437	16.4
3	Supplier A	Part of the purchase price to be paid upon placement of purchase orders in accordance to the terms of contracts and a credit of 60 days from the invoice date is offered for the remaining sum	Telegraphic transfer	A private trading company of metal products established in the PRC in 2014		2 Steel	6,506	12.6
4	Group B	60 days	Telegraphic transfer	Group B, according to its website, is member of a power tool and outdoor power equipment manufacturing group with offices, teams and facilities support in China, Europe, North America and Australia, and whose products are sold by more than 30,000 stores in 65 countries. Our Group had business relationship with Nanjing Deshuo, a private manufacturer established in the PRC in 1997 with scope of business including among others, production and sales of home appliances, and Nanjing Quanfeng, a private manufacturer of automobile parts established in the PRC in 2012. Nanjing Deshuo and Nanjing Quanfeng are indirectly held by Company E		2 Plastic parts	4,768	9.2
5	Supplier C	Part of the purchase price to be paid upon placement of purchase orders in accordance to the terms of contracts and a credit of 60 days from the invoice date is offered for the remaining sum	Telegraphic transfer and bank acceptance note	A private metal component processor established in the PRC in 2011		3 Steel	2,626	5.1
Total							32,299	62.6

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For the year ended 31 December 2016

Rank	Name of supplier	Credit terms offered by the suppliers	Major settlement method	Background and principal business	Approximate years of relationship with our Group (up to 31 December 2017)	Types of products purchased	Purchases amount (RMB '000)	Percentage of our total purchase (approximately, %)
1	Supplier A	Part of the purchase price to be paid upon placement of purchase orders in accordance to the terms of contracts and a credit of 60 days from the invoice date is offered for the remaining sum	Telegraphic transfer	A private trading company of metal products established in the PRC in 2014	2	Steel	5,300	14.2
2	Supplier E	Part of the purchase price to be paid upon placement of purchase orders in accordance to the terms of contracts and a credit of 30 days from the invoice date is offered for the remaining sum	Telegraphic transfer	A private manufacturer or processor of metal products established in the PRC in 2008	2	Steel	5,058	13.6
3	Group B	60 days	Telegraphic transfer	Group B, according to its website, is member of a power tool and outdoor power equipment manufacturing group with offices, teams and facilities support in China, Europe, North America and Australia, and whose products are sold by more than 30,000 stores in 65 countries. Our Group had business relationship with Nanjing Deshuo, a private manufacturer established in the PRC in 1997 with scope of business including among others, production and sales of home appliances, and Nanjing Quanfeng, a private manufacturer of automobile parts established in the PRC in 2012. Nanjing Deshuo and Nanjing Quanfeng are indirectly held by Company E	2	Plastic parts	4,888	13.1
4	Supplier C	Part of the purchase price to be paid upon placement of purchase orders in accordance to the terms of contracts and a credit of 60 days from the invoice date is offered for the remaining sum	Telegraphic transfer and bank acceptance note	A private metal component processor established in the PRC in 2011	3	Steel	3,416	9.2
5	Supplier G	60 days	Telegraphic transfer and bank acceptance note	A private manufacturer of paint products established in the PRC in 2009	4	Oil paint	2,104	5.7
Total							20,766	55.8

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For the year ended 31 December 2015

Rank	Name of supplier	Credit terms offered by the suppliers	Major settlement method	Background and principal business	Approximate years of relationship with our Group (up to 31 December 2017)	Types of products purchased	Purchases amount (RMB '000)	Percentage of our total purchase (approximately, %)
1	Supplier F	Part of the purchase price to be paid upon placement of purchase orders in accordance to the terms of contracts and a credit of 60 days from the invoice date is offered for the remaining sum	Telegraphic transfer and bank acceptance note	A private trading company of metal products established in the PRC in 2011	6	Steel	2,644	12.2
2	Group B	60 days	Telegraphic transfer	Group B, according to its website, is member of a power tool and outdoor power equipment manufacturing group with offices, teams and facilities support in China, Europe, North America and Australia, and whose products are sold by more than 30,000 stores in 65 countries. Our Group had business relationship with Nanjing Deshuo, a private manufacturer established in the PRC in 1997 with scope of business including among others, production and sales of home appliances, and Nanjing Quanfeng, a private manufacturer of automobile parts established in the PRC in 2012. Nanjing Deshuo and Nanjing Quanfeng are indirectly held by Company E	2	Plastic parts	2,268	10.4
3	Supplier E	Part of the purchase price to be paid upon placement of purchase orders in accordance to the terms of contracts and a credit of 30 days from the invoice date is offered for the remaining sum	Telegraphic transfer	A private manufacturer or processor of metal products established in the PRC in 2008	2	Steel	2,148	9.9
4	Supplier G	60 days	Telegraphic transfer and bank acceptance note	A private manufacturer of paint products established in the PRC in 2009	4	Oil paint	1,640	7.5
5	Supplier C	Part of the purchase price to be paid upon placement of purchase orders in accordance to the terms of contracts and a credit of 60 days from the invoice date is offered for the remaining sum	Telegraphic transfer and bank acceptance note	A private metal component processor established in the PRC in 2011	3	Steel	1,556	7.2
Total							10,256	47.2

Subcontractors

During the Track Record Period, we subcontracted the production of a small portion of our stamping components to seven subcontractors, which are all Independent Third Parties, to supplement our production capacity. Our subcontracting expenses incurred for the years ended 31 December 2015, 2016 and 2017 were approximately RMB0.5 million, RMB1.2 million and RMB1.7 million, respectively, representing approximately 1.3%, 2.1% and 2.2%, respectively, of our total cost of sales.

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During the Track Record Period, we entered into annual subcontracting agreements with two of the above seven subcontractors. As at the Latest Practicable Date, the business relationships with our subcontractors ranged from more than one year to more than four years. We generally select subcontractors according to their technical capability, price, ability to meet production schedules and quality of their production. The major terms of the annual subcontracting agreements between us and these subcontractors mainly include:

- Term: one year;
- Quality specifications: stamping components are manufactured and quality inspections are conducted according to the requirements as agreed by both parties;
- Credit period: within 60 days upon receipt of invoice;
- Delivery: subcontractors are responsible for delivery of the products to the designated locations as agreed by both parties; and
- Price: fixed unit prices.

In addition, as a quality control measure, we generally supply raw materials to our subcontractors for their use in the production of our stamping components. We also perform quality inspection of the semi-finished stamping components upon delivery to us by our subcontractors. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any material problems with the quality of products provided by our subcontractors that significantly affected our operations.

To the best knowledge of our Directors, none of our Directors or their respective associates, or any Shareholders who owns 5% or more of our issued share capital, had any interest in any of our subcontractors during the Track Record Period.

Inventory Control

Our inventory comprises raw materials, work-in-progress, finished goods, moulds and consumables. Our raw materials mainly include steel, steel parts, plastic parts, oil paint and paint powder while finished goods mainly include our stamping components and peripheral components.

We usually commence our manufacturing and/or processing upon receipt of purchase orders from our customers and do not maintain inventory of finished goods in advance, except during peak seasons where we may maintain a certain level of inventory of finished goods based on our experience on seasonal patterns and discussion with our customers in advance so as to cope with the greater demand during peak seasons. As to raw materials, we formulate our procurement plan according to our manufacturing and/or processing needs with reference to factors such as prices of raw materials, delivery time of our suppliers and the production of our customers. We maintain certain level of inventory of raw materials in order to ensure smooth operation, especially we may purchase raw materials in advance if we foresee any material price increase in the near future. Our staff will review our inventory level from time to time in order to ensure appropriate level of inventories are maintained. During the Track Record Period, we had not recorded any write off of obsolete inventory.

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Inventories are stored at the warehouses in our two production bases. We have established warehouse management regulations which cover various aspects such as incoming, outgoing, storage, delivery and transportation of materials to ensure proper management and control of our inventories. Our material control department will conduct regular and random inspections and stock taking on a monthly basis to ensure compliance with our warehouse management regulations.

QUALITY CONTROL

Product quality is a crucial factor to our success. As we strive to produce high quality products, we implement stringent quality control measures at each key stage of our manufacturing and processing to ensure our products meet the standards required by our customers. As at the Latest Practicable Date, our quality control team consists of 12 employees and was led by experienced staff possessing over 20 years of experience in quality control in the relevant industry. Our quality control department is responsible for ensuring that raw materials, semi-finished and finished products or manufactured and processed by us pass through our quality control procedures and meet our standards. We monitor our manufacturing and processing process and conduct quality and sample testing to ensure that our stamping components and peripheral components can meet the requirements of our customers.

In recognition of our quality control system, we have obtained ISO 9001:2008 in relation to our quality management system since January 2014.

Incoming Quality Control

Our raw material procurement policy is to select only those suppliers on our approved list who have passed our quality control tests and other selection procedures. For details, please refer to the paragraph headed “Procurement — Suppliers” in this section. We will check the outer appearance and the quantity of raw materials with reference to our procurement orders upon arrival of the relevant raw materials. Our quality control personnel will conduct random sample check on raw materials to ensure that they meet our quality requirements. Any raw materials which do not meet our quality standards and requirements will be returned to the suppliers for replacement.

In-Process Quality Control

Our production team performs manufacturing and processing line inspections throughout the process with reference to the specifications required by our customers. Our quality control and production team will inspect and monitor the quality of our products at relevant stages of the process.

Outgoing Quality Control

We conduct random sample check against finished products prior to their delivery to our customers. Products which do not meet our quality standards will be re-worked and are subject again to the same inspection and quality testing procedures. Only products which have passed our quality control system will be delivered to our customers. During the Track Record Period and up to the Latest Practicable Date, there were no material product quality claims, disputes or sale returns with respect to our Group, whether threatened, potential or settled.

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SALES AND MARKETING

We sell and market our stamping components and peripheral components directly through our own sales and marketing personnel. Our marketing efforts are based primarily on our ability to provide our customers with products with reliable quality on a timely basis, as well as our key management's established expertise and experience in the industry. Over the years, our ability to meet our customers' demands has allowed us to develop stable business relationships with our existing customers which include prominent white goods manufacturers and to attract new customers.

Customers

Our customers are generally white goods manufacturers of renowned white goods brands and various independent component processors in the PRC. The revenue attributed to our five largest customers amounted to approximately 65.6%, 67.8% and 73.4% of our total revenue for the years ended 31 December 2015, 2016 and 2017, respectively, the total revenue from our largest customer represented approximately 18.6%, 17.2% and 33.8% of our total revenue for the same periods, respectively. Our customers usually settle our invoices by telegraphic transfer and bank acceptance note. Our five largest customers, during the Track Record Period, included white goods manufacturers for Midea and TCL. As at the Latest Practicable Date, the business relationships with our five largest customers ranged from more than two years to more than six years.

During the Track Record Period, we entered into Framework Sales Agreements with six of our five largest customers for the Track Record Period, namely Group A, PAS Appliance, Group B, Hefei Hualing, Customer B and Chuzhou Boai. The major terms of such Framework Sales Agreements are summarised as follows:

- Term: the Framework Sales Agreements in general have a term of one year, some of them contain automatic renewal clauses;
- Amount or quantity: the Framework Sales Agreements generally do not specify any specific or minimum purchase amount or quantity of products to be ordered by the customers. The specific purchase amount or quantity of products is generally confirmed in the subsequent purchase orders;
- Price: in general, unit prices of the products are not set out in the Framework Sales Agreements and subject to negotiation under each purchase order. As to some of these customers, the prices are fixed throughout the term of the relevant Framework Sales Agreements;
- Delivery: we are responsible for the delivery of products to the location designated by the corresponding customers at our own costs and expenses;
- Product maintenance period: the warranty period offered by us ranges from one year to eight years. For details, please refer to the paragraph headed "Product Returns and Warranty" in this section; and

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- Credit period: the credit period generally ranges from 60 days to 90 days.

The table below sets forth the particulars of our five largest customers during the Track Record Period:

For the year ended 31 December 2017

Rank	Name of customer	Credit terms offered to customer	Major settlement method	Background and principal business	Approximate years of relationship with our Group (up to 31 December 2017)	Types of products sold	Revenue	Percentage to our total revenue
							(RMB '000)	(approximately, %)
1	Group A	60 days to 90 days	Telegraphic transfer	Group A, according to its website, is a member of a leading home appliances manufacturer in Europe with over 58,000 employees and over 40 factories over the world. Our Group had business relationship with Company B, Company C and Company D, which are subsidiaries of Company A, a private company established in the PRC in 2010, which principally engages in investment and management of its subsidiaries	5	Stamping components and peripheral components	32,907	33.8
2	Group B	60 days	Telegraphic transfer	Group B, according to its website, is member of a power tool and outdoor power equipment manufacturing group with offices, teams and facilities support in China, Europe, North America and Australia, and whose products are sold by more than 30,000 stores in 65 countries. Our Group had business relationship with Nanjing Deshuo, a private manufacturer established in the PRC in 1997 with scope of business including among others, production and sales of home appliances, and Nanjing Quanfeng, a private manufacturer of automobile parts established in the PRC in 2012. Nanjing Deshuo and Nanjing Quanfeng are indirectly held by Company E	5	Peripheral components	13,941	14.3
3	Hefei Hualing	90 days	Telegraphic transfer and bank acceptance note	A private manufacturer established in the PRC in 1993 with scope of business including among others, the production of refrigerators, which is a subsidiary of a China based manufacturer, with scope of business including among others, the production and sales of electric appliances, listed on the Shenzhen Stock Exchange	6	Stamping components and peripheral components	11,220	11.5
4	Chuzhou Boai	90 days	Telegraphic transfer	A private manufacturer of metal components and parts established in 2005 with a registered capital of RMB0.5 million	2	Stamping components and peripheral components	8,177	8.4
5	TCL Household	90 days	Commercial bill	A manufacturer established in the PRC in 2013 with scope of business including among others, the production of home appliances, which is a subsidiary of a China based manufacturer, which according to its website, is a business conglomerate focused on global scale smart product manufacturing and internet application services, listed on the Shenzhen Stock Exchange	2	Stamping components and peripheral components	5,258	5.4
Total							<u>71,503</u>	<u>73.4</u>

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For the year ended 31 December 2016

Rank	Name of customer	Credit terms offered to customer	Major settlement method	Background and principal business	Approximate years of relationship with our Group (up to 31 December 2017)	Types of products sold	Revenue	Percentage to our total revenue
							(RMB'000)	(approximately, %)
1	Group A	60 days to 90 days	Telegraphic transfer	Group A, according to its website, is a member of a leading home appliances manufacturer in Europe with over 58,000 employees and over 40 factories over the world. Our Group had business relationship with Company B, Company C and Company D, which are subsidiaries of Company A, a private company established in the PRC in 2010 which principally engages in investment and management of its subsidiaries	5	Stamping components and peripheral components	13,615	17.2
2	Group B	60 days	Telegraphic transfer	Group B, according to its website, is member of a power tool and outdoor power equipment manufacturing group with offices, teams and facilities support in China, Europe, North America and Australia, and whose products are sold by more than 30,000 stores in 65 countries. Our Group had business relationship with Nanjing Deshuo, a private manufacturer established in the PRC in 1997 with scope of business including among others, production and sales of home appliances, and Nanjing Quanfeng, a private manufacturer of automobile parts established in the PRC in 2012. Nanjing Deshuo and Nanjing Quanfeng are indirectly held by Company E	5	Peripheral components	13,508	17.1
3	Customer B	90 days	Telegraphic transfer and bank acceptance note	A private manufacturer established in the PRC in 2006 with scope of business including among others, the production of home appliances, which is a subsidiary of a China based manufacturer, with scope of business including among others, the production and sales of electric appliances, listed on the Shenzhen Stock Exchange	3	Stamping components and peripheral components	9,831	12.4
4	Hefei Hualing	90 days	Telegraphic transfer and bank acceptance note	A private manufacturer established in the PRC in 1993 with scope of business including among others, the production of refrigerators, which is a subsidiary of a China based manufacturer, with scope of business including among others, the production and sales of electric appliances, listed on the Shenzhen Stock Exchange	6	Stamping components and peripheral components	9,116	11.5
5	PAS Appliance	90 days	Telegraphic transfer	A private component processor established in the PRC in 2011 with its business focusing on the production of control system panel for home appliances, which, according to its website, has approximately 170 employees and factory size of approximately 10,000m ²	2	Peripheral components	7,592	9.6
Total							53,662	67.8

BUSINESS

For the year ended 31 December 2015

Rank	Name of customer	Credit terms offered to customer	Major settlement method	Background and principal business	Approximate years of relationship with our Group (up to 31 December 2017)	Types of products sold	Revenue	Percentage to our total revenue
							(RMB'000)	(approximately, %)
1	Group B	60 days	Telegraphic transfer	Group B, according to its website, is member of a power tool and outdoor power equipment manufacturing group with offices, teams and facilities support in China, Europe, North America and Australia, and whose products are sold by more than 30,000 stores in 65 countries. Our Group had business relationship with Nanjing Deshuo, a private manufacturer established in the PRC in 1997 with scope of business including among others, production and sales of home appliances, and Nanjing Quanfeng, a private manufacturer of automobile parts established in the PRC in 2012. Nanjing Deshuo and Nanjing Quanfeng are indirectly held by Company E	5	Peripheral components	10,379	18.6
2	Hefei Hualing	90 days	Telegraphic transfer and bank acceptance note	A private manufacturer established in the PRC in 1993 with scope of business including among others, the production of refrigerators, which is a subsidiary of a China based manufacturer, with scope of business including among others, the production and sale of electric appliances, listed on the Shenzhen Stock Exchange	6	Stamping components and peripheral components	8,397	15.1
3	Group A	60 days to 90 days	Telegraphic transfer	Group A, according to its website, is a member of a leading home appliances manufacturer in Europe with over 58,000 employees and over 40 factories over the world. Our Group had business relationship with Company B, Company C and Company D, which are subsidiaries of Company A, a private company established in the PRC in 2010 which principally engages in investment and management of its subsidiaries	5	Stamping components and peripheral components	8,242	14.8
4	Customer B	90 days	Telegraphic transfer and bank acceptance note	A private manufacturer established in the PRC in 2006 with scope of business including among others, the production of home appliances, which is a subsidiary of a China based manufacturer, with scope of business including among others, the production and sales of electric appliances, listed on the Shenzhen Stock Exchange	3	Stamping components and peripheral components	4,965	8.9
5	PAS Appliance	90 days	Telegraphic transfer	A private component processor established in the PRC in 2011 with its business focusing on the production of control system panel for home appliances, which, according to its website, has approximately 170 employees and factory size of approximately 10,000m ²	2	Peripheral components	4,553	8.2
Total							36,536	65.6

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Each of our five largest customers is an Independent Third Party. To the best knowledge of our Directors, none of our Directors or their respective associates, or any Shareholders who owns 5% or more of our issued share capital, had any interest in any of our five largest customers during the Track Record Period. During the Track Record Period and up to the Latest Practicable Date, we have not encountered any material disputes with our customers.

Entities who are both our major customers and suppliers

For the years ended 31 December 2015, 2016 and 2017, to the best knowledge and belief of our Directors, 4, 2 and 4 out of our ten largest suppliers for the respective years were also our customers, respectively. For the years ended 31 December 2015, 2016 and 2017, our purchase from these suppliers was approximately RMB4.5 million, RMB6.3 million and RMB17.7 million, respectively, accounting for approximately 20.7%, 16.8% and 34.3%, respectively, of our total purchase for the same periods. During the same periods, our revenue generated from these customers was approximately RMB22.9 million, RMB27.1 million and RMB48.5 million, respectively, amounting for approximately 41.1%, 34.3% and 49.9%, respectively, of our total revenue. Gross profit for the sale of the products to these customers for the years ended 31 December 2015, 2016 and 2017 was approximately RMB7.6 million, RMB6.6 million and RMB7.9 million, respectively, and the gross profit margin was approximately 33.0%, 24.5% and 16.2%, respectively.

For the years ended 31 December 2015, 2016 and 2017, to the best knowledge and belief of our Directors, 4, 3 and 3 out of our ten largest customers for the same periods were also our suppliers, respectively. Revenue generated from these customers for the years ended 31 December 2015, 2016 and 2017 was approximately RMB24.2 million, RMB37.0 million and RMB58.1 million, respectively, representing approximately 43.4%, 46.7% and 59.7%, respectively, of our total revenue for the same periods and our purchase from these customers was approximately RMB4.4 million, RMB6.3 million and RMB14.7 million, representing approximately 20.0%, 16.9% and 28.6%, respectively, of our total purchase for the same periods. Gross profit for the sale of the products to these customers for the years ended 31 December 2015, 2016 and 2017 was approximately RMB7.8 million, RMB8.9 million and the RMB8.2 million, respectively, and the gross profit margin was approximately 32.3%, 24.0% and 14.1%, respectively.

To the best knowledge and belief of our Directors, all the above mentioned entities and their ultimate beneficial owners are Independent Third Parties. These customers and/or suppliers are principally either white goods manufacturers or various independent component processors. As for white goods manufacturers, according to the Ipsos Report and our Directors believe that it is not uncommon for the white goods manufacturers to require the component processors to produce and/or process stamping components and/or peripheral components with raw materials and/or semi-finished peripheral components supplied by white goods manufacturers themselves or their appointed suppliers for the following reasons: (i) to ensure the quality of the finished stamping components and/or the peripheral components produced and/or processed by the components processors; and (ii) to control the cost of purchase. For various independent component processors, they may not be able to supply all types of stamping and/or peripheral components as required by their customers within the prescribed period of time, hence they may need to purchase stamping and/or peripheral components from us accordingly to supplement their manufacturing and/or processing needs.

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Negotiations of the terms of our purchases from and sales to all the above mentioned entities were conducted on individual basis. Our Directors believe that the terms of transactions with all these entities are in line with market and similar to those transactions with our other customers or suppliers.

Relationship with our Largest Customer

Our business relationship with Group A commenced since 2012 after the establishment of our PRC operating subsidiary. Group A is our third largest, largest and largest customer for the years ended 31 December 2015, 2016 and 2017, respectively, accounting for approximately 14.8%, 17.2% and 33.8% of our total revenue, respectively, and the overall gross profit margin was 19.1%, 16.4% and 7.3%, respectively, for the same periods.

During the Track Record Period, we processed certain powder-coating peripheral components which, to the best knowledge of our Directors, were used in the production of home refrigerators by Group A, with a relatively lower gross profit margin as part of the entire product range we processed for Group A. For the year ended 31 December 2017, our sales derived from our powder-coating peripheral components accounted for approximately 37.0% of our total sales and out of which the sales derived from the abovementioned powder-coating peripheral components for home refrigerators accounted for approximately RMB13.5 million, representing approximately 37.6% of our total sales derived from our powder-coating peripheral components for the year ended 31 December 2017. In particular, the gross profit margin for such powder-coating peripheral components for home refrigerators was approximately 3.0% for the year ended 31 December 2017. Sales of these powder-coating peripheral components for home refrigerators with a relatively lower gross profit margin has contributed to our decline in gross profit margin for the year ended 31 December 2017, as compared to that for the year ended 31 December 2016.

Considering the factors: (i) it is not uncommon that white goods manufacturers place purchase orders with component processors as a condition of granting such component processors purchase orders for other non-profitable products according to the Ipsos Report; and (ii) Group A was our third largest, largest and largest customer for the years ended 31 December 2015, 2016 and 2017, our Directors believe that if we cease to process such powder-coating peripheral components for home refrigerators for Group A, Group A may place fewer orders, in particular orders which have a higher historical gross profit margin, with us, and this may damage our business relationship with Group A. If this happens, our business operations and financial position may be adversely affected. Therefore, our Directors believe that it is in the interests of our Group to continue to process such powder-coating peripheral components for home refrigerators for Group A, despite the abovementioned shortcoming.

For the year ended 31 December 2017, we have also secured from Group A products with higher gross profit margin including spray-painting peripheral components for home refrigerators and range hoods. For the year ended 31 December 2017, the sales derived from the spray-painting peripheral components for home refrigerators and range hoods accounted for approximately RMB5.0 million, representing approximately 11.3% of our total sales derived from our spray-painting peripheral components. The gross profit margin for such spray-painting peripheral components for home refrigerators was approximately 22.3% for the year ended 31 December 2017. As for spray-painting peripheral components for range hoods which we begun to process for Group A since 2016, the gross profit margin was approximately 59.2% for the year ended 31 December 2017, respectively.

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Our Directors believe that, as a return for accepting lower-margin orders for powder-coating peripheral components, we secured more higher-margin orders from Group A. For example, the sales derived from the spray-painting peripheral components for range hoods of Group A increased by approximately 17.9 times from approximately RMB43,000, with a gross profit margin of approximately 44.2%, for the year ended 31 December 2016 to approximately RMB0.8 million, with a gross profit margin of approximately 59.2%, for the year ended 31 December 2017.

Reducing Reliance on Major Customers

We have adopted the following measures to reduce our reliance on major customers in order to achieve a more sustainable long term growth:

Developing and engaging new customers: we have made considerable efforts to develop a more diversified customer base, and strive to explore and develop co-operation opportunities with other potential customers. In 2017, we had developed four new customers, namely Jiangsu Shangling Electric Appliance Co., Ltd.* (江蘇上菱電器有限公司), Customer D, Customer E and Customer F. Our Group had recorded an aggregate revenue of approximately RMB2.1 million and an unaudited aggregate revenue of RMB0.9 million from these four new customers for the year ended 31 December 2017, and for the two months ended 28 February 2018, respectively.

No restriction against engaging new customers: under our sales agreements with our major customers, we are not restricted from co-operating with other customers. This provides us with the flexibility to explore new customers while maintaining co-operation with our existing customers.

Enriching and expanding our product offerings: our Group intends to launch new products based on our technological development and according to specifications of our existing customers and potential customers. Please refer to the paragraphs headed “Business Strategies — Continuing to Enrich and Expand our Product Offerings” and “Expansion Plan” in this section for further details.

Upgrading of our manufacturing and processing facilities: we intend to enhance our competitiveness by upgrading our manufacturing and processing facilities to capture new business opportunities and accept new purchase orders from new customers. Please refer to the paragraphs headed “Business Strategies — We Intend to Upgrade our Manufacturing and Processing Facilities to Enhance Competitiveness” and “Expansion Plan” for further information.

Sales and marketing effort: during the Track Record Period, we strive to enlarge our customer base and reinforce our established customer network through our sales and marketing strategies. Please refer to the paragraphs headed “Sales and Marketing” and “Business Strategies — We Intend to Enhance our Market Share” for further information.

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Increase competitiveness through enhanced corporate profile: our Directors believe that following the Listing, we can evaluate our corporate image and status, provide more reassurance to our clients and become more appealing to our potential clients. Please refer to the paragraph headed “Future Plans and Use of Proceeds — Reasons for the Listing — Increased Competitiveness through Enhanced Corporate Profile and Corporate Governance” in this prospectus for further details.

Our Directors are of the view that the above efforts have enabled us to maintain a stable and established customer base and will provide us with business opportunities to further enlarge our customer network in the future.

Directors’ View

Market diversification and reliance: According to the Ipsos Report, the white goods industry is highly concentrated with the top five home washing machine brands accounting for 78.7% and top five home refrigerator brands accounting for 76.9% of the total market share in terms of sales revenue in 2016. Accordingly, as a matter of business strategies, our Directors are of the view that it is not uncommon for plastic and steel component processors to maintain stable cooperation relations and considerable volume of transactions with leading white goods brands.

Revenue sustainability: we believe that we possess the competitive strengths as discussed in the paragraph headed “Competitive Strengths” in this section and we will strive to capture growth opportunities in the industry where we operate by implementing the strategies set out under the section headed “Business Strategies” above.

Long-term relationship with other major customers: while aiming to diversify our customer base by adopting the above measures, our established long-term and stable business relationship with our five largest customers during the Track Record Period of more than two years to more than six years, as at the Latest Practicable Date, provides us with a niche in the process of pitching for future sales agreements and purchase orders with our existing customers and potential customers as a result of our understanding of the industry where we operate and customers’ needs accumulated over these years.

Pricing Policy

We adopt a cost-plus pricing policy and set prices for our stamping components and peripheral components based on various factors including but not limited to (i) the market supply and demand; (ii) our manufacturing and processing costs with reference to product specifications from our customers in terms of technical and quality requirements and capacity; and (iii) the targeted gross profit margin of our products. In addition, we also adjust prices for our products in accordance with the terms of our sales agreements with our customers upon changes in the prices of key raw materials in accordance with the terms of the relevant sales agreements. Generally, the price of our products is subject to review once or twice a year and we will provide our customers with the revised price list.

BUSINESS

Credit Control

We have adopted stringent credit control procedures and we monitor our working capital on an on-going basis to minimise credit risks. We have an established record system to monitor receivables and outstanding invoices. Our accounting staff will report regularly and we will analyse and formulate relevant procedures to collect outstanding invoices. In general, we provide our major customers with a credit period up to 180 days from the invoice date. As a result of our effort in credit control, we had not recorded any bad debts during the Track Record Period.

Marketing Strategies

According to the Ipsos Report, the white goods industry is highly concentrated and is dominated by certain key white good brands. We have established business relationships with white goods manufacturers of renowned brands such as Midea for over six years and TCL for over two years. Our sales and marketing strategies focus on promoting our reputation in terms of quality of our products. Our sales and marketing personnel maintains close contact with our customers and strive to seize the opportunity to promote our products to them. We proactively discuss with our customers to understand their needs and obtain their feedback with an aim to better serving our customers.

LOGISTICS

Depending on the terms of the sales agreements with our customers, we are generally responsible for delivering our products to our customers. The costs of delivery and the risk of losses and damage during the delivery are borne by us. In case our in-house logistics team have insufficient capacity to deliver all products to our customers according to the delivery schedule, particularly in peak periods, we generally hire logistics companies who are Independent Third Parties, to arrange the delivery. The cost of delivery is borne by us and risk of losses and damage during the delivery are borne by such logistics company.

PRODUCT RETURNS AND WARRANTY

We are exposed to potential product liability claims in respect of injuries alleged to be caused by our products purchased by the end users, although consumers are more likely to sue and claim damages from the retailers. Our Directors consider that the risk of potential product liability claim is relatively low because our products only form components and parts of the end products to be used by the end users.

As a general policy, we will accept product returns due to defects caused by us and bear the costs of such products returned to us after conducting investigation to ascertain the cause of the defect. Depending on the terms of the sales and purchase agreements, we may repair or replace the defective products if the default is caused by us. If we receive a defective product complaint from a customer, we will conduct an investigation to ascertain the cause of the defect and may seek compensation from any third party suppliers or subcontractors if they are at fault and responsible for causing the defect.

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During the Track Record Period and up to the Latest Practicable Date, there had been no actual or material product liability claim against us. For the risk of potential product liability to which we may be exposed, please refer to the section headed “Risk Factors — Risks Associated with our Business — We may be Subject to Product Liability Claims” for further information.

Generally, we offer a warranty period which ranges from one year to a maximum of eight years commencing from the passing of the relevant acceptance procedures as set out in the sales agreements. According to the Ipsos Report, white goods manufacturers, as downstream players in the value chain in the industry where we operate, have stronger bargaining power as the white goods industry is highly concentrated and dominated by a few renowned white goods brands. Generally, white goods manufacturers, in light of their relatively stronger bargaining positions, tend to require relatively long warranty period, which ranges from one to seven years, from component processors, despite claims or product returns or claims pursuant to warranty are not frequent in the industry. This is mainly because the manufacturing and/or processing of plastics and steel components for white goods and/or other home appliances do not involve specialised and/or advanced technology, and the production process is relatively standardized and the production technology is mature. Therefore, chances or risks of components malfunctioning or of inferior quality are low, and claims or product returns pursuant to warranty are not frequent in the industry.

Our Group has not made any provision for the warranty offer during the Track Record Period for the reasons that (i) only one of our five largest customers during the Track Record Period requested for a warranty period of eight years, while other customers generally require a warranty period ranging from one to five years, which are consistent with the industry norm; (ii) there has been no customer demanding compensation or refund pursuant to warranty clauses during the Track Record Period; and (iii) any defects of our stamping and peripheral components would be discovered by our customers by quality inspection upon our delivery or within a short period of time during their further production or manufacturing. Our Directors therefore are of the view that significant risk as to our financial position caused by such warranty claims is minimal, if any.

INSURANCE

We maintain insurance policies to protect our facilities in the First Base and the Second Base against a range of contingencies, including, among others, loss and theft of and damage to property, plant, equipment and vehicle, inventory, employees accident insurance and the social insurances required under the PRC laws.

We do not maintain any product liability insurance arising from the provision of products in the PRC. As confirmed by our PRC Legal Adviser, we are not required to maintain any product liability insurance under the relevant PRC laws and regulations. To minimise our product liability risk, we have stringent quality control measures in order to avoid or reduce the incidence of product defects. Details of our quality control measures are set out in paragraphs headed “Quality control” in this section. During the Track Record Period, we were not involved in material product liability claims. For the risk of potential product liability to which we may be exposed, please refer to the section headed “Risk Factors — Risks Associated with our Business — We may be Subject to Product Liability Claims”.

BUSINESS

Our Directors believe that our current insurance policies provide sufficient coverage of the risks to which we may be exposed to and is in line with the industry practice in the PRC.

For the years ended 31 December 2015, 2016 and 2017, the total amount of premium paid for insurance were approximately RMB205,000, RMB185,000 and RMB176,000, respectively. During the Track Record Period and as at the Latest Practicable Date, we had neither made nor been subject to any material insurance claims and/or product liability claims.

INTELLECTUAL PROPERTY

As of the Latest Practicable Date, save for being the registered owner of the domain name www.baoshen.com.hk, we had not registered or applied for any trademark, patent or other intellectual property right. Details of our registered intellectual property rights are set out in the section headed “Further Information about the Business — 2. Intellectual Property Rights of our Group” in Appendix V to this prospectus. Our Directors confirmed that we were not subject to any material disputes or claims in respect of our intellectual property rights against or by any third parties during the Track Record Period and up to the Latest Practicable Date.

LAND AND PROPERTY INTERESTS

As at the Latest Practicable Date, we owned the Second Base located at No.719 Shuangying Road which comprises four buildings with an aggregate gross floor area of approximately 27,281.96 square metres. The Second Base consists of manufacturing and processing facilities, offices and warehouses.

In addition, as at the Latest Practicable Date, we leased two factory buildings in the First Base with a gross floor area of approximately 3,376.02 square metres from Chuzhou Genxing, which is an associate of Mr. Fan, our Controlling Shareholder. For details, please refer to the section headed “Connected Transactions — Exempt Continuing Connected Transactions” and the section headed “Appendix III — Property Valuation Report”.

BUSINESS

EMPLOYEES

As at 31 December 2017 and as at the Latest Practicable Date, we had a total of 298 and 289 full-time employees, respectively, and 26 and 23 dispatched workers, respectively. The following sets forth the number of our employees by functional role as at the respective dates:

	31 December 2017				As at Latest Practicable Date			
	<i>Number of full-time employees</i>	<i>% of total (approximately)</i>	<i>Number of dispatched workers</i>	<i>% of total (approximately)</i>	<i>Number of full-time employees</i>	<i>% of total (approximately)</i>	<i>Number of dispatched workers</i>	<i>% of total (approximately)</i>
Management	2	0.7	nil	N/A	2	0.7	nil	N/A
Sales and marketing	23	7.7	nil	N/A	23	8.0	nil	N/A
Production	242	81.2	26	100	234	81.0	23	100
Procurement	3	1.0	nil	N/A	3	1.0	nil	N/A
Finance	7	2.4	nil	N/A	7	2.4	nil	N/A
Human resources	1	0.3	nil	N/A	1	0.3	nil	N/A
Production material control department	9	3.0	nil	N/A	9	3.1	nil	N/A
Others	11	3.7	nil	N/A	10	3.5	nil	N/A
Total	298	100	26	100	289	100	23	100

We recruit our employees based on a number of factors such as their work experience, educational background and our vacancy needs. We generally recruit through online advertisements from the government websites, on-site postings and referrals from our employees.

The remuneration payable to our employees includes salaries, allowances and discretionary bonus. We conduct periodic performance review for our employees and their remuneration is based on factors including qualifications, contributions, years of experience and performance. We also provide pre-job and on-the-job training to our staff to equip them with requisite skills and knowledge for their positions.

As required under the relevant PRC laws and regulations, we maintain social insurances, including pension insurance, medical insurance, unemployment insurance, occupational injury insurance and maternity insurance and housing provident fund for our employees. For further information, please refer to the section headed “Regulatory Overview — Laws and Regulations on Labour Security” in this prospectus. We also provide occupational injury accident insurance for our employees pursuant to their needs. As advised by our PRC Legal Adviser, save as disclosed under the paragraph headed “Legal Compliance” in this section, we have complied with the relevant labour laws and social welfare laws and regulations in the PRC in all material respects.

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Our employees are represented by a labour union with respect to labour disputes and other employee matters. The labour union does not represent our employees for the purpose of collective bargaining and our employees are not covered by any collective bargaining agreement. We have not experienced any material disputes with our employees and we believe that we maintain a good working relationship with our employees.

Dispatched Workers

During the Track Record Period, we entered into agreements with an employment agency, an Independent Third Party, regarding the services of the dispatched workers. As of 31 December 2017 and the Latest Practicable Date, we had 26 and 23 dispatched workers through such arrangement, representing approximately 8.7% and 8.0% of our total workforce and human resource. As advised by our PRC Legal Adviser, such engagement of dispatched workers is our business through employment agency is in compliance with the relevant PRC laws and regulations.

OCCUPATIONAL HEALTH AND SAFETY

Taking occupational health and safety as one of our prime responsibilities, we have established relevant safety policies and provided training to our new staff. We have compiled safety manuals and distributed to our employees and set out regulations on safety management which our staffs are required to comply with. We carry out regular safety checks on our manufacturing and processing lines and equipments to ensure that such manufacturing and processing lines and equipments are safe for use. Furthermore, all of our employees are provided with work place safety trainings.

Our Directors has confirmed that during the Track Record Period and up to the Latest Practicable Date, save as disclosed in the paragraph headed “Legal Compliance” in this section, we have complied with all material applicable PRC laws and regulations in relation to employee health and safety. During the Track Record Period and up to the Latest Practicable Date, we had not had any incidents, claims or complaints which had materially and adversely affected our operations.

ENVIRONMENTAL PROTECTION

Our Group’s manufacturing and processing operations are subject to PRC environmental laws and regulations on air emission, solid waste emission, sewage and waste water, discharge of waste and pollutants, and noise pollution. These laws and regulations include Law of the PRC on Environmental Protection (中華人民共和國環境保護法), 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), Law of the PRC on the Prevention and Control of Atmospheric Pollution (中華人民共和國大氣污染防治法), Law of the PRC on the Prevention and Control of Pollution from Environmental Noise (中華人民共和國環境噪聲污染防治法) and Law of the PRC on the Prevention and Control of Environmental Pollution of Solid Waste (中華人民共和國固體廢物污染環境防治法). These laws and regulations govern a broad range of environmental matters, including air pollution, noise emissions and water and waste discharge. Our Group is also subject to Administrative Regulations on Environmental Protection for Construction Project (建設項

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目環境保護管理條例) and Environmental Impact Assessment Law of the PRC (中華人民共和國環境影響評價法). These regulations set the guidelines for discharge of pollutants. For further details, please refer to the section headed “Regulatory Overview — Laws and Regulations on Environmental Protection” in this prospectus.

We recognise the importance of environmental protection and control pollutant emission at our production bases to ensure compliance with the relevant PRC environmental regulations. We take steps to ensure that the wastes produced as a result of our operation are properly disposed and have engaged industrial waste collector to collect and dispose the industrial dangerous wastes. As advised by our PRC Legal Adviser, during the Track Record Period, save as disclosed in the paragraph headed “Legal Compliance” in this section, we have complied with the relevant PRC environmental protection laws and regulations since our commencement of operation in material respects. We have been subject to the inspections by the local governmental authority from time to time. During the Track Record Period, we were not subject to any fine or claim arising from non-compliance with environmental laws and regulations for our environmental measures which materially affected our operation. We are committed to the continued compliance with the relevant PRC environmental protection laws and regulations.

LEGAL COMPLIANCE

Save as disclosed in the paragraphs below, during the Track Record Period and up to the Latest Practicable Date, our Group had complied with the relevant laws and regulations in relation to our business in all material respects, and there were no material breaches or violations of the laws or regulations applicable to us that would have a material adverse effect on our business or financial condition taken as a whole. As at the Latest Practicable Date, none of our Group or any of our Directors was engaged in any litigation or claim or arbitration of material importance, and to the best knowledge of our Directors, to be pending or threatened against our Group or our Directors.

Non-compliant Loan Financing Arrangements

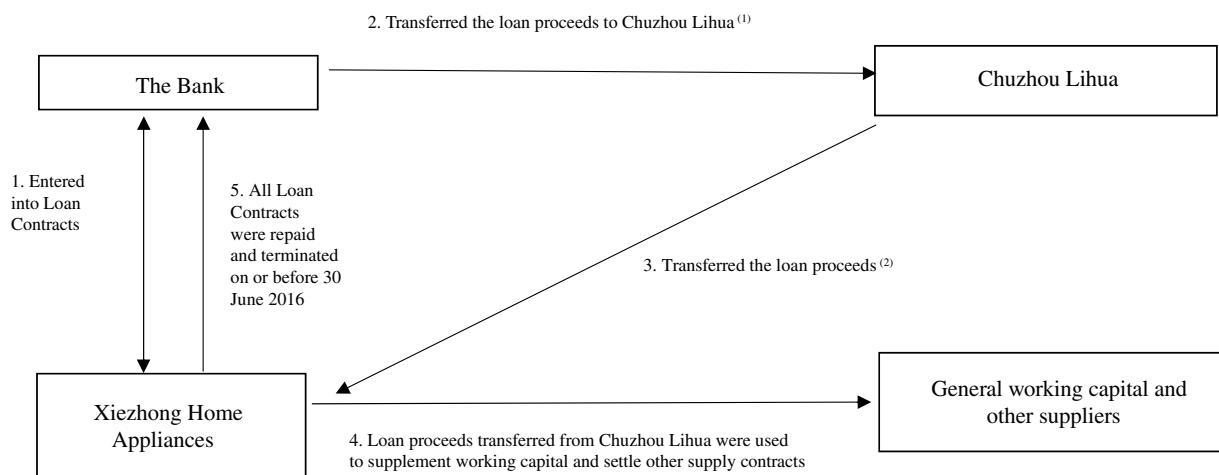
Background

From January 2014 to November 2015 (the “**Relevant Period**”), Xiezhong Home Appliances entered into 16 loan contracts (the “**Loan Contracts**”) with Chuzhou Wandong Rural Village Commercial Bank Limited* (滁州皖東農村商業銀行股份有限公司) (the “**Bank**”). Pursuant to the terms of the Loan Contracts, all the loan proceeds should be used to pay for raw materials. As confirmed by the Bank in its confirmation dated 22 August 2017, the use of the loan proceeds was amended and/or varied to purchasing of raw materials and supplementing working capital of Xiezhong Home Appliances with effect retrospectively from the dates of the respective Loan Contracts. During the Relevant Period, a total amount of RMB90,800,000 were drawn down and all the loan proceeds (the “**Non-compliant Loans**”) were transferred to Chuzhou Lihua Industry and Trade Company Limited* (滁州市立華工貿有限公司) (“**Chuzhou Lihua**”) on the same date when the Bank transferred the loan proceeds to the account of Xiezhong Home Appliances with the Bank. During the Relevant Period, Chuzhou Lihua was owned as to 50% by Ms. Fan Baoping, the elder sister of Mr. Fan, and as to 50% by Ms. Shi Youqin, the sister-in-law of Mr. Fan. As there were no actual underlying transactions between Xiezhong Home Appliances and Chuzhou Lihua, Chuzhou Lihua subsequently

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transferred all the loan proceeds to Xiezhong Home Appliances upon request of Xiezhong Home Appliances on the same date when the loan proceeds were transferred to Chuzhou Lihua through the account of Xiezhong Home Appliances with the Bank except for one loan proceed in an amount of RMB7,500,000 which was transferred to Xiezhong Home Appliances by five instalments on the 8th day, 10th day, 37th day, 63rd day and 63rd day, respectively, after the date of transfer of the loan proceed from the Bank to Chuzhou Lihua. Such loan proceeds were later used to supplement working capital of Xiezhong Home Appliances and settle other supply contracts (the “**Non-compliant Loan Financing Arrangements**”).

The diagram below illustrates the details of flow of loan proceeds of the Non-compliant Loan Financing Arrangements:



Note:

- (1) Upon applications from Xiezhong Home Appliances, the loan proceeds were transferred to Chuzhou Lihua through the account of Xiezhong Home Appliances with the Bank in accordance with the terms of the Loan Contracts on the same date when the Bank transferred the loan proceeds to the account of Xiezhong Home Appliances with the Bank.
- (2) All the loan proceeds were transferred from Chuzhou Lihua to Xiezhong Home Appliances on the same date when the loan proceeds were transferred to Chuzhou Lihua through the account of Xiezhong Home Appliances with the Bank except for one loan proceed in an amount of RMB7,500,000 which was transferred to Xiezhong Home Appliances by five instalments on the 8th day, 10th day, 37th day, 63rd day and 63rd day, respectively, after the date of transfer of the loan proceed from the Bank to Chuzhou Lihua.

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The tables below set out the movement of the outstanding loan proceeds and the number of the Non-compliant Loans during the Track Record Period:

For the year ended 31 December 2015

	RMB'000	Number of Non-compliant Loans
Number of outstanding Non-compliant Loans and amount of outstanding balances as at 1 January 2015	35,800	8
Number of Non-compliant Loans applied and amount of proceeds received in 2015	55,000	8
Number of Non-compliant Loans and amount of loans repaid in 2015	61,800	12
Number of outstanding Non-compliant Loans and amount of outstanding balances as at 31 December 2015	29,000	4

For the six months ended 30 June 2016

	RMB'000	Number of Loans
Number of outstanding Non-compliant Loans and amount of outstanding balances as at 1 January 2016	29,000	4
Number of Non-compliant Loans applied and amount of proceeds received for the six months ended 30 June 2016	Nil	Nil
Number of Non-compliant Loans and amount of loans repaid for the six months ended 30 June 2016	29,000	4
Number of outstanding Non-compliant Loans and amount of outstanding balances as at 30 June 2016	Nil	Nil

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Details of the Loan Contracts are set out as follows:

Item no.	Date of Loan Contract	Amount of loan facility granted (RMB'000)	Period of loan	Interest rate per annum	Actual amount of loan drawdown (RMB'000)	Date of full repayment of total loan drawdown and interest	Name of guarantor	Description of pledge
1	16 January 2014	6,000	16 January 2014 to 16 January 2015	7.8000%	6,000	13 January 2015	Not applicable	Mr. Fan's property
2	22 January 2014	3,000	22 January 2014 to 22 January 2015	7.8000%	3,000	15 January 2015	Not applicable	Property of Ms. Fan Baoping (sister of Mr. Fan) and Mr. Xu Hongqi (the spouse of Ms. Fan Baoping)
3	14 March 2014	9,500	14 March 2014 to 14 March 2015	7.8000%	9,500	11 March 2015	Not applicable	Xiezhong Home Appliances' property
4	17 April 2014	3,500	17 April 2014 to 17 April 2015	8.4000%	3,500	17 April 2015	Not applicable	Xiezhong Home Appliances' equipment
5	10 October 2014	5,000	10 October 2014 to 10 April 2015	8.4000%	5,000	9 April 2015	an Independent Third Party	Not applicable
6	3 November 2014	1,500	3 November 2014 to 3 November 2015	9.0000%	1,500	27 May 2015	Mr. Fan and Ms. Cao	Property of Mr. Fan and Ms. Cao
7	5 November 2014	5,000	5 November 2014 to 5 November 2015	9.0000%	5,000	22 May 2015	Not applicable	Xiezhong Home Appliances' property
8	10 November 2014	2,300	10 November 2014 to 7 November 2015	9.0000%	2,300	24 April 2015	Not applicable	Chuzhou Genxing's property
9	14 January 2015	6,000	14 January 2015 to 14 January 2016	8.6800%	6,000	1 December 2015	Not applicable	Mr. Fan's property
10	16 January 2015	3,000	16 January 2015 to 16 January 2016	8.6800%	3,000	23 June 2015	Not applicable	Property of Ms. Fan Baoping (sister of Mr. Fan) and Mr. Xu Hongqi (the spouse of Ms. Fan Baoping)

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Item no.	Date of Loan Contract	Amount of loan facility granted (RMB'000)	Period of loan	Interest rate per annum	Actual amount of loan drawdown (RMB'000)	Date of full repayment of total loan drawdown and interest	Name of guarantor	Description of pledge
11	12 March 2015	9,500	12 March 2015 to 12 March 2016	7.8003%	9,500	23 November 2015	Not applicable	Xiezhong Home Appliances' property
12	17 March 2015	8,500	17 March 2015 to 17 March 2016	8.2925%	8,500	14 March 2016	Mr. Fan	Xiezhong Home Appliances' property
13	21 April 2015	3,500	21 April 2015 to 21 April 2016	8.2925%	3,500	21 April 2016	Not applicable	Xiezhong Home Appliances' equipment
14	25 May 2015	7,500	25 May 2015 to 25 May 2016	7.6500%	7,500	24 November 2015	Not applicable	Xiezhong Home Appliances' property
15	24 November 2015	9,500	24 November 2015 to 14 March 2017	6.9255%	9,500	30 June 2016	Mr. Fan	Xiezhong Home Appliances' property
16	25 November 2015	7,500	25 November 2015 to 25 November 2017	7.1250%	7,500	29 June 2016	Mr. Fan	Xiezhong Home Appliances' property

For the purpose of loan administrative convenience, Xiezhong Home Appliances entered into contracts with Chuzhou Lihua for purchase of raw materials and pursuant to the terms of the Loan Contracts, the loan proceeds shall only be used to pay for purchase of raw materials. It was usual for a bank in the PRC to require payment of the loan proceeds to the designated suppliers of a borrower. The loan proceeds were paid to Chuzhou Lihua though there were no actual underlying transactions between Xiezhong Home Appliances and Chuzhou Lihua, the Non-compliant Loan Financing Arrangements did not comply with the terms and conditions of the Loan Contracts and the applicable PRC laws and regulations.

The payment of the loan proceeds were transferred to Chuzhou Lihua because (i) it was loan administrative convenient to Xiezhong Home Appliances as it did not require Xiezhong Home Appliances to make numerous applications for loans to the Bank for each of its suppliers and/or its working capital; and (ii) Chuzhou Lihua was owned by the family members of Mr. Fan who agreed to receive the loan proceeds from the Bank on behalf of Xiezhong Home Appliances and transfer the loan proceeds back to Xiezhong Home Appliances for the working capital and for settling supply contracts of Xiezhong Home Appliances. Mr. Fan trusted his family members and the loan proceeds would securely be received by Xiezhong Home Appliances even though the loan proceeds were transferred to Chuzhou Lihua for receipt first. Chuzhou Lihua did honour its agreement to Xiezhong Home Appliances by transferring the relevant loan proceeds received to Xiezhong Home Appliances.

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Our Directors confirm that (i) we entered into the Non-compliant Loan Financing Arrangements for loan administrative convenience purpose; (ii) due to the lack of proper legal advice, they were previously unaware that the Non-compliant Loan Financing Arrangements involved non-compliance with the applicable PRC laws and regulations; and (iii) during the Relevant Period, all the proceeds from the Non-compliant Loans were used to supplement working capital and settle other supply contracts and that none of the proceeds were applied for any other purposes.

To the best of their knowledge, our Directors confirm that the Non-compliant Loan Financing Arrangements did not involve any fraudulent activities with the intention to defraud any party. Our Directors also confirm that, except for the Non-compliant Loan Financing Arrangements, we had not involved in any similar financing arrangement for the benefit of Xiezhong Home Appliances during the Track Record Period. Our Directors, confirm that neither they nor any of their respective associates obtained any financial benefit directly or indirectly in connection with the Non-compliant Loan Financing Arrangements.

Non-compliance with the General Rules of Loans

In the course of the preparation for the Listing, we were advised by our PRC Legal Adviser that the Non-compliant Loan Financing Arrangements and the Non-compliant Loans did not comply with the General Rules of Loans (貸款通則), in particular, Article 19, which states that, among others, “obligations of a borrower are to: (i) truthfully provide materials required by lenders (except for materials unavailable pursuant to legal provisions); (ii) truthfully provide lenders with information on all banks where it maintains an account, account numbers, and deposit and loan balances, and co-operate with lenders in investigation, examination and inspection; and (iii) use a loan for the purposes as agreed in the loan contract. However, the Non-compliant Loan Financing Arrangements and the Non-compliant Loans did not relate to bill financing and there was no contravention to the PRC laws and regulations in relation to bill financing.

Effect on our financial position

The Group had ceased to apply for any Non-compliant Loans since 25 November 2015. The Group had fully repaid all the Non-compliant Loans together with interests to the Bank in accordance with the respective interest rates up to the respective months of repayment as provided in the Loan Contracts. In order to settle supply contracts and supplement general working capital, Xiezhong Home Appliances applied to the Bank for obtaining new loans. It is a condition precedent under the loan contract that guarantees for due performance of the loan contract to the satisfaction of the Bank shall be provided by borrowers. It was under these circumstances that Xiezhong Home Appliances obtained the seven new loans with a total amount of RMB47.3 million from the Bank since 2016 and up to the Latest Practicable Date, under which Xiezhong Home Appliances procured an Independent Third Party principally engaged in providing guarantee services for loans and finances in the PRC, namely, Chuzhou Yin Feng Financing Guarantee Co., Ltd* (滁州銀豐融資擔保有限公司) (the “**Chuzhou Yin Feng**”) to provide guarantees for, amongst others, due repayment of each of the seven new loans to the Bank for Xiezhong Home Appliances. Pursuant to the loan contracts for the seven new loans, the Group is obliged to pay interests at interest rates from 6.5250% to 8.0750% per annum. Chuzhou Yin Feng charged guarantee fees on Xiezhong Home Appliances for providing such guarantees, in a total amount of approximately RMB0.98 million. Since the Group did not apply for any loans other than

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Non-compliant Loans during the period in which the Group had Non-compliant Loan Financing Arrangements, the Group had no data as to the interest rate applicable to the same amount of loan facilities for the Non-complaint Loans should they have been compliant with the relevant PRC laws and regulations. A theoretical amount of borrowing cost of approximately RMB448,000 and RMB140,000 could be saved in respect of the Non-compliant Loans for the years ended 31 December 2015 and 2016, respectively, representing the estimated guarantee fees to be charged by any third party guarantor calculated based on the amount of loan facility granted multiplied by an annualised guarantee fee rate of 1.25%, which was the mid-point of the annualised guarantee fee rate ranging from 1.00% to 1.50% for our seven new loans obtained since 2016 after we ceased to apply for Non-compliant Loans, and the number of days of loan period for the respective year. Since the Bank requested for provision of guarantees and/or pledges for both the Non-compliant Loans and the seven new loans obtained since 2016, and in light of the requirement of financial independence of the Group and its Controlling Shareholders, the Group then began to incur the extra guarantee fees by engaging independent third party guarantor to provide the required guarantees to the Bank, our Directors are of the view that amount of borrowing cost saved which is made up of estimated guarantee fees to be charged as set out above is for illustrative purpose only. Notwithstanding the aforesaid, as at 31 December 2015 and 31 December 2016, we maintained cash and bank balances of approximately RMB0.6 million and RMB19.7 million, respectively. Based on the foregoing, our Directors confirm that (i) the Group would be able to obtain similar credit facilities assuming that there were no such Non-compliant Loan Financing Arrangements during the Track Record Period; and (ii) our financial position would not be adversely affected without the Non-compliant Loan Financing Arrangements during the Track Record Period.

As at Latest Practicable Date, the Group has fully repaid three out of the seven new loans in the total amount of RMB19.0 million together with interests thereon and the guarantees for such three loans have been released.

As Mr. Fan was the director of Xiezhong Home Appliances, Mr. Fan approved the Loan Contracts. Nevertheless, our Directors are of the view, and the Sole Sponsor concurs, that the approving of contracts for the loan financing by Mr. Fan in the Non-compliant Loan Financing Arrangement shall neither affect our suitability for listing under Rule 11.06 of the GEM Listing Rules nor affect or prejudice Mr. Fan's character, experience and integrity as required under Rule 5.01 and Rule 5.02 of the GEM Listing Rules for the following reasons:

- the Non-compliant Loan Financing Arrangements were primarily arranged by the accounting staff of Xiezhong Home Appliances. The then heads of accounting and finance departments of Xiezhong Home Appliances authorised such Non-compliant Loan Financing Arrangements because they did not have the relevant legal knowledge that they involved any non-compliance with the applicable PRC laws and regulations at the time when they authorised them, because they were not adequately advised by professional advisers on matters pertaining to loan financing at that time;

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- upon becoming aware of the relevant non-compliance and the advice of our professional advisers (including our internal control consultant), we had ceased to apply for any Non-compliant Loans since 25 November 2015 and had fully settled all the outstanding balances of the Non-compliant Loan Financing Arrangements on or before 30 June 2016;
- Mr. Fan approved the Loan Contracts due to his lack of proper legal advice and unawareness of the relevant regulations. The proceeds of the Non-compliant Loans were used to supplement working capital and settle other supply contracts which Mr. Fan was not personally benefited. Based on the advice of our PRC Legal Adviser, the Non-compliant Loan Financing Arrangements neither amounted to loan fraud, contractual fraud or obtaining loans by deception under the Criminal Law of the PRC and its amendments nor constituted crimes in other aspects on the parts of Mr. Fan and us;
- we had obtained confirmations from the relevant PRC government authorities and the Bank, as further discussed below; and
- our Directors have undertaken to implement the remedial measures as set out in the paragraph headed “Remedial Measures” below in this section. The Directors believe that the Non-compliant Loan Financing Arrangements are unlikely to reoccur.

Confirmations from the Bank and the relevant PRC government authorities

We received a confirmation from the Bank on 22 August 2017, which stated that:

- all principals and interests under the Loan Contracts had been fully repaid;
- the Loan Contracts were fully performed;
- the Bank would not initiate any claim or arbitration against Xiezhong Home Appliances and/or its shareholders, directors, supervisors, senior management or any employees relating to any loans under the Loan Contracts for any breaches of the Loan Contracts or of PRC laws and regulations applicable to the Non-compliant Loan Financing Arrangements, including but not limited to claiming for any penalty interest;
- the Bank was of the view that such Non-compliant Loan Financing Arrangements did not amount to any fraud, appropriation of loan proceeds, obtaining loans by deception or contractual breach; and
- other businesses of Xiezhong Home Appliances with the Bank would not be adversely affected.

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We received a confirmation from the Chuzhou Office of China Banking Regulatory Commission (中國銀行業監督管理委員會) (the “**CBRC**”) on 22 August 2017, which stated that:

- the Chuzhou Office of CBRC is the regulatory body responsible for the supervision and regulation of banking financial institutions of Chuzhou city of Anhui province of the PRC;
- the Chuzhou Office of CBRC does not have the responsibility to supervise or authority to impose administrative penalties on Xiezhong Home Appliances;
- the Loan Contracts and any amendments thereto were civil actions between the parties to the Loan Contracts (i.e. Xiezhong Home Appliances and the Bank) and provided that such actions do not violate the PRC laws and regulations relating to supervision of the banking sector, the Chuzhou Office of CBRC has no power to interfere with the autonomy of the Bank; and
- the Non-compliant Loans were discovered during the follow-up checks conducted by the Bank, as such loans were fully repaid and the Bank did not suffer material losses, the Chuzhou Office of CBRC will not pursue against the Bank for any administrative responsibilities in connection with the payment of Non-compliant Loans and post loan management.

We received a confirmation from the Chuzhou Central Branch of the People’s Bank of China (the “**Chuzhou Central Branch of PBOC**”) on 6 September 2017, which stated that:

- in accordance with the Law of the PRC on the People’s Bank of China (中華人民共和國中國人民銀行法) and other relevant PRC laws and regulations, the Chuzhou Central Branch of PBOC had not and would not pursue against Xiezhong Home Appliances and its directors, persons in charge, senior management or any responsible officers relating to the Non-compliant Loan Financing Arrangements;
- the issuance of confirmation by the Bank pertaining to the Non-compliant Loan Financing Arrangements was a civil action such that the Chuzhou Central Branch of PBOC would not interfere with the autonomy of the Bank provided such action did not amount to any breach of PRC laws and regulations relating to the supervision of the banking sector;
- the Non-compliant Loans were discovered during the follow-up checks conducted by the Bank and all interests and principals under the Non-compliant Loans were fully repaid and the Bank did not suffer any losses;
- the Non-compliant Loan Financing Arrangements were governed by the Law of the PRC on Commercial Banks (中華人民共和國商業銀行法); and
- the Chuzhou Central Branch of PBOC would not pursue against the Bank for any breach of administrative responsibilities.

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As at the Latest Practicable Date, we had not received any notice of investigation, inquiry or penalty from the relevant PRC government authorities, including Chuzhou Office of CBRC and Chuzhou Central Branch of PBOC, with respect to the Non-compliant Loan Financing Arrangements.

Opinions from our PRC Legal Adviser

We sought opinions from our PRC Legal Adviser, who have confirmed that in consideration of (i) the full performance of the Loan Contracts, the full repayment of all principals under the Loan Contracts and there had been no legal disputes or potential legal disputes between the Bank and Xiezhong Home Appliances; (ii) the confirmation from the Bank; (iii) the confirmation from Chuzhou Office of CBRC; and (iv) the confirmation from the Chuzhou Central Branch of PBOC, the risk for Xiezhong Home Appliances and its directors and senior management to be penalised by the relevant government authorities pertaining to the Non-Compliant Loan Financing Arrangements is low.

In addition, as confirmed by our PRC Legal Adviser, the Chuzhou Central Branch of PBOC and Chuzhou Office of CBRC are the competent and appropriate PRC government authorities to advise and to be consulted in respect of the Non-Compliant Loan Financing Arrangements. According to the “Notice of the Chuzhou Central Branch of the People’s Bank of China on Printing and Circulating the Relevant System for Business Opening and Operation Management, Comprehensive Regulatory Inspection and Evaluation” (中國人民銀行滁州市中心關於印發《兩管理、兩綜合》相關制度的通知) and the “Four Measures of the Chuzhou Central Branch of the People’s Bank of China to Do a Solid Job in the Ideological Sphere” (人民銀行滁州市中心支行黨委四項措施扎實做好意識形態工作), the Chuzhou Central Branch of PBOC has the authority to supervise and regulate the banking financial institutions in Chuzhou under its jurisdiction.

Further, as advised by our PRC Legal Adviser, given (i) the entering into the Loan Contracts and the amendments thereto between Xiezhong Home Appliances and the Bank were civil acts between the two parties on commercial terms; (ii) the issuance of the abovementioned confirmation by the Bank stating that the Bank would not claim against, among others, Xiezhong Home Appliances for any breach of the Loan Contracts was legal, effective and did not contravene any PRC laws and regulations applicable to banks; and (iii) as confirmed in the abovementioned confirmation issued by the Chuzhou Office of CBRC, the Non-compliant Loans had been fully repaid and the Bank did not suffer material loss, and on that basis, the Chuzhou Office of CBRC will not pursue against the Bank for any administrative responsibilities in connection with the payment of Non-compliant Loans and post loan management, our PRC Legal Adviser is of the view that the entering into of the Loan Contracts and the amendments thereto and the issuance of the above mentioned confirmation by the Bank do not constitute a breach of the relevant PRC laws and regulations applicable to banks, and the chance of the Bank being claimed for the aforesaid administrative responsibilities due to the payment of Non-compliant Loans and post loan management is low.

Based on the advice of our PRC Legal Adviser, our Directors are of the view that there would be no material adverse impact on our operation or financial position and therefore we have not made any provision for the Non-compliant Loan Financing Arrangements.

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Remedial measures

In the course of the preparation for the Listing, we have engaged an internal control consultant to conduct a review of our internal control systems and have implemented the relevant suggestions proposed by our internal control consultant.

We have taken all necessary internal control improvement actions since we identified the Non-compliant Loan Financing Arrangements, which include:

- financing plans must be prepared by the designated staff from the finance department of our Group and must be approved by our Board;
- our designated staff from the finance department has continued and will continue to maintain a tracking register of funds to monitor flow of loan proceeds in accordance to the terms and conditions of the loan contracts to ensure that loan proceeds will not be transferred to the Group subsequently or used for any non-compliant purposes;
- training has been provided by our PRC Legal Adviser to the relevant Directors and members of the senior management on 27 June 2017 covering (i) the relevant PRC laws and regulations; (ii) the loan financing procedures and the associated risks; and (iii) case study of loan financing non-compliance;
- training has been provided by our internal control consultant to the relevant Directors and members of the senior management on 22 August 2017 and 1 September 2017 covering (i) an introduction of loan and loan financing; (ii) the relevant PRC laws and regulations; (iii) the loan financing procedures and the associated risks; (iv) case study of loan financing non-compliance; and (v) internal control on management of loan financing procedures; and
- we established a finance and cash management scheme in relation to the guideline of borrowings including procedures of obtaining new borrowings, use of loan proceeds, tracking of payment of loan proceeds and repayment of loans.

Based on the foregoing, our Directors confirm that our internal control procedures are adequate and effective in preventing future non-compliance in relation to the Non-compliant Loan Financing Arrangements.

Our internal control consultant has reviewed the internal control measures set out above, and performed a walk-through and control testing. Based on the foregoing, it concurs with the view of our Directors that we have properly designed and effectively operated the internal control measures for the purpose of preventing recurrence of non-compliance in relation to the Non-compliant Loan Financing Arrangements.

Non-compliance in relation to social insurance contribution

Non-compliance incidents	Reasons for the non-compliance	Remedial measures and status	Legal consequences and potential financial liabilities
<p>According to the Social Insurance Law of PRC (中華人民共和國社會保險法) and other relevant regulations, we are required to provide our employees with welfare schemes covering social insurance.</p> <p>During the Track Record Period, Xiezhong Home Appliances failed to make full contributions to social insurance contribution for all of its employees.</p> <p>The aggregate outstanding amount for the Track Record Period was approximately RMB1.9 million.</p>	<p>The non-compliance was due to the inadvertent oversight as well as the lack of sufficient knowledge on understanding the relevant laws and regulations, including, amongst others, (i) the confusion and/or the differences in the applicability and computation of contribution for the different types and numbers of employees who work full-time or part-time and/or daily or monthly, and (ii) the timing of making social insurance contribution adjustment for employees joining and leaving Xiezhong Home Appliances by our relevant staff.</p>	<p>We have obtained confirmation from the Chuzhou Nanqiao Human Resources and Social Security Bureau* (滁州市南譙區人力資源和社會保障局) on 10 January 2018 confirming the following:</p> <ul style="list-style-type: none"> • Xiezhong Home Appliances have made full contribution payment for the social insurance contribution since 1 May 2016 in accordance with the PRC laws and regulations; • the social insurance contribution non-compliance incidents did not amount to a material breach of relevant laws and regulations; and • since the establishment of Xiezhong Home Appliances up to the date of such confirmation, Xiezhong Home Appliances has not been and will not be subject to any investigation, penalty or prosecution arising from such social insurance contribution non-compliance incidents. 	<p>We are advised by our PRC Legal Adviser and according to the Social Insurance Law of PRC (中華人民共和國社會保險法), that a daily overdue penalty of 0.05% of the outstanding social insurance contribution may be imposed by the competent authorities from the due date. If Xiezhong Home Appliances fails to make full payment of outstanding social contributions and the overdue penalty within the prescribed time limit, a fine in the amount of one to three times of the total of the outstanding contributions and the said overdue penalty may be imposed.</p> <p>As of the Latest Practicable Date, the total outstanding social insurance contribution amounted to approximately RMB1.9 million but we had not received any requirement from the relevant government authorities requiring us to make the outstanding contribution within a given period.</p>

Non-compliance incidents	Reasons for the non-compliance	Remedial measures and status	Legal consequences and potential financial liabilities
		<p>We have set aside approximately RMB1.9 million as provision for the outstanding social insurance contribution throughout the Track Record Period.</p> <p>We have made full social insurance contribution in accordance with PRC laws and regulations since May 2016.</p> <p>We have designated the head of accounting and finance department of Xiezhong Home Appliances to oversee the monthly payment of social insurance contribution to prevent future non-compliance.</p>	<p>As advised by our PRC Legal Adviser, Chuzhou Nanqiao Human Resources and Social Security Bureau* (滁州市南谿區人力資源和社會保障局) is competent to issue the aforesaid confirmation and the risk of our Group being penalised due to the aforesaid non-compliance incidents is low. Based on the view of our PRC Legal Adviser and the Deed of Indemnity, our Directors confirm that such non-compliance incident would not have material adverse effect on the Group's business operations.</p>

Non-compliance in relation to housing provident fund contribution

Non-compliance incidents	Reasons for the non-compliance	Remedial measures and status	Legal consequences and potential financial liabilities
<p>According to the Regulations on Management of Housing Provident Fund of PRC (住房公積金管理條例), we are required to make housing provident fund for our employees.</p> <p>During the Track Record Period, Xiezhong Home Appliances failed to (i) make full housing provident fund contribution for all of its employees based on their actual salaries; and (ii) pay the housing provident fund contributions within the prescribed time limit twice.</p> <p>The aggregate outstanding amount for the Track Record Period was approximately RMB0.4 million.</p>	<p>The non-compliance was due to the inadvertent oversight as well as the lack of sufficient knowledge on understanding the relevant laws and regulations, including, amongst others, (i) the confusion and/or the differences in the applicability and computation of contribution for the different types and numbers of employees who work full-time or part-time and/or daily or monthly, and (ii) the timing of making housing provident fund contribution adjustment for employees joining and leaving Xiezhong Home Appliances by our relevant staff.</p>	<p>We have obtained confirmation from the Chuzhou Housing Provident Fund Management Centre* (滁州市住房公積金管理中心) on 11 January 2018 confirming the following:</p> <ul style="list-style-type: none"> • apart from the two late payments, Xiezhong Home Appliances has made full payment of housing provident fund contribution on time since 1 May 2016 in accordance with the PRC laws and regulations; • the housing provident fund contribution non-compliance incidents did not amount to a material breach of relevant laws and regulations; and • from the establishment of Xiezhong Home Appliances until the date of this confirmation, Xiezhong Home Appliances was not and will not be subject to any investigation, penalty or prosecuting arising from such housing provident fund contribution non-compliance incidents. 	<p>According to the Regulations on Management of Housing Provident Fund of PRC (住房公積金管理條例), the competent authorities have the power to order the employing unit, which failed to make housing provident fund contribution in accordance with the PRC law and regulations, to make contribution within a prescribed time limit and if such unit fails to act accordingly, an application of compulsory enforcement can be made to the People's Court of the PRC.</p> <p>As of the Latest Practicable Date, the total outstanding housing provident fund contribution amounted to approximately RMB0.4 million but we had not received any requirement from the relevant government authority requiring us to make the outstanding contribution within a given period.</p>

Non-compliance incidents	Reasons for the non-compliance	Remedial measures and status	Legal consequences and potential financial liabilities
		<p>We have set aside approximately RMB0.4 million as provision for the outstanding housing provident fund contribution throughout the Track Record Period.</p> <p>We have designated the head of accounting and finance department of Xiezhong Home Appliances to oversee the housing provident fund contribution to prevent future non-compliance.</p>	<p>As advised by our PRC Legal Adviser, Chuzhou Housing Provident Fund Management Centre* (滁州市住房公积金管理中心) is competent to issue the aforesaid confirmation and the risk of our Group being penalised due to the aforesaid non-compliance incidents is low. Based on the view of our PRC Legal Adviser and the Deed of Indemnity, our Directors confirm that such non-compliance incident would not have material adverse effect on the Group's business operations.</p>

Non-compliance in relation to submission of environmental impact appraisal documents

Non-compliance incidents	Reasons for non-compliance	Remedial Measures	Legal consequences and potential financial liabilities
<p>1. During the Track Record Period, Xiezhong Home Appliances failed to submit environmental impact appraisal documents for expansion of plastic components and metal components production lines of the Second Base (the “Second Base Expansion”).</p>	<p>The non-compliance was unintentional and due to the inadvertent oversight of our relevant staff and the unfamiliarity with the relevant regulatory requirements.</p>	<p>In respect of the Second Base Expansion, we have obtained two environmental protection examination for completed construction projects opinion letters from the Chuzhou Environmental Protection Bureau* (滁州市環境保護局) on 15 April 2016 confirming that we have completed all the required environmental procedures and passed the environmental protection completion inspection upon completion for the Second Base Expansion (the “Second Base Expansion Opinion Letters”).</p>	<p>According to the Environmental Impact Assessment Law (中華人民共和國環境影響評價法) and the Regulations on the Administration of Construction Project Environmental Protection (建設項目環境保護管理條例) of PRC, the infringing entity may be ordered to go through the relevant procedures within a prescribed time period. If it fails to go through the relevant procedures within the time period, a fine which ranges from RMB50,000 to not more than RMB200,000 may be imposed.</p>
<p>2. During the Track Record Period, Xiezhong Home Appliances failed to submit environmental impact appraisal documents for amendment of the Second Base Expansion.</p>	<p>In respect of the First Base Expansion, we have obtained an environmental protection examination for completed construction projects opinion letter from the Chuzhou Environmental Protection Bureau* (滁州市環境保護局) on 15 April 2016 confirming that we have completed all the required environmental procedures and passed the environmental protection completion inspection upon completion for the First Base Expansion (the “First Base Expansion Opinion Letter”).</p>	<p>Pursuant to the written confirmations from the Nanqiao Branch of Chuzhou Environmental Protection Bureau* (滁州市環境保護局南譙分局) (the “Confirmation”) dated 18 August 2017 and 15 January 2018 and the interview being conducted on 22 August 2017 with the Nanqiao Branch of Chuzhou Environmental Protection Bureau* (滁州市環境保護局南譙分局) (the “Interview”), the non-compliance incidents in relation to submission of environmental impact appraisal documents, application for environmental protection completion inspection upon completion within the prescribed time limit and construction of environmental protection supporting facilities, were rectified and we have not been and will not be subject to any administrative penalties.</p>	<p>Based on the view of our PRC Legal Adviser and the Deed of Indemnity, our Directors confirmed that such non-compliance incident would not have material adverse effect on the Group’s business operations, and as such no provision had been made for such non-compliances.</p>
<p>3. During the Track Record Period, Xiezhong Home Appliances failed to submit environmental impact appraisal documents for expansion of two production lines of the First Base (“First Base Expansion”).</p>	<p>As advised by our PRC Legal Adviser, Chuzhou Environmental Protection Bureau* (滁州市環境保護局) is competent to issue the Second Base Expansion Opinion Letters and the First Base Expansion Opinion Letter, and the Nanqiao Branch of Chuzhou Environmental Protection Bureau* is competent to issue the confirmation, and the risk of our Group being penalised due to the aforesaid non-compliance incidents is low.</p>		

Non-compliance in relation to application for environmental protection inspection upon completion within the prescribed time limit

Non-compliance incidents	Reasons for non-compliance	Remedial Measures	Legal consequences and potential financial liabilities
<p>During the Track Record Period, Xiezhong Home Appliances failed to apply for the environmental protection completion inspection upon completion within the prescribed time limit for the First Base Expansion and the Second Base Expansion.</p>	<p>The non-compliance was unintentional and due to the inadvertent oversight of our relevant staff and the unfamiliarity with the relevant regulatory requirements.</p>	<p>In respect of the First Base Expansion and the Second Base Expansion, we have obtained the First Base Expansion Opinion Letter and the Second Base Expansion Opinion Letters, respectively.</p> <p>Pursuant to the Confirmations and the Interview, the Nanqiao Branch of Chuzhou Environmental Protection Bureau* (滁州市環境保護局南譙分局) confirmed that the aforesaid non-compliance incidents were rectified and we have not been and will not be subject to any administrative penalties.</p>	<p>According to the Administrative Measures for Environmental Protection Acceptance of Construction Projects upon Completion (建設項目環境保護驗收管理辦法) and the Regulations on the Administration of Construction Project Environmental Protection (建設項目環境保護管理條例) of the PRC, the infringing entity may be ordered to apply for environmental protection completion inspection upon completion within a prescribed time limit. If it fails to act accordingly, an order of cessation of production may be made and a fine of not more than RMB50,000 may be imposed.</p>
		<p>As advised by our PRC Legal Adviser, Chuzhou Environmental Protection Bureau* (滁州市環境保護局) is competent to issue the Second Base Expansion Opinion Letters and the First Base Expansion Opinion Letter, and the Nanqiao Branch of Chuzhou Environmental Protection Bureau* is competent to issue the confirmation, and the risk of our Group being penalised due to the aforesaid non-compliance incidents is low.</p>	<p>Based on the view of our PRC Legal Adviser and the Deed of Indemnity, our Directors confirm that such non-compliance incident would not have material adverse effect on the Group's business operations, and as such, no provision had been made for such non-compliances.</p>

Non-compliance in relation to construction of environmental protection supporting facilities

Non-compliance incidents	Reasons for non-compliance	Remedial Measures	Legal consequences and potential financial liabilities
<p>During the Track Record Period, Xiezhong Home Appliances failed to timely construct the required environmental protection supporting facilities for the First Base Expansion and the Second Base Expansion within the prescribed time limit.</p>	<p>The non-compliance was unintentional and due to the inadvertent oversight of our relevant staff and the unfamiliarity with the relevant regulatory requirements.</p>	<p>In respect of the First Base Expansion and the Second Base Expansion, we have obtained the First Base Opinion Letter and the Second Base Expansion Opinion Letters, respectively.</p> <p>Pursuant to the Confirmations and the Interview, the Nanqiao Branch of Chuzhou Environmental Protection Bureau* (滁州市環境保護局南橋分局) confirmed that the aforesaid non-compliance incidents were rectified and we have not been and will not be subject to any administrative penalties.</p>	<p>According to the Administrative Measures for Environmental Protection Acceptance of Construction Projects upon Completion (建設項目竣工環境保護驗收管理辦法) and the Regulations on the Administration of Construction Project Environmental Protection (建設項目環境保護管理條例) of the PRC, a production cessation order may be made against the Second Base Expansion and the First Base Expansion and a fine of not more than RMB500,000 may be imposed on the infringing entity.</p>
	<p>As advised by our PRC Legal Adviser, Chuzhou Environmental Protection Bureau* (滁州市環境保護局) is competent to issue the Second Base Expansion Opinion Letters and the First Base Expansion Opinion Letter, and the Nanqiao Branch of Chuzhou Environmental Protection Bureau* is competent to issue the confirmation, and the risk of our Group being penalised due to the aforesaid non-compliance incidents is low.</p>		<p>Based on the view of our PRC Legal Adviser and the Deed of Indemnity, our Directors confirm that such non-compliance incident would not have material adverse effect on the Group's business operations, and as such, no provision had been made for such non-compliances.</p>

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View of our Directors and the Sole Sponsor

Our Directors consider, and the Sole Sponsor concurs with the views of our Directors, that (a) the abovementioned non-compliance incidents would not affect the suitability of our executive Directors under Rules 5.01 and 5.02 of the GEM Listing Rules or the suitability of listing of our Company under Rule 11.06 of the GEM Listing Rules and (b) the various internal control measures adopted by our Group are adequate and effective having taken into account that:

- our Group has fully rectified all non-compliance incidents as mentioned above;
- these non-compliance incidents did not involve any element of fraud or dishonesty of our Directors and were principally unintentional and due to lack of relevant legal knowledge and professional advice at the relevant times;
- our Directors did not obtain any personal benefit directly or indirectly from those non-compliance incidents;
- regarding Non-compliant Loans, (i) they were fully repaid by 30 June 2016; the Group has established a financing and cash management system and adopted enhanced internal control measures in obtaining new borrowings, use of loan proceeds, tracking of payment of loan proceeds and repayment of loans to avoid recurrence of the non-compliance incidents in loan financing in the future; and (ii) our executive Directors attended trainings in respect of loan financing conducted by our PRC Legal Adviser and our internal control consultant;
- remedial internal control measures have been adopted to address other deficiencies in our internal control systems, including monitoring the ongoing compliance with the internal control measures, to prevent further incidents of non-compliance and to ensure our compliance with the GEM Listing Rules and the relevant laws in the PRC and Hong Kong;
- our internal control consultant did not identify any further internal control deficiencies or recurring of similar non-compliance incidents in its follow-up review;
- our Directors and senior management attended training in September 2017 in respect of the duties of directors of companies listed in Hong Kong organised by our legal adviser as to Hong Kong law that they were reminded to seek professional advice whenever necessary to ensure compliance with relevant rules and regulations;
- public searches including litigation searches, bankruptcy searches and directorship searches were conducted in September 2017 and in March 2018 against each of our Directors and no material adverse findings are noted; and
- appropriate external professional advisers will be appointed to render professional advices to our Directors and assist our Directors in ensuring ongoing compliance with the statutory requirements and the GEM Listing Rules as applicable to our Group from time to time.

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DEED OF INDEMNITY

Our Controlling Shareholders have entered into a Deed of Indemnity in favour of us to provide indemnities on a joint and several basis in respect of, among other matters, any claims, actions, demands, proceedings, judgements, losses, payments, liabilities, damages, settlement payments, costs, administrative or other charges, fees, expenses and fines of whatever nature (which shall include legal fees and costs) which may be imposed on, suffered or incurred by penalties, by our Group as a result of directly or indirectly or in connection with, among others, any non-compliance with the applicable laws, rules or regulations by the Company and/or any member of our Group on or before the date on which the Share Offer becomes unconditional. Please refer to the section sub-headed “E. Other Information — 1. Tax and Other Indemnities” in Appendix V to this prospectus for details of the Deed of Indemnity.

LICENCES AND PERMITS

Our PRC Legal Adviser advised that, during the Track Record Period and up to the Latest Practicable Date, we possessed all requisite licenses, approvals and permits from the relevant government authorities that are material for our business operations and such licenses, approvals and permits remained in full effect and no circumstances existed that would render their revocations or cancellations. Our PRC Legal Adviser also advised that there is no legal impediment for us to renewing such licenses, approvals and permits.

LITIGATION

As of the Latest Practicable Date, there were no litigation, arbitration or administrative proceedings pending or threatened against the Group or any of our Directors which could have a material and adverse effect on the Group’s financial condition or results of operations. We may however from time to time become a party to various legal, arbitration or administrative proceedings arising in the ordinary course of our business.

RISK MANAGEMENT AND INTERNAL CONTROL MEASURES

Our Directors are responsible for monitoring our internal control system and reviewing its effectiveness. With a view to avoiding recurrence of past non-compliance incidents described above, we have established and will implement the following internal control procedures to improve our corporate governance and internal control measures:

- Mr. Fan has been appointed as the compliance officer and will be responsible for reviewing and updating the compliance policies and procedures of our Group on an annual basis to ensure that the compliance policies and procedures are up to date in accordance with the applicable regulatory requirements. Mr. Fan attended and will upon Listing continue to attend legal and compliance training provided by external legal advisers which cover, among other matters, corporate governance, director’s responsibilities, compliance with the GEM Listing Rules, and other relevant laws and regulations which is related to or Group’s

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operations. Mr. Fan has also been involved in the review process covering a period from 1 June 2017 to 31 July 2017 conducted by the independent internal control consultant regarding the internal control system and supervised the implementation of the recommendations made by the independent internal control consultant;

- we have appointed Cinda International Capital Limited as our compliance adviser to advise us on compliance matters in accordance with the GEM Listing Rules upon Listing;
- we have adopted various policies to ensure compliance with the GEM Listing Rules, including but not limited to aspects related to corporate governance, connected transactions and securities transactions by our Directors. In addition, we will appoint an external Hong Kong legal adviser to advise us on compliance with the GEM Listing Rules and the applicable Hong Kong laws and regulations in the future;
- we have adopted various policies to ensure compliance with the PRC laws and regulations. In addition, we will engage external professional advisers to advise us on compliance with applicable laws and regulations in the PRC in the future;
- our Group has adopted a set of internal control procedures to address various potential operational, financial and legal risks identified in relation to our operations, including but not limited to procurement management, inventory management, information disclosure control, IT management and other various financial control and monitor procedures;
- we have established an audit committee consisting of Mr. Chan Chun Chi, Mr. Liang Chi and Mr. Ho Ka Chun, which will set up formal arrangements to oversee financial reporting and internal control matters to ensure compliance with the GEM Listing Rules and all relevant laws and regulations. Please refer to the section headed “Directors and Senior Management” in this prospectus for details of their experience and qualifications;
- our Directors have attended the directors’ training provided by the legal advisers to our Company as to Hong Kong laws on the GEM Listing Rules and the directors’ responsibilities and duties under the relevant laws and regulations; and
- meetings and seminars will be arranged for our Directors, management and staff from time to time by our legal advisers to discuss and study regulatory requirements and latest updates thereof applicable to our business operations.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

The Board currently consists of five Directors comprising two executive Directors and three independent non-executive Directors. The following table sets out the information regarding our Directors:

Name	Age	Present Position	Date of appointment as Director	Date of joining our Group	Roles and responsibilities	Relationship with other Director(s) and/or senior management
Fan Baocheng (樊寶成)	49	Chief executive officer, an executive Director, chairman of the Board and compliance officer	14 December 2015 and re-designated as an executive Director on 14 September 2017	16 November 2010	Major decision-making, formulating our Group's overall strategic plan and overseeing its overall business development and policy-setting	Nil
Zhou Zhen Dong (周振鵬)	28	Executive Director	14 September 2017	18 August 2015	Major decision-making and overseeing its overall business development and policy-setting	Nil
Liang Chi (梁赤)	59	Independent non-executive Director, the chairman of the nomination committee and a member of the audit committee and remuneration committee	31 March 2018	31 March 2018	Supervising and providing independent judgement to our Board	Nil
Ho Ka Chun (何家進)	37	Independent non-executive Director, the chairman of the remuneration committee and a member of the audit committee and nomination committee	31 March 2018	31 March 2018	Supervising and providing independent judgement to our Board	Nil
Chan Chun Chi (陳駿志)	39	Independent non-executive Director, the chairman of the audit committee and a member of the remuneration committee and nomination committee	31 March 2018	31 March 2018	Supervising and providing independent judgement to our Board	Nil

Executive Directors

Mr. Fan Baocheng (樊寶成), aged 49, is the founder of our Group, the chief executive officer, an executive Director, chairman of the Board, the compliance officer and one of our Controlling Shareholders. He was appointed as a Director on 14 December 2015 and was then re-designated as an executive Director on 14 September 2017. Mr. Fan is primarily responsible for major decision-making, formulating our Group's overall strategic plan and overseeing its overall business development and policy-setting. Mr. Fan is also a director of each of the subsidiaries of our Company, namely Wealthy Square Developments, Dragon Shiner Development and Xiezhong Home Appliances.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Fan obtained a postgraduate courses completion certificate in economic management and decision-making from Nanjing University in June 2006.

Mr. Fan worked as a staff in China Yangzi Electric Refrigerator Factory* (中國揚子電氣公司電冰箱總廠) from July 1991 to July 1997, responsible for production, procurement and sales. Mr. Fan was also an executive director and general manager of several companies during different time periods, namely Chuzhou Ruidong Company Limited* (滁州市瑞東有限公司) from August 1997 to December 2008, Chuzhou Genxing from November 2005 to August 2007, Chuzhou Xingxing Painting Equipment Company Limited* (滁州市新互興塗裝設備有限公司) from March 2009 to April 2016. In addition, Mr. Fan has been the executive director and general manager of Jiangling Baocheng Technology Company Limited* (江陵縣寶成科技有限公司) since June 2010.

Mr. Fan was the legal representative, director, general manager or the supervisor of the following companies which were incorporated in the PRC at the respective times when their business licenses were revoked or deregistered. The details are as follows:

Name of company	Position	Date of revocation	Reasons of revocation	Status
Chuzhou Ruidong Company Limited* (滁州市瑞東有限公司)	Legal representative, executive Director and general manager	27 December 2008	Failure to attend annual examination	Business licence being deregistered
Chuzhou Yongcheng Company Limited* (滁州市永成工貿有限公司)	Supervisor	25 October 2012	Failure to attend annual examination	Business licence being revoked but not deregistered

Mr. Fan confirmed that the above companies were solvent at the time when their business licences were revoked or deregistered. Mr. Fan also confirmed that there was no wrongful act on his part leading to the revocation or deregistration of the business licences of the above companies, and he is not aware of any actual or potential claim that has been or will be made against him as a result of such revocations or deregistrations.

Mr. Zhou Zhen Dong (周振鵜), aged 28, graduated from the Renmin University of China with a bachelor's degree in finance in June 2012. Prior to joining our Group, Mr. Zhou worked in First Seafont Fund Management Company Limited as a researcher from November 2013 to March 2014. From March 2014 to September 2014, he worked as a corporate finance analyst in Goetzpartners Business Consultants (Shanghai) Company Limited. He has also been a director of Gift Horizon since March 2015.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhou is an executive Director and a Substantial Shareholder. Mr. Zhou joined our Group on 18 August 2015 as a director of Xiezhong Home Appliances and was appointed as an executive Director on 14 September 2017. Mr. Zhou is primarily responsible for major decision-making of our Group and overseeing its overall business development and policy-setting. Mr. Zhou is also a director of each of the subsidiaries of our Company, namely Wealthy Square Developments, Dragon Shiner Development and Xiezhong Home Appliances.

Independent non-executive Directors

Mr. Liang Chi (梁赤), aged 59, was appointed as an independent non-executive Director on 31 March 2018. He is responsible for supervising and providing independent judgement to our Board.

Mr. Liang graduated from the Sun Yat-Sen University with a bachelor's degree in law in July 1984 and is a registered lawyer of the PRC since 1989. He has been a lawyer in Guangdong Fangdian Law Firm* (廣東方典律師事務所) since February 2018. He previously worked in several law firms during different periods, including Guangdong Zhongzhen Law Firm* (廣東中圳律師事務所) from July 2000 to June 2010, Guangdong Shengfang Law Firm* (廣東聖方律師事務所) from July 2011 to July 2012, Beijing Zhongtian (Shenzhen) Law Firm* (北京市眾天(深圳)律師事務所) from July 2012 to October 2013, Guangdong Fangdian Law Firm* (廣東方典律師事務所) from October 2013 to July 2016 and Guangdong Junyan Law Firm* (廣東君言律師事務所) from July 2016 to February 2018. He has been appointed as a visiting professor of the Guangdong Vocational Institute of Public Administration* (廣東行政職業學院) from March 2017 to March 2020. In addition, he has also been qualified as a real estate valuer in the PRC since 1995.

Mr. Liang acted as an independent director of Shenzhen Derun Electronics Co., Ltd. (深圳市得潤電子股份有限公司), a listed company on the Shenzhen Stock Exchange (stock code: 2055) from May 2010 to November 2014 and has been a supervisor of Avic International Holdings Limited (中航國際控股股份有限公司), a listed company on the Stock Exchange (stock code: 161), since June 2015.

Mr. Liang was a director of the following dissolved company, which was incorporated in Hong Kong, prior to its dissolution:

Name of company	Nature of business	Date of dissolution	Means of dissolution	Reasons of dissolution
Kinglex (China) Law Info Limited (鼎言(中國)法律資訊有限公司)	Legal software business	1 April 2011	Striking off under section 291 of the Predecessor Companies Ordinance	Cessation of business

DIRECTORS AND SENIOR MANAGEMENT

Mr. Liang confirmed that the above company was solvent at the time when it was dissolved by way of striking off. Mr. Liang confirmed that there was no wrongful act on his part leading to the dissolution of Kinglex (China) Law Info Limited, and he is not aware of any actual or potential claim that has been or will be made against him as a result of the dissolution.

Mr. Ho Ka Chun (何家進), aged 37, was appointed as an independent non-executive Director on 31 March 2018. He is responsible for supervising and providing independent judgement to our Board.

Mr. Ho obtained a bachelor degree in business administration from the Chinese University of Hong Kong in December 2004 and is a member of the Hong Kong Institute of Certified Public Accountants since August 2005. He has been the chief financial officer of China Tontine Wines Group Limited (中國通天酒業集團有限公司), a listed company on the Stock Exchange (stock code: 389) since January 2016. Mr. Ho worked for the Hong Kong Office of Deloitte Touche Tohmatsu from 30 August 2004 to 31 December 2012 with his last position as manager and the Guangzhou Office of Deloitte Touche Tohmatsu from 1 January 2013 to 31 December 2015 with his last position as senior manager.

Mr. Chan Chun Chi (陳駿志), aged 39, was appointed as an independent non-executive Director on 31 March 2018. He is responsible for supervising and providing independent judgement to our Board.

Mr. Chan obtained a bachelor degree in accounting from the Hong Kong Polytechnic University in November 2004 and is a member of the Hong Kong Institute of Certified Public Accountants since February 2007. He was an independent non-executive director of Teamway International Group Holdings Limited (formerly known as Jin Bao Bao Holdings Limited), a listed company on the Stock Exchange (stock code: 1239), from June 2011 to March 2015. Since August 2010, Mr. Chan has been serving as an accounting manager and senior accounting manager of Shanghai Industrial Urban Development Group Limited (上海實業城市開發集團有限公司) (formerly known as NEO-China Land Group (Holdings) Limited) (中新地產集團(控股)有限公司), a listed company on the Stock Exchange (stock code: 563). Prior to this, Mr. Chan worked at several accounting firms, namely, K.S. Li & Company from August 2004 to March 2005, T.K. Lo & Company from March 2005 to April 2006, C.W. Leung & Co. from April 2006 to August 2007, and CCIF CPA Limited from August 2007 to July 2010, and was responsible for, among other things, audit works, consultant services and tax related matters for clients.

DIRECTORS AND SENIOR MANAGEMENT

Disclosure required under Rule 17.50(2) of the GEM Listing Rules

Save as disclosed above, each of the Directors confirms with respect to him that: (i) save as disclosed herein above, he has not held directorships in the last three years in other public companies the securities of which are listed on any securities market in Hong Kong or overseas; (ii) he does not hold any other position in the Company or any of its subsidiaries; (iii) save as disclosed in the section headed “Further Information about Substantial Shareholders, Directors and Experts — Disclosure of Interests” as set out in Appendix V to this prospectus, he does not have any interests in the Shares within the meaning of Part XV of the SFO; (iv) there is no other information that should be disclosed for pursuant to Rule 17.50(2) of the GEM Listing Rules; and (v) to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, there are no other matters with respect to the appointment of the Directors that need to be brought to the attention of the Shareholders.

SENIOR MANAGEMENT

The following table sets out certain information concerning our senior management:

Name	Age	Present position	Date of appointment as senior management	Date of joining our Group	Roles and responsibilities	Relationship with other Director(s) and/or senior management
Tsoi Ka Shing (蔡嘉誠)	36	Chief financial officer and company secretary	31 March 2018	31 March 2018	Financial management, overall corporate governance and overall secretarial matters	Nil
Hong Wei (洪偉)	55	Production Director	31 March 2018	1 September 2016	Overseeing the production operation matters	Nil

Mr. Tsoi Ka Shing (蔡嘉誠), aged 36, was appointed as the chief financial officer and company secretary of our Company on 31 March 2018. Mr. Tsoi is mainly responsible for financial management and corporate governance and overall secretarial matters of our Group.

Mr. Tsoi graduated from the University of Technology, Sydney with a bachelor degree of business, majoring in finance and accounting in July 2005. He was accredited as a certified practicing accountant by CPA Australia and certified public accountant by Hong Kong Institute of Certified Public Accountants in November 2009 and May 2011, respectively.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Tsoi has approximately 11 years of experience in accounting and financing. Mr. Tsoi joined our Group in March 2018 as the chief financial officer and company secretary of our Company. Prior to joining our Group, Mr. Tsoi worked in China Harvest Finance Group Limited as the chief financial officer and company secretary from 15 September 2014 to 31 December 2015. Mr. Tsoi also worked in Teamway International Group Holdings Limited (formerly known as Jin Bao Bao Holdings Limited), a listed company on the Stock Exchange (stock code: 1239), as the company secretary from June 2011 to September 2014 and financial controller from June 2011 to June 2014. Mr. Tsoi worked as the senior accountant and an assistant manager in Shinewing (HK) CPA Limited from August 2009 to November 2010, a senior auditor in Deloitte Touche Tohmatsu from January 2008 to August 2009, an auditor in CCIF CPA Limited from February 2007 to January 2008, and an audit intermediate in Yau and Wong, CPA from July 2005 to February 2007.

Mr. Hong Wei (洪偉), aged 55, was appointed as the production director of our Company on 31 March 2018 who is responsible for overseeing the production operations of our Group. Mr. Hong joined our group as an assistant of the general manager of Xiezhong Home Appliances in September 2016.

Mr. Hong graduated from the Anhui Chuzhou Technical School* (安徽省滁州市技工學校) in July 1984 and completed a two-year audit program of the Anhui Open University (安徽廣播電視大學) in July 1988. Prior to joining our Group, he worked as the officer for external inspection and quality control station* (外檢質量站站長) of the China Yangzi Electric Refrigerator Factory* (中國揚子電氣公司電冰箱總廠) from July 1984 to October 1999, the technology and quality manager and the deputy general manager of the Chuzhou Phoenix Plastic Mould Company Limited* (滁州市鳳凰塑模有限公司) from October 1999 to September 2013, the general manager of the Chuzhou Chenrun Industry and Trade Company Limited* (滁州晨潤工貿有限公司) from October 2013 to August 2016.

COMPANY SECRETARY

Mr. Tsoi Ka Shing (蔡嘉誠) was appointed as the company secretary of our Company on 31 March 2018. He is responsible for our Group's overall company secretarial matters. Details of his qualifications and experience are set out in the paragraph headed "Senior Management" in this section.

COMPLIANCE OFFICER

Mr. Fan Baocheng (樊寶成) was appointed as the compliance officer of our Company on 31 March 2018. Details of his qualifications and experience are set out in the paragraph headed "Executive Directors" in this section.

DIRECTORS AND SENIOR MANAGEMENT

REMUNERATION POLICY

The Directors and senior management receive compensation in the form of salaries, benefits in kind and discretionary bonuses with reference to salaries paid by comparable companies, time commitment and the performance of our Group. Our Group regularly reviews and determines the remuneration and compensation package of the Directors and senior management, by reference to, among other things, market level of salaries paid by comparable companies, the respective responsibilities of the Directors and senior management and the performance of our Group.

After Listing, our remuneration committee will review and determine the remuneration and compensation packages of the Directors with reference to their responsibilities, workload, the time devoted to our Group and the performance of our Group. The Directors may also receive options to be granted under the Share Option Scheme.

REMUNERATIONS OF DIRECTORS AND SENIOR MANAGEMENT

For the years ended 31 December 2015, 2016 and 2017, the aggregate emoluments (including director's fee, basic salary, allowance, non-cash benefit and retirement scheme contribution) paid by our Group to the Directors, were approximately RMB135,000, RMB140,000 and RMB142,000, respectively.

For the years ended 31 December 2015, 2016 and 2017, the aggregate emoluments paid by our Group to our senior management were approximately nil, RMB20,000 and RMB60,000 respectively.

Under the arrangements currently proposed, conditional upon the Listing, the basic annual remuneration (excluding payment of any discretionary benefits or bonus or other fringe benefits) payable by our Group to each of the Directors will be as follows:

	<i>HK\$</i>
Executive Directors	
Mr. Fan Baocheng	240,000
Mr. Zhou Zhen Dong	240,000
Independent non-executive Directors	
Mr. Liang Chi	96,000
Mr. Ho Ka Chun	120,000
Mr. Chan Chun Chi	120,000

DIRECTORS AND SENIOR MANAGEMENT

Of the five individuals with the highest emoluments in the Group, one was a Director for the years ended 31 December 2015, 2016 and 2017 whose emoluments are included in the disclosures above. The emoluments of the remaining four individuals for the years ended 31 December 2015, 2016 and 2017 respectively were as follows:

	For the year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Salaries and allowances	287	329	373
Retirement scheme contributions	<u>41</u>	<u>70</u>	<u>83</u>
Total	<u>328</u>	<u>399</u>	<u>456</u>

During the Track Record Period, no emoluments were paid by our Group to the above highest paid individuals as (i) an inducement to join or upon joining our Group or (ii) as compensation for loss of office as a director or management of any members of our Group.

None of the directors waived any emoluments during the Track Record Period. In addition, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

BOARD COMMITTEES

Audit committee

Our Company established the Audit Committee on 31 March 2018 with its written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules and paragraph C.3.3 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules (the “CG Code”). The primary duties of the Audit Committee are to review and supervise our financial reporting process and internal control system, nominate and monitor external auditors and to provide advice and comments to the Board on matters related to corporate governance.

The Audit Committee of our Company consists of three members, being Mr. Chan Chun Chi, Mr. Liang Chi and Mr. Ho Ka Chun. Mr. Chan Chun Chi currently serves as the chairman of the Audit Committee.

Remuneration committee

Our Company established the Remuneration Committee on 31 March 2018 with its written terms of reference in compliance with Rules 5.34 and 5.35 of the GEM Listing Rules and paragraph B.1.2 of the CG Code. The primary duties of the Remuneration Committee are to make recommendations on the remuneration of the Directors and senior management to the Board and to review the overall remuneration policy and structure relating to the Directors and senior management.

DIRECTORS AND SENIOR MANAGEMENT

The Remuneration Committee of our Company consists of three members, being Mr. Liang Chi, Mr. Chan Chun Chi and Mr. Ho Ka Chun. Mr. Ho Ka Chun currently serves as the chairman of the Remuneration Committee.

Nomination committee

Our Company established the Nomination Committee on 31 March 2018 with its written terms of reference in compliance with paragraph A.5.2 of the CG Code. The primary duties of the Nomination Committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board and/or in senior management.

The Nomination Committee of our Company consists of three members, being Mr. Ho Ka Chun, Mr. Chan Chun Chi and Mr. Liang Chi. Mr. Liang Chi currently serves as the chairman of the Nomination Committee.

COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, our Company has appointed Cinda International Capital Limited as its compliance adviser. Pursuant to Rule 6A.23 of the GEM Listing Rules, our Company will consult with and seek advice from the compliance adviser on a timely basis 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, is contemplated including share issues and share repurchases;
- (3) where our Company proposes to use the proceeds of the initial public offering in a manner different from that detailed in the listing document or where the business activities, developments or results of our Company deviate from any forecast, estimate, or other information in the listing document; and
- (4) where the Stock Exchange makes an inquiry of the listed issuer under Rule 17.11 of the GEM Listing Rules.

The term of appointment of the compliance adviser of our Company shall commence on the Listing Date and end on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of the financial results for the second full financial year commencing after the Listing Date and such appointment shall be subject to extension by mutual agreement.

DIRECTORS AND SENIOR MANAGEMENT

CORPORATE GOVERNANCE

Our Directors are committed to achieving high standards of corporate governance with a view to safeguarding the interests of the Shareholders. To accomplish this, save for the deviation from the CG Code provision A.2.1, our Group will comply with the CG Code and the associated GEM Listing Rules. CG Code provision A.2.1 stipulates that the role of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Fan is the chairman of the Board and the chief executive officer of our Company. In view of Mr. Fan being one of the founders of our Group and has been operating and managing Xiezhong Home Appliances, the operating subsidiary of our Company since 2010, our Board believes that it is in the best interest of our Group to have Mr. Fan taking up both roles for effective management and business development. Therefore, our Directors consider that the deviation from the CG Code provision A.2.1 is appropriate in such circumstance.

Our Directors will continue to review and consider splitting the roles of chairman and chief executive of our Company at a time when it is appropriate and suitable by taking into account the circumstances of our Group as a whole.

SHARE OPTION SCHEME

Our Group has conditionally adopted the Share Option Scheme under which employees of our Group including executive Directors and other eligible participants may be granted options to subscribe for Shares. The principal terms of the Share Option Scheme are summarised in the section headed “Statutory and General Information — D. Share Option Scheme” in Appendix V to this prospectus.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS OF OUR COMPANY

Immediately following the completion of the Capitalisation Issue and the Share Offer (without taking into account any of our Shares that may be issued pursuant to the exercise of the Offer Size Adjustment Option and any option which may be granted under the Share Option Scheme), our Company will be held as to 53.25% by Wang Mao Investments. Wang Mao Investments is an investment holding company incorporated in the BVI with limited liability and is owned as to 100% by Mr. Fan. As at the Latest Practicable Date, it had not commenced any substantive business. As (i) Wang Mao Investments will be entitled to exercise 30% or more of the voting power at general meetings of our Company; and (ii) Mr. Fan controls Wang Mao Investments (and hence Wang Mao Investments' voting interests in our Company) by virtue of holding more than 50% of the voting interests of Wang Mao Investments, Mr. Fan and Wang Mao Investments will be regarded as our Controlling Shareholders for the purpose of the GEM Listing Rules.

Each of Mr. Fan and Wang Mao Investments confirms that, apart from the business operated by members of our Group, he or 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, and would require disclosure pursuant to Rule 11.04 of the GEM Listing Rules.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors believe that our Group is capable of carrying on our business independent of and without undue reliance on our Controlling Shareholders and their respective close associates after Listing based on the following reasons:

Financial independence

Our Group has established and maintained independent internal control and accounting systems, accounting and finance departments, independent treasury function for cash receipts and payments, and independent access to third-party financing.

During the Track Record Period, we have entered into a number of related party transactions, details of which are set out in note 32 to the Accountants' Report set out in Appendix I to this prospectus. Our Directors confirmed that these related party transactions were conducted in the ordinary course of business and on normal commercial terms. Save as described in the section headed "Connected Transactions" in this prospectus, these related party transactions have discontinued before the Share Offer.

During the Track Record Period, our Group has certain amount due from Mr. Fan. Please refer to the section headed "Financial Information — Related Party Transactions — Amount due from/to a Director/to a Related Party" and note 18 (Amount due from/to a director/a related party) of the Accountants' Report set out in Appendix I to this prospectus for further details.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

As at 31 December 2015, 2016 and 2017, our Group recorded amount due from Mr. Fan, our executive Director and Controlling Shareholder, in the sum of approximately RMB103,000, RMB56,000 and RMB32,000, respectively, and amount due to Chuzhou Genxing, an associate of Mr. Fan, in the sum of nil, approximately RMB300,000 and approximately RMB160,000, respectively. Save as disclosed above, our Group did not have any other amount due to and/or from our Controlling Shareholders, Directors or related parties of the Group as at 31 December 2015, 2016 and 2017.

Further, our Group also had an amount due from Mr. Fan in the sum of approximately RMB187,000 as at 28 February 2018. For details, please refer to the section headed “Financial Information — Indebtedness” in this prospectus. The amount due from Mr. Fan will be settled before Listing.

Besides, during the Track Record Period, Mr. Fan and his associates had provided personal guarantees in respect of certain bank borrowings in favour of financial institutions. Please refer to the section headed “Financial — Indebtedness — Bank Borrowings” and notes 21 (Bank Borrowings) and 32 (Related Party Transactions) of the Accountants’ Report set out in Appendix I to this prospectus for further details. All the personal guarantees have been released before the Latest Practicable Date.

Our Directors are of the view that there has been sufficient cash flow to support the operation of our business. Save as disclosed above, for the years ended 31 December 2015, 2016 and 2017, our Group has relied principally on cash generated from operations and bank borrowings to carry on our businesses and this is expected to continue after the Share Offer. Our Directors also believe that our Group is capable of obtaining financing from Independent Third Parties, if necessary, without reliance on our Controlling Shareholders after Listing.

Based on the above, our Directors believe that our Group is capable of carrying on our business independently from our Controlling Shareholders.

Operational independence

We have established our own organisational structure which comprises individual departments, each with specific areas of responsibilities. We have also established internal control procedures to facilitate the effective and efficient operation of our business. Each department takes a specific role in our operations. We have not shared our operational resources, such as customers, sales and marketing and general administration resources with our Controlling Shareholders and/or their associates during the Track Record Period. Our Group has also established a set of internal control to facilitate the effective operation of our business. Our Group’s customers and suppliers are all independent from our Controlling Shareholders.

During the Track Record Period, but before the completion of the transfer of equity interests in Xiezhong Home Appliances to Gift Horizon in around October 2015, Xiezhong Home Appliances was allowed to occupy the two factory buildings owned by Chuzhou Genxing (which is an associate of Mr. Fan (being our Director and Controlling Shareholder) without rental expenses as Xiezhong Home Appliances was then wholly owned by Mr. Fan. Following the said transfer of equity interests, it was agreed after arm’s length negotiation that Xiezhong Home Appliances should pay rent for occupying the two factory buildings to Chuzhou Genxing at the then prevailing market rental level commencing

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

from 1 January 2016. Hence, for the years ended 31 December 2015, 2016 and 2017, our rental expenses in relation to the two factory buildings were nil, RMB300,000 and RMB310,000 respectively. For details, please refer to the sections headed “History, Reorganisation and Group Structure — Pre-IPO Investment” and “Connected Transactions — Exempt Continuing Connected Transactions” in this prospectus.

Our Directors consider that our operations does not rely on the lease agreement from our Controlling Shareholders as comparable properties with similar rental are available in the vicinity and the costs of relocation will not be substantial.

Based on the above and save for the rental arrangement as mentioned above, our Directors believe that our Group is capable of carrying on our business independently from our Controlling Shareholders.

Management independence

Our Board consists of two executive Directors and three independent non-executive Directors that function independently from our Controlling Shareholders.

Our Directors believe that our Group will be able to operate independently of our Controlling Shareholders and their respective close associates after the Share Offer for the following reasons:

- (i) our Board will comprise five members, and Mr. Fan is our chairman and an executive Director. Despite that, Mr. Fan’s power in our Board is counterbalanced by the composition of 3 independent non-executive Directors who have sufficient character, integrity and calibre for their views to carry weight, and thus can effectively exercise independent judgement;
- (ii) all members of the senior management are full-time employees of our Group. The responsibilities of the senior management team include managing operational and financial matters, making general capital expenditure decisions and the daily implementation of the business strategies of our Group. This ensures the independence of the daily management and operations of our Group from those of our Controlling Shareholders;
- (iii) 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 Director and his interest to exist;
- (iv) 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 close associates, the interested Director(s) shall abstain from voting at the relevant meeting of the Board in respect of such transaction and shall not be counted towards the quorum; and
- (v) a number of corporate governance measures are in place to avoid any potential conflict of interest between our Company and our Controlling Shareholders and to safeguard the interests of the independent Shareholders.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Based on the above, our Directors are satisfied that they are able to perform their roles in our Company independently and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders after the Share Offer.

RULE 11.04 OF THE GEM LISTING RULES

Each of our Directors, our Controlling Shareholders, our Substantial Shareholders and their respective close associates does not have any interest in any business apart from our Group's business which competes or may compete, directly or indirectly, with our Group's business, and would require disclosure pursuant to Rule 11.04 of the GEM Listing Rules.

NON-COMPETITION UNDERTAKINGS

Our Controlling Shareholders entered into the Deed of Non-competition on 31 March 2018 in favour of our Company and its subsidiaries. Pursuant to the Deed of Non-competition, each of the Controlling Shareholders has irrevocably and unconditionally undertaken to our Company (for itself and for the benefit of our subsidiaries) that, save and except as disclosed in this prospectus, during the period that the Deed of Non-competition remains effective, he/it shall not, and shall procure that his/its close 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, 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 within Hong Kong and such other parts of the world where any member of our Group may operate from time to time, or any business activity to be conducted by any member of our Group from time to time after the Listing, save for the holding of not more than 5% shareholding interests (individually or with his/its close associates) in any company listed on a recognised stock exchange and at any time the relevant listed company shall have at least one shareholder (individually or with his/its close associates, if applicable) whose shareholding interests in the relevant listed company is higher than that of the relevant Controlling Shareholders (individually or with his/its close associates).

Each of the Controlling Shareholders further undertakes that if 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 any business opportunity of our Group, he/it shall procure that his/its close associates to promptly notify our Group in writing and our Group shall have a right of first refusal to take up such opportunity. Our Group shall, within 30 days 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 Controlling Shareholder(s) whether our Group will exercise the right of first refusal.

Our Group shall only exercise the right of first refusal upon the approval of all independent non-executive Directors who do not have any interest in such opportunity. The relevant Controlling Shareholder(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 the Board where there is a conflict of interest or potential conflict of interest including but not limited to the relevant meeting of the independent non-executive Directors for considering whether or not to exercise the right of first refusal.

RELATIONSHIP WITH 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 Agreements having been fulfilled (or where applicable, waived) and the Underwriting Agreements not having been terminated in accordance with their respective terms. If any such condition is not fulfilled on or before the date specified in the Underwriting Agreements (unless such conditions are waived on or before such date) or in any event on or before the date falling 30 days after the date of this prospectus, 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 the date on which (i) in relation to any Controlling Shareholders, when he/it together with his/its close 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 provided that the Deed of Non-competition shall continue to be in full force and effect as against the other Controlling Shareholders; or (ii) the Shares 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).

As the Controlling Shareholders have given non-competition undertakings in favour of our Company, and other than members of our Group, none of them have interests in other businesses that compete or are likely to compete with the business of our Group, our Directors are of the view that we are capable of carrying on the business independently of the Controlling Shareholders following the Listing. Other than members of our Group, none of the Controlling Shareholders and our Directors or their respective close associates has interests in any business which competes or is likely to compete with the business of our Group.

CORPORATE GOVERNANCE MEASURES

Each of our Controlling Shareholders confirmed that he/it fully comprehends his/its obligations to act in the best interest of our Company and our Shareholders as a whole. Our Company will adopt the following measures to strengthen its corporate governance practice to safeguard the interests of the Shareholders:

- (i) our Controlling Shareholders will make an annual confirmation on compliance with regard to his/its undertakings under the Deed of Non-competition in the annual report of our Company;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (ii) our Board is committed to the view that our Board should include a balanced composition of executive and non-executive Directors (including independent non-executive Directors) so that there is a strong independent element on our Board which can effectively exercise independent judgement. Our Company has appointed three independent non-executive Directors. Our Directors believe that our independent non-executive Directors are of sufficient caliber, are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgement and will be able to provide impartial and professional advice to protect the interests of minority Shareholders. Details of our independent non-executive Directors are set out in the section headed “Directors and Senior Management” in this prospectus;
- (iii) our Company appointed Cinda International Capital Limited as our 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 and Senior Management — 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 annual review by the independent non-executive Directors and the enforcement of the Deed of Non-competition; and
- (v) our independent non-executive Directors will, based on the information available to them, review on an annual basis, the compliance with the Deed of Non-competition; and all the decisions taken in relation to whether to pursue the new opportunity under the Deed of Non-competition.

CONNECTED TRANSACTIONS

CONNECTED TRANSACTIONS

During the Track Record Period, we have entered into a number of related party transactions, details of which are set out in note 32 to the Accountants' Report set out in Appendix I to this prospectus. Our Directors confirmed that these related party transactions were conducted in the ordinary course of business and on normal commercial terms. Save as described in this section below, these related party transactions have discontinued before the Share Offer.

RELATIONSHIP BETWEEN OUR GROUP AND OUR CONNECTED PERSONS

The relevant connected person with whom one of the members of our Group has transaction with and which will constitute continuing connected transaction is as follows:

Connected person(s)	Relationship with us
Chuzhou Genxing	Mr. Fan, Mr. Fan Baoyi and Ms. Fan Xiaohong, own 50%, 30% and 20% equity interest in Chuzhou Genxing, respectively. Chuzhou Genxing is an associate of Mr. Fan and hence a connected person of our Company at the issuer level.

Under the GEM Listing Rules, for so long as Chuzhou Genxing remains as a connected person of our Company, the following transaction between our Group and Chuzhou Genxing would constitute continuing connected transaction for our Company upon Listing.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

Immediately following the Listing, we will have an ongoing transaction with our connected person which is fully exempted from independent Shareholders' approval, annual review and all disclosure requirements of Chapter 20 of the GEM Listing Rules. Such transaction is set out as follows:

Lease agreement with Chuzhou Genxing

Xiezhong Home Appliances, as tenant, has entered into the following lease agreement with Chuzhou Genxing as landlord in relation to two factory buildings (the "**Properties**") situated in our First Base (the "**Lease Agreement**"), which will continue after Listing:

Date:	1 September 2017
Tenant:	Xiezhong Home Appliances

CONNECTED TRANSACTIONS

Landlord:	Chuzhou Genxing
Location of the Properties:	(1) a factory building situated in Danzi Industrial Park, Chuzhou City, Anhui province, the PRC; and (2) a factory building situated on No.3290 South Ziwei Road, Chuzhou City, Anhui province, the PRC
Size of the Properties:	Approximately 3,376.02 sq. meter, in aggregate
Term:	28 months commencing from 1 September 2017 and expiring on 31 December 2019
Monthly rent:	(1) RMB5,400 per month (exclusive of government tax, management fees and other outgoings) (2) RMB22,000 per months (exclusive of government tax, management fees and other outgoings)
Annual rent payable:	RMB328,800 (exclusive of governmental tax fee management fee and other outgoings)

During the Track Record Period, the Properties were used by Xiezhong Home Appliances as factories. Our Directors consider that it is desirable and in the interests of our Company and the Shareholders as a whole to continue renting the Properties from Chuzhou Genxing.

For the years ended 31 December 2015, 2016 and 2017, our rental expenses in relation to the Properties were nil, RMB300,000 and RMB310,000, respectively.

An independent valuer has reviewed the terms of the Lease Agreement and is of the view that the rental charge for similar premises at the vicinity of the location of the Properties based on the prevailing market rate as at 1 September 2017, the valuation date, is no less favourable than that of the rental charge of the Properties charged by Chuzhou Genxing on us.

Implication under the GEM Listing Rules

As Chuzhou Genxing, our connected person, has been letting and will continue to let the Properties to our Group following Listing on normal commercial terms, the Lease Agreement will constitute a continuing connected transaction for our Company upon Listing.

CONNECTED TRANSACTIONS

It is expected that the annual rent payable by our Group to Chuzhou Genxing under the Lease Agreement (exclusive of government tax, management fees and other outgoings) will be approximately RMB360,000 per annum. Given that each of the applicable percentage ratios (other than the profits ratio) for the transaction contemplated under the Lease Agreement, where applicable, calculated with reference to Rule 19.07 of the GEM Listing Rules, is expected to be less than 5% and the annual consideration is less than HK\$3 million, the transaction contemplated under the Lease Agreement fall within the *de minimis* threshold under Rule 20.74(1)(c) of the GEM Listing Rules and are exempt from the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

Confirmation of our Directors

Our Directors (including our independent non-executive Directors) consider that the Lease Agreement has been entered into on arm's length basis and in the ordinary and usual course of business and that the transaction contemplated under the Lease Agreement and the annual caps are on normal commercial terms, fair and reasonable and in the interests of our Group and our Shareholders as a whole.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware of, immediately following completion of the Capitalisation Issue and the Share Offer, but without taking into account our Shares that may be issued pursuant to the exercise of the Offer Size Adjustment Option and any option which may be granted under the Share Option Scheme, the following persons will have interests or short positions in any Shares or underlying Shares which would fall to be disclosed to our Company and Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO; or 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 any member of our Group:

Long position in the Shares

Name	Capacity/Nature of interests	Number of Shares held/interested in	Approximate percentage of interest in our Company
Wang Mao Investments	Beneficial owner	223,650,000	53.25%
Mr. Fan (<i>Note 1</i>)	Interest of controlled corporation	223,650,000	53.25%
Ms. Cao (<i>Note 2</i>)	Interest of spouse	223,650,000	53.25%
Season Empire Group	Beneficial owner	91,350,000	21.75%
Mr. Zhou (<i>Note 3</i>)	Interest of controlled corporation	91,350,000	21.75%

Notes:

1. Mr. Fan beneficially held the entire issued share capital of Wang Mao Investments, which in turn, beneficially held 223,650,000 Shares. For the purposes of the SFO, Mr. Fan is deemed or taken to be interested in all our Shares held by Wang Mao Investments.
2. Ms. Cao is the spouse of Mr. Fan. For the purposes of the SFO, Ms. Cao is deemed or taken to be interested in all our Shares in which Mr. Fan has, or is deemed to have, an interest for the purpose of the SFO.
3. Mr. Zhou beneficially held the entire issued share capital of Season Empire Group, which in turn, beneficially held 91,350,000 Shares. For the purposes of the SFO, Mr. Zhou is deemed or taken to be interested in all our Shares held by Season Empire Group.

Save as disclosed above, our Directors are not aware of any other person who will, immediately following completion of the Capitalisation Issue and the Share Offer but without taking into account our Shares that may be issued pursuant to the exercise of the Offer Size Adjustment Option and any option which may be granted under the Share Option Scheme, have an interest or short position in our Shares or underlying Shares which would fall to be disclosed to the our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or 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 any member of our Group.

SHARE CAPITAL

SHARE CAPITAL

The share capital of our Company immediately following the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option and any option which may be granted under the Share Option Scheme) will be as follows:

<i>Authorised share capital</i>	<i>HK\$</i>
<u>2,000,000,000</u> Shares of HK\$0.01 each	<u>20,000,000</u>
<i>Issued and to be issued, fully paid or credited as fully paid upon completion of the Capitalisation Issue and the Share Offer:</i>	
10,000 Shares in issue at the date of this prospectus	100
314,990,000 Shares to be issued pursuant to the Capitalisation Issue	3,149,900
<u>105,000,000</u> Shares to be issued pursuant to the Share Offer	<u>1,050,000</u>
<i>Total</i>	
<u>420,000,000</u> Shares of HK\$0.01 each	<u>4,200,000</u>

Assuming the Offer Size Adjustment Option are exercised in full (without taking into account any Shares which may be issued pursuant to the exercise of any option granted under the Share Option Scheme), our issued share capital immediately following the Capitalisation Issue and the Share Offer will be as follows:

<i>Authorised share capital</i>	<i>HK\$</i>
<u>2,000,000,000</u> Shares of HK\$0.01 each	<u>20,000,000</u>
<i>Issued and to be issued, fully paid or credited as fully paid upon completion of the Capitalisation Issue and the Share Offer and the exercise of the Offer Size Adjustment Option:</i>	
10,000 Shares in issue at the date of this prospectus	100
314,990,000 Shares to be issued pursuant to the Capitalisation Issue	3,149,900
105,000,000 Shares to be issued pursuant to the Share Offer	1,050,000
<u>15,750,000</u> Shares to be issued upon exercise of the Offer Size Adjustment Option in full	<u>157,500</u>
<i>Total</i>	
<u>435,750,000</u> Shares of HK\$0.01 each	<u>4,357,500</u>

SHARE CAPITAL

MINIMUM PUBLIC FLOAT

According to Rule 11.23(7) of the GEM Listing Rules, at the time of the Listing and at all times thereafter, our Company must maintain the “minimum prescribed percentage” of 25% of our Company’s issued share capital in the hands of the public.

RANKING

The Offer Shares will rank pari passu in all respects with all our 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 our Shares in respect of a record date which falls after the date of Listing other than participation in the Capitalisation Issue.

CAPITALISATION ISSUE

Pursuant to the written resolutions of our Shareholders passed on 31 March 2018, subject to the share premium account of our Company being credited as a result of the Share Offer, our Directors are authorised to allot and issue a total of 314,990,000 Shares credited as fully paid at par to the holder of Shares on the register of members of our Company at the close of business on 31 March 2018 in proportion (as nearly as possible without involving fractions) to their shareholdings by way of capitalisation of the sum of HK\$3,149,900 standing to the credit of the share premium account of our Company, and our Shares to be allotted and issued pursuant to this resolution shall rank pari passu in all respects with the existing issued Shares.

GENERAL MANDATE TO ISSUE SHARES

Subject to the Share Offer becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with the 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 or options which might require such Shares to be allotted and issued or dealt with subject to the requirement that such number of Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued (otherwise than by way of rights issue or an issue of Shares pursuant to the exercise of the Offer Size Adjustment Option and any options which may be granted under the Share Option Scheme or any other share option scheme of the 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 Amended and Restated Memorandum and Articles of Association of the Company or pursuant to a specific authority granted by the shareholders of the Company in general meeting or pursuant to the Share Offer and the Capitalisation Issue) shall not exceed:

- (a) 20% of the total number of Shares in issue immediately following the completion of the Capitalisation Issue and the Share Offer (not including any Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option and any option which may be granted under the Share Option Scheme); and

SHARE CAPITAL

- (b) the aggregate number of Shares repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares referred to in the paragraph headed “General Mandate to Repurchase Shares” below.

This general mandate to issue Shares will remain in effect until the earliest of:

- (a) the conclusion of the next annual general meeting of our Company;
- (b) 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
- (c) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting.

For further details of this general mandate, please refer to the section headed “Statutory and General Information — A. Further Information about our Company — 3. Written Resolutions of our Shareholders passed on 31 March 2018” in Appendix V to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Share Offer becoming unconditional, the Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with such number of Shares not exceeding 10% of the total number of Shares in issue following the completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares to be issued upon exercise of the Offer Size Adjustment Option and any option which may be granted under the Share Option Scheme).

This mandate only relates to repurchases made 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, and such repurchases are made in accordance with all applicable laws and the requirements of the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the section headed “Statutory and General Information — A. Further Information about our Company — 6. Repurchase of our Shares by our Company” in Appendix V to this prospectus.

The general mandates to issue and repurchase Shares will remain in effect until the earliest of:

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

SHARE CAPITAL

- (b) 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 law of the Cayman Islands to be held; or
- (c) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting,

For further details of this general mandate, please refer to the section headed “Statutory and General Information — A. Further Information about our Company — 6. Repurchase of Shares by our Company” in Appendix V 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 — D. Share Option Scheme” in Appendix V to this prospectus.

Our Group did not have any outstanding share options, warrants, convertible instruments, or similar rights convertible into our 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 the Cayman Islands Company Law” in Appendix IV to this prospectus.

FINANCIAL INFORMATION

You should read this section in conjunction with our audited consolidated financial information, including the Notes thereto, which are set out in the Accountants' Report in Appendix I to this prospectus. You should read the whole of the Accountants' Report included as Appendix I to this prospectus and not rely merely on the information in this section. The consolidated financial information has been prepared in accordance with HKFRSs.

The following discussion and analysis contain certain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, our historical results do not necessarily indicate future results. Whether actual outcome and developments will meet our expectations and predictions depend on a number of risks and uncertainties over which we do not have control. You should review the section headed "Risk Factors" in this prospectus for a discussion of important factors that could cause our actual results to differ materially from the results described in or implied by the forward-looking statements.

OVERVIEW

We are a plastic and steel components processor for white goods in the PRC and was ranked as the largest company in Anhui province in the PRC in terms of sales revenue in 2016 according to the Ipsos Report. We are principally engaged in (i) stamping components manufacturing; (ii) spray-painting components processing and (iii) powder-coating components processing. Substantially all of our products are ultimately used in white goods. We have two production bases located in Anhui province in the PRC, which is one of the major home appliance production provinces in the PRC.

For the years ended 31 December 2015, 2016 and 2017, our revenue was approximately RMB55.7 million, RMB79.2 million and RMB97.3 million, respectively, and our profit for the corresponding periods was approximately RMB6.6 million, RMB8.6 million and RMB4.2 million, respectively. For more information about our business and operations, please refer to the section headed "Business" in this prospectus.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our business, subject to several operations and financial conditions, have been and will continue to be affected by a number of factors, including those set out below.

Market demand of white goods in the PRC

During the Track Record Period, our revenue was mainly generated from the processing of plastic and steel components for white goods, namely home refrigerators and home washing machines, in the PRC. Our Directors expect that the business performance of the Group is highly susceptible to the economic conditions in the PRC, and in particular, the local market of white goods.

FINANCIAL INFORMATION

The white goods market is affected by customer preferences and the national household consumption expenditure. Accordingly, if the white goods market and/or the PRC experiences any economic downturn, significant changes in customer preferences or if the government adopts regulations that place restrictions or burdens on us and/or our industry in general, our business, financial condition and results of operations may be adversely affected.

Demand of home appliances products of our customers

Our customers include renowned brands within the white goods industry and various independent component processors. Any negative downturn in the industry may adversely affect the ability of our Group's customers to maintain their performance and in turn, their business with our Group. Should there be any adverse changes in the business performance and development of the home appliance products market, the subsequent slowdown in demand for our products may negatively affect our Group's business performance and financial results.

Competition in the PRC plastic and steel components manufacturing and processing industry

The plastic and steel components manufacturing and processing industry in relation to white goods manufacturing in which we operate is highly fragmented. According to the Ipsos Report, by the end of 2016, there were about 17,704 and 5,266 plastic and steel component processors in the PRC and Anhui province in the PRC respectively. There is no assurance that our business and products will remain competitive in terms of pricing and product offerings. Should we fail to compete effectively in the future, our business, financial condition and results of operations would be adversely affected.

Pricing

We generally renegotiate the price of our products on a half year or annual basis with our customers. Such prices are determined by us and customers on a market price basis. Any negative movements of the market price and demand of our products may consequently adversely affect our financial condition and results of operations.

For illustration purpose only, the sensitivity analysis below illustrates the impact of hypothetical fluctuations in the selling prices of spray-painting peripheral components, powder-coating peripheral components and stamping component, assuming all other factors affecting our gross profit remain unchanged.

FINANCIAL INFORMATION

Hypothetical Fluctuations

	$\pm 5\%$			$\pm 10\%$		
	Spray- painting peripheral components <i>RMB'000</i>	Powder- coating peripheral components <i>RMB'000</i>	Stamping components <i>RMB'000</i>	Spray- painting peripheral components <i>RMB'000</i>	Powder- coating peripheral components <i>RMB'000</i>	Stamping components <i>RMB'000</i>
Changes in gross profit						
For the year ended 31 December 2015	1,655	519	610	3,309	1,039	1,220
For the year ended 31 December 2016	1,889	1,091	978	3,778	2,182	1,957
For the year ended 31 December 2017	2,219	1,800	847	4,438	3,600	1,695

Concentration risk of customers

For the years ended 31 December 2015, 2016 and 2017, our sales to Group A accounted for approximately 14.8%, 17.2%, and 33.8% of our total revenue, respectively, while sales to our five largest customers accounted for approximately 65.6%, 67.8% and 73.4% of our total revenue, respectively, for the same periods.

As we generally rely on short term purchase orders from our major customers, there is no assurance that our customers will continue to place orders with our Group, or that their future orders will be at a level comparable with that in the previous years. If any of our major customers reduce or cease to place orders with us, our Group's business, financial condition and results of operations could be adversely affected.

Our Group has adopted a number of measures to manage the above risk. Please refer to section headed "Business — Reducing Reliance on Major Customer" for further details in this prospectus.

Cost of raw materials

Our results of operations are significantly affected by the cost of raw materials, which accounted for approximately 53.4%, 54.7% and 58.9% of our total cost of sales for the years ended 31 December 2015, 2016 and 2017, respectively. Fluctuation in the cost of our raw materials and our ability to pass on any increase in raw material costs to our customers will affect our total cost of sales and our gross profit margins. We have adopted a cost-plus pricing policy for our products. Generally, the price of our products is subject to review once or twice a year. During the Track Record Period, we discussed with customers for changes in our production cost and would provide our customers with the revised price list upon mutual agreement. We have adjusted the products' price upon changes in the prices of key raw materials in accordance with the terms of the relevant sales agreement pursuant to negotiation with our customers.

FINANCIAL INFORMATION

Steel, one of the key raw materials we use in our production, is particularly subject to price fluctuation. Our average purchase price for steel was approximately RMB3,307, RMB3,757 and RMB4,683 per tonne, respectively, for the years ended 31 December 2015, 2016 and 2017.

We maintain long-term business relationships with our steel suppliers to secure a stable supply, but we did not enter into any long-term supply contracts with them. As of the Latest Practicable Date, we did not conduct any hedging activities against the risk of steel price fluctuations. Any significant increase in the price of our raw materials, in particular steel, could have a significant impact on our cost of sales, which could in turn have a material adverse effect on our business, financial conditions and results of operations if we are unable to pass on a portion or all of such increased costs to our customers.

Taking the above into account, the percentage figures used in the sensitivity analysis below are commensurate with the historical changes in overall increase in the average purchase price for steel which was approximately 13.6% and 24.6% for the years ended 31 December 2016 and 2017, respectively.

For illustration purpose only, the sensitivity analysis below illustrates the impact of hypothetical fluctuations in the purchase price of steel, which is assumed to be consumed and expensed in our gross profit for the corresponding years during the Track Record Period. Fluctuations in the purchase price of steel are assumed to be 15%, 20%, and 25% for the years ended 31 December 2015, 2016 and 2017, respectively, assuming all other factors affecting our gross profit remain unchanged.

Hypothetical Fluctuations

	$\pm 15\%$ <i>RMB'000</i>	$\pm 20\%$ <i>RMB'000</i>	$\pm 25\%$ <i>RMB'000</i>
Change in gross profit			
Year ended 31 December 2015	$\pm 1,443$	$\pm 1,925$	$\pm 2,406$
Year ended 31 December 2016	$\pm 2,485$	$\pm 3,314$	$\pm 4,142$
Year ended 31 December 2017	$\pm 2,760$	$\pm 3,680$	$\pm 4,601$

The costs of steel parts and plastic parts accounted for approximately 22.7% and 18.3%, respectively, of our total costs of direct materials for the year ended 31 December 2017. We purchase the steel parts and plastic parts provided from our customers for processing. The processed peripheral components from these steel parts and plastic parts would be sold to our customers afterwards.

As our Group is not able to control and/or adjust the purchase price of such steel parts and plastic parts, our Group consider that the inclusion of a sensitivity analysis for the change in raw materials cost for steel parts and plastic parts to gross profit in this prospectus would not be meaningful nor reflect the genuine commercial arrangements as between us and our customers.

FINANCIAL INFORMATION

Ability to control our labour costs

Our operations are relatively labour intensive. Our direct labour costs account for approximately 22.8%, 21.4% and 18.8% of our total cost of sales for the years ended 31 December 2015, 2016 and 2017, respectively. According to the Ipsos Report, the average monthly wage level in the PRC has continuously increased between 2012 and 2016, and is expected to further increase in the future. There is no assurance that our Group will be able to fully transfer our direct labour costs to our customers. If our Group is unable to cope with the increase in labour costs, our business, financial condition and results of operations may be adversely affected.

Direct labour costs

Taking into account the recent historical increases in salary levels and the probable future economic conditions of the PRC markets, according to the Ipsos Report, the average monthly wage growth rate in Anhui province is expected to be approximately 5.5% from 2017 to 2021.

For illustration purpose only, the sensitivity analysis below illustrates the impact of hypothetical fluctuations in the employee benefit expenses on our profit before income tax for the respective periods during the Track Record Period. Fluctuations in the direct labour costs are assumed to be 5% and 10% for the years ended 31 December 2015, 2016 and 2017, respectively, assuming all other factors affecting our gross profit remain unchanged.

Hypothetical Fluctuations	± 5%	± 10%
	<i>RMB'000</i>	<i>RMB'000</i>
Change in gross profit		
Year ended 31 December 2015	± 446	± 892
Year ended 31 December 2016	± 601	± 1,202
Year ended 31 December 2017	± 699	± 1,398

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on 14 December 2015 as part of our reorganisation. The companies now comprising our Group underwent a series of reorganisation steps, details of which are set out in the section headed “History, Reorganisation and Group Structure” in this prospectus. Upon completion of our reorganisation, our Company became the holding company of the companies now comprising our Group. The companies now comprising our Group are controlled by our Controlling Shareholders before and after the reorganisation and there is no change in the business of our Group as a result of the reorganisation.

Our consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows are prepared as if the current group structure had been in existence throughout the Track Record Period, or since the respective date of incorporation or establishment of the relevant entity, if shorter. The consolidated 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.

FINANCIAL INFORMATION

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The financial information of our Group was prepared in accordance with HKFRSs, which require our Group to adopt accounting policies and make estimates and assumptions that the management believes are appropriate in the circumstances for the purposes of giving a true and fair view of the results and financial position of our Group. These significant accounting policies are important for understanding the financial position and results of operation of our Group and such accounting policies are set out in the Note 3 and 4 of the Accountants' Report in Appendix I to this prospectus. Some of the accounting policies involve subjective assumptions and estimates, as well as judgement related to accounting items. The assumptions and estimates are based on our past experience and various other factors that our management believe to be reasonable under the circumstances. Results may differ under different assumptions and conditions. Our Directors have identified below accounting policies that are most critical to the preparation of the consolidated financial statements.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for discounts and other similar allowances.

Revenue for sale of stamping components, spray-painting components and powder-coating components is recognised when the goods are delivered and titles are passed, the revenue can be reliably estimated and it is probable that the revenue will be received.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to our 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 the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Impairment of trade and other receivables

Our Group estimates the provisions for impairment of trade and other receivables by assessing their recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgements. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amount of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. Our Group reassesses the provisions at the end of each of the Track Record Period.

Write-down of inventories

Inventories are valued at the lower of cost and net realisable value. Also, the Group regularly inspects and reviews its inventories to identify slow-moving and obsolete inventories. The amount of the impairment loss is measured as the difference between inventories' cost and net realisable value.

FINANCIAL INFORMATION

The identification of impairment of inventories requires the use of judgement and estimate of expected net realisable value. Where the net realisable value is lower than the cost, a material write-down may arise. As at 31 December 2015, 2016 and 2017, the carrying amounts of inventories were approximately RMB5.5 million, RMB7.6 million and RMB8.9 million, respectively, without write-downs recognised on inventories.

RESULTS OF OPERATIONS

The following table sets forth selected financial data from our consolidated statements of profit or loss and other comprehensive income for the periods indicated, details of which are set out in the Accountants' Report in Appendix I to this prospectus.

	Year ended 31 December		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	55,683	79,167	97,324
Cost of sales	<u>(39,205)</u>	<u>(56,045)</u>	<u>(74,398)</u>
Gross profit	16,478	23,122	22,926
Other income and gains	1,047	2,519	4,236
Selling and distribution expenses	(2,008)	(2,402)	(3,147)
Administrative expenses	(3,647)	(8,859)	(14,591)
Finance costs	<u>(3,111)</u>	<u>(2,615)</u>	<u>(3,406)</u>
Profit before tax	8,759	11,765	6,018
Income tax expense	<u>(2,192)</u>	<u>(3,201)</u>	<u>(1,845)</u>
Profit for the year	<u>6,567</u>	<u>8,564</u>	<u>4,173</u>
Other comprehensive income/(expense)			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translating foreign operations	<u>—</u>	<u>1,473</u>	<u>(1,201)</u>
Other comprehensive income/(expense) for the year	<u>—</u>	<u>1,473</u>	<u>(1,201)</u>
Total comprehensive income for the year	<u>6,567</u>	<u>10,037</u>	<u>2,972</u>
Profit for the year attributable to owners of the Company	<u>6,567</u>	<u>8,564</u>	<u>4,173</u>
Total comprehensive income for the year attributable to owners of the Company	<u>6,567</u>	<u>10,037</u>	<u>2,972</u>

FINANCIAL INFORMATION

DESCRIPTION OF SELECTED COMPONENTS OF CONSOLIDATED STATEMENTS OF PROFIT AND LOSS

Revenue

We generate our revenue primarily from spray-painting and powder-coating peripheral components processing and the manufacturing of stamping components. Please refer to the section headed “Business — Products” of this prospectus for further details of our products. For the years ended 31 December 2015, 2016 and 2017, our total revenue generated amounted to approximately RMB55.7 million, RMB79.2 million and RMB97.3 million, respectively.

Revenue by products

The following table sets out a breakdown of our revenue by products for the periods indicated:

	Year ended 31 December					
	2015		2016		2017	
	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>	<i>RMB'000</i>	<i>% of total revenue</i>
Spray-painting peripheral components	33,090	59.4	37,778	47.7	44,380	45.6
Powder-coating peripheral components	10,389	18.7	21,822	27.6	35,997	37.0
Stamping components	<u>12,204</u>	<u>21.9</u>	<u>19,567</u>	<u>24.7</u>	<u>16,947</u>	<u>17.4</u>
	<u>55,683</u>	<u>100.0</u>	<u>79,167</u>	<u>100.0</u>	<u>97,324</u>	<u>100.0</u>

During the years ended 31 December 2015, 2016 and 2017, spray-painting peripheral components remained our largest contributor to our revenue and accounted for approximately RMB33.1 million, RMB37.8 million and RMB44.4 million, or approximately 59.4%, 47.7% and 45.6% of our revenue, respectively.

Powder-coating peripheral components accounted for approximately RMB10.4 million, RMB21.8 million and RMB36.0 million, or approximately 18.7%, 27.6% and 37.0% of our revenue for the years ended 31 December 2015, 2016 and 2017, respectively.

The remaining revenue was derived from stamping components and accounted for approximately RMB12.2 million, RMB19.6 million and RMB16.9 million, or approximately 21.9%, 24.7% and 17.4% of our revenue for the years ended 31 December 2015, 2016 and 2017, respectively.

Please refer to the paragraph headed “Review of Historical Operating Results” in this section for further details on the fluctuation and changes in our financial results during the years ended 31 December 2015, 2016 and 2017.

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Cost of sales

Our cost of sales consists of direct materials, direct labour, consumables, utilities and manufacturing overhead. For the years ended 31 December 2015, 2016 and 2017, our cost of sales amounted to approximately RMB39.2 million, RMB56.0 million and RMB74.4 million, respectively, representing approximately 70.4%, 70.8% and 76.4% of our total revenue.

The following table sets out a breakdown of our cost of sales for the periods indicated:

	Year ended 31 December					
	2015		2016		2017	
	<i>RMB'000</i>	<i>% of cost of sales</i>	<i>RMB'000</i>	<i>% of cost of sales</i>	<i>RMB'000</i>	<i>% of cost of sales</i>
Direct materials	20,933	53.4	30,599	54.7	43,829	58.9
Direct labour	8,924	22.8	12,018	21.4	13,983	18.8
Consumables ^{Note 1}	2,172	5.5	3,710	6.6	5,086	6.8
Utilities	1,897	4.8	2,588	4.6	3,172	4.3
Manufacturing overhead ^{Note 2}	<u>5,279</u>	<u>13.5</u>	<u>7,130</u>	<u>12.7</u>	<u>8,328</u>	<u>11.2</u>
	<u><u>39,205</u></u>	<u><u>100.0</u></u>	<u><u>56,045</u></u>	<u><u>100.0</u></u>	<u><u>74,398</u></u>	<u><u>100.0</u></u>

Note:

1. Consumables include packaging materials and accessories.
2. Manufacturing overhead includes depreciation, repair and maintenance and others.

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Our direct materials, which represented the majority of our cost of sales, include steel, steel parts, oil paint, paint powder, plastic parts and others. The following table sets out a breakdown of our direct materials cost for the periods indicated:

	Year ended 31 December					
	2015		2016		2017	
	<i>RMB'000</i>	<i>% of direct material cost</i>	<i>RMB'000</i>	<i>% of direct material cost</i>	<i>RMB'000</i>	<i>% of direct material cost</i>
Steel	9,623	46.0	16,569	54.2	18,402	42.0
Plastic parts	4,782	22.8	7,083	23.1	8,027	18.3
Oil paint	4,811	23.0	3,564	11.6	3,485	8.0
Paint powder	1,216	5.8	1,732	5.7	2,743	6.3
Steel parts	424	2.0	1,351	4.4	9,962	22.7
Others	77	0.4	300	1.0	1,210	2.7
	<u>20,933</u>	<u>100.0</u>	<u>30,599</u>	<u>100.0</u>	<u>43,829</u>	<u>100.0</u>

Steel was the largest proportion of our direct materials cost which accounted for approximately RMB9.6 million, RMB16.6 million and RMB18.4 million, respectively, for the years ended 31 December 2015, 2016 and 2017, representing approximately 46.0%, 54.2% and 42.0%, respectively, of our total direct materials cost for the same periods.

Plastic parts were our third largest, second largest and third largest proportion of our direct materials cost, which accounted for approximately RMB4.8 million, RMB7.1 million and RMB8.0 million, respectively, for the years ended 31 December 2015, 2016 and 2017, representing approximately 22.8%, 23.1% and 18.3%, respectively, of our total direct materials cost for the same periods.

Steel parts were our second largest proportion of direct materials cost for the year ended 31 December 2017. It is mainly purchased from Group A and used for the processing of powder-coating peripheral components which we resell to Group A. We incurred increased cost of steel parts during the year ended 31 December 2017 as we received more sales orders from Group A.

Gross profit

Our gross profit represented our revenue less our cost of sales and our gross profit margin represented our gross profit divided by our revenue, multiplied by 100%. For the years ended 31 December 2015, 2016 and 2017, our gross profit amounted to approximately RMB16.5 million, RMB23.1 million and RMB22.9 million, respectively, and our gross profit margin of approximately 29.6%, 29.2% and 23.6%, respectively.

FINANCIAL INFORMATION

The following table sets out a breakdown of our gross profit and gross profit margin for the periods indicated:

	Year ended 31 December					
	2015		2016		2017	
	Gross	Gross	Gross	Gross	Gross	Gross
	Profit	Profit	Profit	Profit	Profit	Profit
	Margin	Margin	Margin	Margin	Margin	Margin
	RMB'000	%	RMB'000	%	RMB'000	%
Spray-painting peripheral components	11,173	33.8	12,867	34.1	18,314	41.3
Powder-coating peripheral components	1,765	17.0	3,325	15.2	2,027	5.6
Stamping components	<u>3,540</u>	<u>29.0</u>	<u>6,930</u>	<u>35.4</u>	<u>2,585</u>	<u>15.3</u>
Total	<u>16,478</u>	<u>29.6</u>	<u>23,122</u>	<u>29.2</u>	<u>22,926</u>	<u>23.6</u>

As a result of the foregoing, the majority of our gross profit came from spray-painting peripheral components processing, which represented approximately 67.8%, 55.6% and 79.9% of our gross profit for the years ended 31 December 2015, 2016 and 2017.

Please refer to the paragraph headed “Review of Historical Operating Results” in this section for further details about fluctuation and changes in our financial results during the years ended 31 December 2015, 2016 and 2017.

Other income and gains

The following table sets out a breakdown of our other income and gains for the periods indicated:

	Year ended 31 December					
	2015		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%
Interest income on bank deposits	12	1.1	6	0.2	19	0.5
Net gains/(losses) on disposals of property, plant and equipment	672	64.2	(47)	(1.8)	(26)	(0.6)
Net sales of moulds and leftover	223	21.3	763	30.3	25	0.6
Government grants	140	13.4	1,781	70.7	4,218	99.5
Net foreign exchange gains	—	—	13	0.5	—	—
Others	—	—	3	0.1	—	—
	<u>1,047</u>	<u>100.0</u>	<u>2,519</u>	<u>100.0</u>	<u>4,236</u>	<u>100.0</u>

FINANCIAL INFORMATION

Net sales of moulds and leftover represents the income from moulds sales to our customers less the cost of moulds. We sourced moulds from the moulds manufacturers and sold to our customers who placed orders with us.

Government grants mainly comprise the non-recurring land use tax reward granted by the People's Government of Chuzhou City* (滁州市人民政府) for the enterprise located in Chuzhou City, non-recurring listing incentive reward granted by Nanqiao district of the People's Government of Chuzhou City* (滁州市南譙區人民政府) for enterprises located in Nanqiao district which engage in listing application and other miscellaneous government grants.

For the years ended 31 December 2015, 2016 and 2017, our other income and gains were approximately 1.9%, 3.2%, and 4.4% of our revenue, respectively.

Selling and distribution expenses

The following table sets out a breakdown of our selling and distribution expenses for the periods indicated:

	Year ended 31 December					
	2015		2016		2017	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Transportation expenses	791	39.4	1,143	47.6	1,694	53.8
Staff costs	945	47.1	888	37.0	1,172	37.2
Office maintenance expenses	25	1.2	32	1.3	11	0.4
Depreciation	32	1.6	89	3.7	98	3.1
Travelling expenses	20	1.0	44	1.8	38	1.2
Entertainment expenses	98	4.9	115	4.8	56	1.8
Insurances	83	4.1	86	3.6	72	2.3
Others	14	0.7	5	0.2	6	0.2
	<u>2,008</u>	<u>100.0</u>	<u>2,402</u>	<u>100.0</u>	<u>3,147</u>	<u>100.0</u>

Staff costs represents salaries and welfare expenses paid to employees involved in selling and distribution activities.

Transportation expenses consist of services fees paid to logistic companies as well as running costs and maintenance expenses of vehicles.

For the years ended 31 December 2015, 2016 and 2017, our selling and distribution expenses were approximately 3.6%, 3.0% and 3.2% of our revenue, respectively.

FINANCIAL INFORMATION

Administrative expenses

The following table sets out a breakdown of our administrative expenses for the periods indicated:

	Year ended 31 December					
	2015		2016		2017	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Staff costs	1,280	35.1	1,371	15.5	1,254	8.6
Insurance	120	3.3	99	1.1	99	0.7
Entertainment expenses	156	4.3	307	3.4	135	0.9
Depreciation and amortisation	642	17.6	377	4.3	276	1.9
Office maintenance expenses	147	4.0	237	2.7	138	0.9
Travelling expenses	263	7.2	236	2.7	489	3.4
Audit and other professional fees	12	0.3	399	4.5	556	3.8
Duties and levies	805	22.1	817	9.2	830	5.7
Inspection fees	3	0.1	9	0.1	38	0.3
Listing expenses	—	—	4,852	54.8	10,504	72.0
Rental expenses	—	—	60	0.6	62	0.4
Others	219	6.0	95	1.1	210	1.4
	<u>3,647</u>	<u>100.0</u>	<u>8,859</u>	<u>100.0</u>	<u>14,591</u>	<u>100.0</u>

Staff costs represents salaries and welfare expenses of the management and administrative personnel.

Depreciation and amortisation were in relation to our property, plant and equipment and land use rights. Please refer to the paragraphs headed “Property, Plant and Equipment” and “Prepaid Lease Payments” in this section for further details.

Audit and professional fees mainly represents the professional fee paid for financial advisory and environmental consultancy.

Duties and levies consist of land use tax, real estate tax, stamp duty and other miscellaneous taxes.

For the years ended 31 December 2015, 2016 and 2017, our administrative expenses were approximately 6.5%, 11.2% and 15.0% of our revenue, respectively.

FINANCIAL INFORMATION

Finance costs

The following table sets out a breakdown of our finance costs for the periods indicated:

	Year ended 31 December					
	2015		2016		2017	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Interest on bank borrowings	2,906	93.4	2,020	77.2	2,054	60.3
Interest on finance lease	—	—	50	1.9	498	14.6
Finance costs arising on early redemption of note receivables	205	6.6	298	11.4	429	12.6
Costs of guarantees on bank borrowings	—	—	247	9.5	425	12.5
	<u>3,111</u>	<u>100.0</u>	<u>2,615</u>	<u>100.0</u>	<u>3,406</u>	<u>100.0</u>

For interest on bank borrowings, please refer to the paragraph headed “Indebtedness — Bank Borrowings” in this section for further details.

For the years ended 31 December 2015, 2016 and 2017, our finance costs were approximately 5.6%, 3.3% and 3.5% of our revenue, respectively.

Income tax expense

During the Track Record Period, our income tax expense represented the PRC enterprise income tax (“EIT”) charged on our PRC operating subsidiary, Xiezhong Home Appliances.

Our income tax expense includes provision made for PRC EIT during the Track Record Period. Under the PRC enterprise income tax law and its implementing rules, our PRC operating subsidiary has been subject to the tax of 25.0%. For the years ended 31 December 2015, 2016 and 2017, our effective tax rates were 25.0%, 27.2% and 30.7%, respectively.

The following table sets forth our income tax expense for the periods indicated:

	Year ended 31 December		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current EIT	2,192	3,175	1,845
Under provision in prior year	—	26	—
	<u>2,192</u>	<u>3,201</u>	<u>1,845</u>

FINANCIAL INFORMATION

Pursuant to the rules and regulations of the Cayman Islands and the BVI, we were not subject to any income tax in the respective regions. As for our Hong Kong subsidiary established in July 2015, since we did not carry on any business other than those transactions relating to the corporate reorganisation during the Track Record Period, we were not subject to any Hong Kong profits tax.

REVIEW OF HISTORICAL OPERATING RESULTS

YEAR ENDED 31 DECEMBER 2017 COMPARED TO YEAR ENDED 31 DECEMBER 2016

Revenue by products

Revenue increased by approximately RMB18.2 million, or approximately 22.9%, from approximately RMB79.2 million for the year ended 31 December 2016 to approximately RMB97.3 million for the year ended 31 December 2017, which was due to the increase in sales of spray-painting peripheral components and powder-coating peripheral components.

Revenue derived from spray-painting peripheral components increased by approximately RMB6.6 million, or approximately 17.5%, from approximately RMB37.8 million for the year ended 31 December 2016 to approximately RMB44.4 million for the year ended 31 December 2017.

Revenue derived from powder-coating peripheral components increased by approximately RMB14.2 million, or approximately 65.0%, from approximately RMB21.8 million for the year ended 31 December 2016 to approximately RMB36.0 million for the year ended 31 December 2017. Such increase was primarily due to an increase in sales to Group A.

Revenue derived from stamping components decreased by approximately RMB2.7 million, or approximately 13.4%, from approximately RMB19.6 million for the year ended 31 December 2016 to approximately RMB16.9 million for the year ended 31 December 2017. Such decrease was primarily due to a decrease in sales to existing customers.

Cost of sales

Cost of sales increased by approximately RMB18.4 million, or approximately 32.7%, from approximately RMB56.0 million for the year ended 31 December 2016 to approximately RMB74.4 million for the year ended 31 December 2017. Such increase was mainly attributable to (i) an increase in direct materials costs by approximately RMB13.2 million; (ii) an increase in direct labour cost by approximately RMB2.0 million; and (iii) an increase in consumables, utilities and manufacturing overhead by approximately RMB3.2 million.

The increase in direct materials cost was mainly due to increase in sales and increase in the average purchase price of steel.

The increase in direct labour cost, consumables, utilities and manufacturing overhead were in line with the increase in sales.

FINANCIAL INFORMATION

Gross profit and gross profit margin

As a result of the foregoing, our gross profit decreased by approximately RMB0.2 million or approximately 0.8%, from approximately RMB23.1 million for the year ended 31 December 2016 to approximately RMB22.9 million for the year ended 31 December 2017.

Our overall gross profit margin decreased from approximately 29.2% for the year ended 31 December 2016 to approximately 23.6% for the year ended 31 December 2017 as result of decrease in gross profit margin of powder-coating peripheral components and stamping components.

As steel is considered a major part of the raw materials used for our powder-coating peripheral components processing and stamping components manufacturing, the increase in average purchase price of steel caused our cost of sales for powder-coating peripheral components and stamping components to increase accordingly. Since our products are generally subject to price review once or twice a year, we were not able to negotiate price increase for our powder-coating peripheral components and stamping components immediately within a short period of time to reflect our increased costs. For details of measures we have taken to alleviate the adverse influence to our Group as a result of price fluctuation of raw materials, please refer to the section headed “Business — Procurement — Raw Materials” in this prospectus. For risk associated with our inability to pass on increasing costs within a short period of time to our customers, please refer to the section headed “Risk Factors — We may Face Rising Cost of Sales Which would Adversely Affect our Operations and Financial Condition” in this prospectus.

In addition, for the year ended 31 December 2017, our sales of certain powder-coating peripheral components to Group A, who is our third largest, the largest and the largest customer for the years ended 31 December 2015, 2016 and 2017, respectively, amounted to approximately RMB13.5 million, representing approximately 41.1% of our total sales to Group A for the corresponding period. To maintain good business relationship with and receive stable orders from Group A, our Directors believe that our ability to reject orders for these powder-coating peripheral components with relatively lower gross profit margin is restricted in a certain extent. For the years ended 31 December 2015, 2016 and 2017, the revenue generated from Group A amounted to approximately RMB8.2 million, RMB13.6 million and RMB32.9 million, representing approximately 14.8%, 17.2% and 33.8% of our total revenue for the corresponding periods. In light of the foregoing, our Directors are of the view that it is in the benefit of our Group to maintain its long-term business relationship with Group A, and we will strive to explore new business opportunities for spray-painting peripheral components, which generate higher profit margins, with Group A in the future.

Other income and gains

Other income and gains increased by approximately RMB1.7 million or approximately 68.2%, from approximately RMB2.5 million for the year ended 31 December 2016 to approximately RMB4.2 million for the year ended 31 December 2017, which was primarily due to increase in listing incentive reward granted by Nanqiao district of the People’s Government of Chuzhou City (滁州市南譙區人民政府).

FINANCIAL INFORMATION

Selling and distribution expenses

Selling and distribution expenses increased by RMB0.7 million or approximately 31.0% from approximately RMB2.4 million for the year ended 31 December 2016 to approximately RMB3.1 million for the year ended 31 December 2017. Such increase was primarily due to the increase in transportation expenses and staff costs as a result of the increase in sales.

Administrative expenses

Administrative expenses increased by approximately RMB5.7 million or approximately 64.7% from approximately RMB8.9 million for the year ended 31 December 2016 to approximately RMB14.6 million for the year ended 31 December 2017.

The increase was primarily due to the increase in recognition of Listing expenses of approximately RMB5.7 million for the year ended 31 December 2017.

Finance costs

Finance costs increased by approximately RMB0.8 million or approximately 30.2% from approximately RMB2.6 million for the year ended 31 December 2016 to approximately RMB3.4 million for the year ended 31 December 2017. Such increase was primarily due to (i) approximately RMB0.4 million of interest on finance leases related to some property, plant and equipment our Group leased in November 2016; (ii) an increase of approximately RMB0.1 million of finance costs arising from early redemption of note receivables; and (iii) an increase of approximately RMB0.2 million on costs of guarantees on bank borrowings.

Income tax expense

Income tax expense decreased by RMB1.4 million or approximately 42.4% from approximately RMB3.2 million for the year ended 31 December 2016 to approximately RMB1.8 million for the year ended 31 December 2017.

Profit for the year and net profit margin

As a result of the foregoing, our profit for the year decreased by approximately RMB4.4 million, from approximately RMB8.6 million for the year ended 31 December 2016 to approximately RMB4.2 million for the year ended 31 December 2017, primarily due to (i) decrease in gross profit of approximately RMB0.2 million; (ii) increase in the Listing expenses of approximately RMB5.7 million; (iii) increase in finance costs of approximately RMB0.8 million; and (iv) increase in selling and distribution expenses of approximately RMB0.7 million. Such decrease was partially offset by (i) decrease in tax expense of approximately RMB1.4 million and (ii) increase in other income and gains of approximately RMB1.7 million.

Our net profit margin decreased from approximately 10.8% for the year ended 31 December 2016 to approximately 4.3% for the year ended 31 December 2017.

FINANCIAL INFORMATION

YEAR ENDED 31 DECEMBER 2016 COMPARED TO YEAR ENDED 31 DECEMBER 2015

Revenue

Revenue by products

Revenue increased by approximately RMB23.5 million, or approximately 42.2%, from approximately RMB55.7 million for the year ended 31 December 2015 to approximately RMB79.2 million for the year ended 31 December 2016, was due to the general increase in sales to both existing customers and new customers.

Revenue derived from spray-painting peripheral components increased by approximately RMB4.7 million, or approximately 14.2%, from approximately RMB33.1 million for the year ended 31 December 2015 to approximately RMB37.8 million for the year ended 31 December 2016. Such an increase was primarily due to an overall increase in sales to our existing customers.

Revenue derived from powder-coating peripheral components increased by approximately RMB11.4 million, or approximately 110.0%, from approximately RMB10.4 million for the year ended 31 December 2015 to approximately RMB21.8 million for the year ended 31 December 2016. Such an increase was primarily due to increase in sales to TCL, Midea and Group A.

Revenue derived from stamping components increased by approximately RMB7.4 million, or approximately 60.3%, from approximately RMB12.2 million for the year ended 31 December 2015 to approximately RMB19.6 million for the year ended 31 December 2016. Such an increase was primarily due to increase in sales to our existing customers.

Cost of sales

Cost of sales increased by approximately RMB16.8 million, or approximately 43.0%, from approximately RMB39.2 million for the year ended 31 December 2015 to approximately RMB56.0 million for the year ended 31 December 2016. Such increase was mainly attributable to (i) an increase in direct materials cost by approximately RMB9.7 million; (ii) an increase in direct labour cost by approximately RMB3.1 million; (iii) an increase in consumables cost by RMB1.5 million; and (iv) an increase in manufacturing overhead by approximately RMB1.9 million.

The increase in direct materials cost was mainly due to (i) an increase in our sales of powder-coating peripheral components by approximately 110.0%; and (ii) an increase in average purchase price of steel.

The increase in direct labour cost and consumables cost were in line with the increase in sales.

FINANCIAL INFORMATION

Gross Profit and gross profit margin

As a result of the foregoing, our gross profit increased by approximately RMB6.6 million or approximately 40.3%, from approximately RMB16.5 million for the year ended 31 December 2015 to approximately RMB23.1 million for the year ended 31 December 2016.

The increase in gross profit is primarily due to increase in our sales of stamping components by approximately 60.3%. In addition, the gross profit further increased due to sales of powder-coating peripheral components driven up by approximately 110.0%.

Our overall gross profit margin remained stable for the years ended 31 December 2015 and 31 December 2016 primarily because the increase in average selling price of powder-coating peripheral components and stamping components was able to offset the increase in price of steel.

Other income and gains

Other income and gains increased by approximately RMB1.5 million, or approximately 140.6%, from approximately RMB1.0 million for the year ended 31 December 2015 to approximately RMB2.5 million for the year ended 31 December 2016, which was primarily due to the land use reward by the People's Government of Chuzhou city* (滁州市人民政府) and listing incentive reward by Nanqiao district of the People's Government of Chuzhou city* (滁州市南譙區人民政府).

Selling and distribution expenses

Selling and distribution expenses increased by RMB0.4 million or approximately 19.6% from RMB2.0 million for the year ended 31 December 2015 to RMB2.4 million for the year ended 31 December 2016.

The increase in selling and distribution expenses in 2016 was primarily due to an increase in transportation expenses as a result of increase in sales.

Administrative expenses

Administrative expenses increased by approximately RMB5.2 million or approximately 142.9% from approximately RMB3.7 million for the year ended 31 December 2015 to approximately RMB8.9 million for the year ended 31 December 2016.

The increase was primarily due to the Listing expenses of approximately RMB4.9 million recognised in 2016.

FINANCIAL INFORMATION

Finance costs

Finance costs decreased by approximately RMB0.5 million or approximately 15.9% from approximately RMB3.1 million for the year ended 31 December 2015 to approximately RMB2.6 million for the year ended 31 December 2016.

The decrease in finance costs was primarily in line with decrease in the weighted average interest rates for the year ended 31 December 2016 compared to 31 December 2015.

Please refer to the section headed “Indebtedness — Bank Borrowings” for further details.

Income tax expense

Our income tax expense increased by approximately RMB1.0 million or approximately 46.0%, from approximately RMB2.2 million for the year ended 31 December 2015 to approximately RMB3.2 million for the year ended 31 December 2016, which was in line with our increase in profit before tax in 2016.

Profit for the year and net profit margin

As a result of the foregoing, our profit for the year increased by approximately RMB2.0 million, from approximately RMB6.6 million for the year ended 31 December 2015 to approximately RMB8.6 million for the year ended 31 December 2016, primarily due to increase in gross profit by approximately RMB6.6 million and offset by Listing expenses of approximately RMB4.9 million recognised.

Our net profit margin decreased slightly from approximately 11.8% for the year ended 31 December 2015 to approximately 10.8% for the year ended 31 December 2016.

FINANCIAL INFORMATION

ANALYSIS OF FINANCIAL POSITION

	As at 31 December		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment	22,890	22,019	22,520
Prepaid lease payments	9,756	9,538	9,320
Deposit	—	1,200	1,200
	<u>32,646</u>	<u>32,757</u>	<u>33,040</u>
Current assets			
Inventories	5,541	7,611	8,873
Prepaid lease payments	218	218	218
Trade and other receivables	33,237	42,224	47,255
Amount due from a director	103	56	32
Pledged bank deposits	—	300	1,310
Cash and bank balances	574	19,703	15,965
	<u>39,673</u>	<u>70,112</u>	<u>73,653</u>
Total assets	<u>72,319</u>	<u>102,869</u>	<u>106,693</u>
Current liabilities			
Trade and other payables	24,032	22,117	31,268
Amount due to a related party	—	300	160
Bank borrowings	12,000	10,500	20,350
Finance lease obligation	—	2,163	3,664
Current tax liabilities	1,812	3,995	3,292
	<u>37,844</u>	<u>39,075</u>	<u>58,734</u>
Net current assets	<u>1,829</u>	<u>31,037</u>	<u>14,919</u>
Total assets less current liabilities	<u>34,475</u>	<u>63,794</u>	<u>47,959</u>
Non-current liabilities			
Bank borrowings	17,000	18,000	7,350
Finance lease obligation	—	3,664	—
Deferred tax liabilities	375	275	51
	<u>17,375</u>	<u>21,939</u>	<u>7,401</u>
Net assets	<u>17,100</u>	<u>41,855</u>	<u>40,558</u>
Capital and reserves			
Equity attributable to owners			
of the Company			
Share capital	—	—	—
Reserves	17,100	41,855	40,558
Total equity	<u>17,100</u>	<u>41,855</u>	<u>40,558</u>

FINANCIAL INFORMATION

Property, plant and equipment

Property, plant and equipment consists of buildings, plant and machinery, motor vehicles, furniture and equipment, and construction in progress. As at 31 December 2015 and 31 December 2016, the carrying amounts of our property, plant and equipment amounted to approximately RMB22.9 million and RMB22.0 million. Such decrease was primarily due to depreciation during the Track Record Period.

As at 31 December 2017, the carrying amounts of our property, plant and equipment increased to RMB22.5 million. Such increase was due to additions of RMB3.6 million and offset by the depreciation expense of RMB2.9 million and disposals of RMB0.2 million.

As at 31 December 2015, 31 December 2016 and 31 December 2017, certain of our Group's property, plant and equipment with aggregate carrying amounts of approximately RMB16.5 million, RMB12.8 million and RMB11.9 million were pledged to secure certain bank borrowings granted to our Group.

As at 31 December 2015, 31 December 2016 and 31 December 2017, the carrying amounts of plant and machinery of the Group include amounts of nil, approximately RMB6.8 million and RMB5.5 million, respectively, in respect of assets held under finance leases.

Prepaid lease payments

The following table sets out our prepaid lease payments balances as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Prepaid lease payments			
- current	218	218	218
- non-current	<u>9,756</u>	<u>9,538</u>	<u>9,320</u>
	<u>9,974</u>	<u>9,756</u>	<u>9,538</u>

Lease prepayments are the prepaid lease payments for the land we occupy in the PRC under medium-term leases. As at 31 December 2015, 31 December 2016 and 31 December 2017, the carrying amounts of our land prepayments amounted to approximately RMB10.0 million, RMB9.8 million and RMB9.5 million, respectively. Such decreases were primarily due to amortisation of land use right during the Track Record Period.

As at 31 December 2015, 31 December 2016 and 31 December 2017, aggregate carrying amounts of approximately RMB10.0 million, RMB9.8 million and RMB9.5 million were pledged to secure certain bank borrowings as provided by the banks.

FINANCIAL INFORMATION

Deposit

Deposit represents a refundable performance security paid to a finance leasing corporation for a sale-leaseback agreement our Group entered into in November 2016, details of which are set out in note 22 to the Accountants' Report in Appendix I to this prospectus.

Inventories

The following table sets out our inventory balances as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Raw materials	2,449	2,690	3,139
Work-in-progress	911	1,910	1,522
Finished goods	1,810	2,164	2,465
Moulds and consumables	371	847	1,747
	<u>5,541</u>	<u>7,611</u>	<u>8,873</u>
Average inventory turnover days	66	43	40

Note: Average inventory turnover days are based on the average balance of inventories divided by cost of sales for the relevant period and multiplied by the number of days in the relevant period. Average balance of inventories is calculated as the average of the beginning balance and ending balance of a given period. The number of days for the years ended 31 December 2015, 2016 and 2017 is 365 days.

Inventory balance increased from approximately RMB5.5 million as at 31 December 2015 to approximately RMB7.6 million as at 31 December 2016, primarily due to an increase in work-in-progress. The increase in work-in-progress was primarily due to the increase in demand of our products from white goods manufacturers before the early part of the Chinese Lunar New Year in January 2017.

Inventory balance further increased to approximately RMB8.9 million as at 31 December 2017.

Average inventory turnover days ranged from 40 days to 66 days during the Track Record Period. The decrease in average inventory turnover days for the year ended 31 December 2016 compared to the year ended 31 December 2015 was primarily due to our Group strengthening our inventory control policy in 2015. Our average inventory turnover days remained stable for the years ended 31 December 2016 and 2017.

FINANCIAL INFORMATION

At each balance sheet date, we state inventories at the lower of cost and net realisable value. Also, we regularly inspect and review our inventories to identify slow-moving and obsolete items. The amount of the impairment loss is measured as the difference between inventories' cost and net realisable value.

The identification of impairment of inventories requires the use of judgement and estimate of expected net realisable value. Where the net realisable value is lower than the cost, a material write-down may arise. As at 31 December 2015, 31 December 2016 and 31 December 2017, no write-down of inventories was recognised.

As at 28 February 2018, approximately RMB4.9 million, or 55.5%, of our inventory as at 31 December 2017 has been subsequently sold/consumed.

Trade and other receivables

The following table sets out a breakdown of our trade and other receivables as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Trade receivables	26,258	36,534	43,020
Notes receivables	275	1,333	622
Deposits, prepayments and other receivables	<u>6,704</u>	<u>4,357</u>	<u>3,613</u>
	<u>33,237</u>	<u>42,224</u>	<u>47,255</u>

Trade receivables

Trade receivables primarily consist of outstanding balances to be received from our customers. During the Track Record Period, we offered credit periods ranging from 30 days to 180 days to our customers on case-by-case basis, with consideration of the reputation of the customers and our historical business relationship with them.

Trade receivables increased from approximately RMB26.3 million as at 31 December 2015 to approximately RMB36.5 million as at 31 December 2016, which was primarily due to higher amount of sales in the fourth quarter of 2016 compared to that of 2015.

Trade receivables further increased to approximately RMB43.0 million as at 31 December 2017. The increase in trade receivables is in line with increase in our revenue for the year ended 31 December 2017.

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Set forth below are our average trade receivables turnover days:

	As at 31 December		
	2015	2016	2017
Average trade receivables turnover days	124	145	149

Note: Average trade receivables turnover days are based on the average balance of trade receivables divided by revenue for the relevant period and multiplied by the number of days in the relevant period. Average balance of trade receivables is calculated as the average of the beginning balance and ending balance of a given period. The number of days for the years ended 31 December 2015, 2016 and 2017 is 365 days.

Average trade receivables turnover days increased from 124 days for the year ended 31 December 2015 to 145 days for the year ended 31 December 2016, and remained relatively stable at 149 days for the year ended 31 December 2017.

The following table sets out the aging analysis of trade receivables balance as at the respective financial position dates indicated below:

	As at 31 December		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0 — 90 days	24,029	33,169	40,095
91 — 180 days	2,221	3,317	2,925
Over 180 days	8	48	—
	<u>26,258</u>	<u>36,534</u>	<u>43,020</u>

The following table sets out an ageing analysis of trade receivables that were neither past due nor considered to be impaired as at the respective financial position dates indicated below:

	As at 31 December		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Overdue by:			
1 — 30 days	550	585	986
Over 30 days	8	64	409
	<u>558</u>	<u>649</u>	<u>1,395</u>

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As at 31 December 2015, 31 December 2016 and 31 December 2017, trade receivables of approximately RMB0.6 million, RMB0.6 million and RMB1.4 million, were past due but not considered impaired as there were subsequent settlement or no historical default of payments by the respective customers and the amounts are still considered recoverable.

As at 28 February 2018, approximately RMB23.5 million, or 54.6%, of the trade receivables outstanding as at 31 December 2017 has been subsequently settled.

Notes receivables

Notes receivables represent trade related non-interest bearing bank acceptance notes with maturity dates within six months. Notes receivables increased from approximately RMB0.3 million as at 31 December 2015 to approximately RMB1.3 million as at 31 December 2016 and decreased to approximately RMB0.6 million as at 31 December 2017.

Deposits, prepayments and other receivables

The following table sets forth our deposits, prepayment and other receivables as at the indicated dates:

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Prepayments	4,077	2,491	1,352
Deposits paid to suppliers	1,623	524	556
Other receivables	1,004	1,342	1,705
	<u>6,704</u>	<u>4,357</u>	<u>3,613</u>

Prepayments mainly represent prepaid Listing expenses and prepaid costs of guarantees on bank borrowings.

Deposits paid to suppliers mainly represent deposits paid for purchase of raw material and moulds manufacturing.

Other receivables represent the amount receivable from sales of moulds.

Pledged bank deposits

Pledged bank deposits represents deposit pledged to banks to secure note payables granted to our Group. The pledged bank deposits will be released upon the settlement of relevant note payables.

FINANCIAL INFORMATION

Trade and other payables

The following table sets out the components of our trade and other payables as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	12,250	14,868	23,775
Other payables and accruals	10,687	6,948	6,148
Receipt in advance	1,095	1	35
Note payables	—	300	1,310
	<u>24,032</u>	<u>22,117</u>	<u>31,268</u>

Trade payables

Trade payables were mainly incurred for the purchase of raw materials. During the Track Record Period, we were generally given credits periods ranging from 30 days to 180 days from our suppliers.

Trade payables increased from approximately RMB12.3 million as at 31 December 2015 to approximately RMB14.9 million as at 31 December 2016, primarily due to increase in procurement of raw materials in December 2016 for production demand before the early part of the Chinese Lunar New Year in January 2017.

Trade payables further increased to approximately RMB23.8 million as at 31 December 2017, primarily due to increase in procurement of steels and steel parts.

Set forth below are our average trade payables turnover days:

	As at 31 December		
	2015	2016	2017
Average trade payables turnover days	96	89	95

Note: Average trade payables turnover days are based on the average balance of trade payables divided by cost of sales for the relevant period and multiplied by the number of days in the relevant period. Average balance is calculated as the average of the beginning balance and ending balance of a given period. The number of days for the years ended 31 December 2015, 2016 and 2017 is 365 days.

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Average trade payables turnover days were relatively stable and only slightly decreased from approximately 96 days for the year ended 31 December 2015 to approximately 89 days for the year ended 31 December 2016, which was mainly due to the increase in proportion of purchases from suppliers with relatively shorter credit terms during the year ended 31 December 2016 as compared to the previous year. For the year ended 31 December 2017, average trade payables turnover days increased to approximately 95 days.

The following table sets out a breakdown of our trade and other payables as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0 — 90 days	9,277	10,670	15,907
91 — 180 days	1,692	2,535	6,137
181 — 365 days	878	1,405	1,040
Over 365 days	403	258	691
	<u>12,250</u>	<u>14,868</u>	<u>23,775</u>

As at 28 February 2018, approximately RMB13.9 million, or 58.4% of our trade payables outstanding as at 31 December 2017, was subsequently settled.

Other payables and accruals

Other payables and accruals mainly represent the accrued Listing expenses, accrued staff costs and other taxes payables.

The following table sets forth our other payables and accruals as at the indicated dates:

	As at 31 December		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Accrued Listing expenses	3,315	—	672
Accrued staff costs	5,530	4,943	3,277
Other taxes payables	1,148	752	1,199
Others	694	1,253	1,000
	<u>10,687</u>	<u>6,948</u>	<u>6,148</u>

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Receipt in advance

Receipt in advance mainly represents the amount received from our customers for the sales of moulds according to the specifications from our customers. Decrease in balance was due to completion of moulds production in 2016 and no receipt in advance for sales of mould as at 31 December 2016 and 31 December 2017.

Note payables

Note payables represented interest free bank acceptance notes issued by our Group with maturity dates within six months. These were secured by charge over the Group's pledged bank deposits.

Such increase was mainly due to more bank acceptance notes issued to settle our purchases from suppliers.

LIQUIDITY AND CAPITAL RESOURCES

To date we have funded our operations principally with net cash from operating activities, shareholder's equity and bank borrowings. Our cash requirements primarily relate to production and operating activities, repayment of liabilities as they become due, working capital and capital expenditures. We did not experience any liquidity shortage during the Track Record Period.

We expect to fund our future capital expenditure, working capital and other cash requirements from cash generated from our operations, the net proceeds from the Share Offer and bank borrowings.

FINANCIAL INFORMATION

Cash flows

The following table sets out selected cash flow data from our consolidated statements of cash flows for the periods indicated.

	Year ended 31 December		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Operating cash flow before changes in working capital, interest paid and income tax paid	14,181	17,835	12,561
Net cash generated from operating activities	3,716	3,704	12,208
Net cash generated from/(used in) investing activities	11,571	(16,690)	(4,406)
Net cash (used in)/generated from financing activities	<u>(15,113)</u>	<u>30,642</u>	<u>(10,349)</u>
Net increase/(decrease) in cash and cash equivalent	174	17,656	(2,547)
Cash and cash equivalents at the beginning of year	400	574	19,703
Effect of foreign exchange rate changes	<u>—</u>	<u>1,473</u>	<u>(1,191)</u>
Cash and cash equivalents at the end of year	<u><u>574</u></u>	<u><u>19,703</u></u>	<u><u>15,965</u></u>

Net cash generated from operating activities

Our operating cash inflows are principally derived from the sale of spray-painting peripheral components, powder-coating peripheral components and stamping components. Our operating cash outflows are principally for the purchase of raw materials for production, labour costs, selling, administrative, other operating expenses and taxes. Cash flow from operating activities can be significantly affected by factors such as the timing of collection of trade receivables from our customers and payment of trade payables to our suppliers during the ordinary course of our business. Net cash generated from operating activities primarily consisted of profit before income tax adjusted for depreciation and amortisation, net gains/losses on disposal of property, plant and equipment, finance costs, and the effect of changes in working capital such as increase or decrease in inventories, trade and other receivables, trade and other payables.

FINANCIAL INFORMATION

Net cash generated from operating activities for the year ended 31 December 2015 was approximately RMB3.7 million. The amount primarily reflected profit before tax of approximately RMB8.8 million as adjusted by (i) depreciation of approximately RMB2.8 million; (ii) finance costs of approximately RMB3.1 million; (iii) a decrease in inventories of approximately RMB2.9 million; and (iv) an increase in trade and other payables of approximately RMB8.4 million due to increase in procurement of raw materials, partially offset by (i) an increase in trade and other receivables of approximately RMB19.9 million due to increase in sales; and (ii) income tax paid of approximately RMB1.8 million.

Net cash generated from operating activities for the year ended 31 December 2016 was approximately RMB3.7 million. The amount primarily reflected profit before tax of approximately RMB11.8 million as adjusted by (i) depreciation of approximately RMB3.2 million; (ii) finance costs of approximately RMB2.6 million; partially offset by (i) an increase in inventories of approximately RMB2.1 million; (ii) an increase in trade and other receivables of approximately RMB8.8 million due to more sales generated in the fourth quarter of 2016, (iii) a decrease in trade and other payables of approximately RMB1.9 million due to increase in procurement of raw material; and (iv) income tax paid of approximately RMB1.1 million.

Net cash generated from operating activities for the year ended 31 December 2017 was approximately RMB12.2 million. The amount primarily reflected profit before taxation of approximately RMB6.0 million as adjusted by (i) depreciation of approximately RMB2.9 million; (ii) finance costs of approximately RMB3.4 million and (iii) an increase in trade and other payables of approximately RMB9.2 million partially offset by (i) an increase in trade and other receivables of approximately RMB5.0 million; (ii) an increase in inventories of approximately RMB1.3 million; and (iii) income tax paid of approximately RMB2.8 million.

Net cash generated from/(used in) investing activities

Our cash flow from investing activities mainly consists of payments for property, plant and equipment, movements in amounts due from a director/related parties and acquisition of a subsidiary, net of cash acquired.

Net cash generated from investing activities for the year ended 31 December 2015 was approximately RMB11.6 million, primarily due to (i) a repayment due from a director of approximately RMB5.4 million; (ii) a decrease in amounts due from related parties of approximately RMB6.8 million due to repayment; and (iii) proceeds from disposals of property, plant and equipment of approximately RMB1.5 million, partially offset by payment for purchase of property, plant and equipment of approximately RMB2.1 million.

Net cash used in investing activities for the year ended 31 December 2016 was approximately RMB16.7 million, primarily due to (i) acquisition of a subsidiary, net of cash acquired of approximately RMB14.1 million; (ii) an increase in pledged bank deposit of approximately RMB0.3 million; and (iii) payment for purchase of property, plant and equipment of approximately RMB2.4 million.

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Net cash used in investing activities for the year ended 31 December 2017 was approximately RMB4.4 million, primarily due to (i) an increase in pledged bank deposits of approximately RMB1.0 million for issuance of bank acceptance note; and (ii) payment for purchase of property, plant and equipment of approximately RMB3.6 million.

Net cash (used in)/generated from financing activities

Our cash flow in financing activities mainly consists of issue of shares, additions of share capital, decrease in amounts due to related parties, interest paid, dividend paid and proceeds from/repayment of bank borrowings and inception/repayment of finance lease obligation.

Net cash used in financing activities for the year ended 31 December 2015 was approximately RMB15.1 million, primarily attributable to (i) a decrease in amounts due to related parties of approximately RMB8.4 million; (ii) interest paid of approximately RMB2.9 million, (iii) repayment of bank borrowings of approximately RMB61.8 million and partially offset by (i) additions of share capital/issue of shares of RMB3.0 million; and (ii) proceeds from bank borrowings of RMB55.0 million.

Net cash generated from financing activities for the year ended 31 December 2016 was approximately RMB30.6 million, primarily attributable to (i) issue of shares of approximately RMB30.7 million; (ii) inception of finance lease obligation of approximately RMB4.5 million, (iii) proceeds from bank borrowings of approximately RMB28.5 million, partially offset by (i) interest paid of approximately RMB2.3 million; (ii) dividends paid to owners of the Company of approximately RMB1.9 million; and (iii) repayment of bank borrowings of RMB29.0 million.

Net cash used in financing activities for the year ended 31 December 2017 was approximately RMB10.3 million, primarily attributable to (i) interest paid of approximately RMB3.0 million; (ii) dividends paid to owners of the Company of approximately RMB4.3 million; (iii) repayment of finance lease obligation of approximately RMB2.2 million; and (iv) repayment of bank borrowings of RMB11.2 million, and partially offset by proceeds from bank borrowings of RMB10.4 million.

FINANCIAL INFORMATION

NET CURRENT ASSETS

Set out below is a breakdown of our net current assets as at the dates indicated:

	As at 31 December			As at 28 February
	2015	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(Unaudited)</i>
Current assets				
Inventories	5,541	7,611	8,873	10,094
Prepaid lease payments	218	218	218	218
Trade and other receivables	33,237	42,224	47,255	40,269
Amount due from a director	103	56	32	187
Pledged bank deposits	—	300	1,310	2,250
Cash and bank balances	574	19,703	15,965	15,218
	<u>39,673</u>	<u>70,112</u>	<u>73,653</u>	<u>68,236</u>
Current liabilities				
Trade and other payables	24,032	22,117	31,268	26,393
Amount due to a related party	—	300	160	—
Bank borrowings	12,000	10,500	20,350	20,350
Finance lease obligation	—	2,163	3,664	3,330
Current tax liabilities	1,812	3,995	3,292	1,931
	<u>37,844</u>	<u>39,075</u>	<u>58,734</u>	<u>52,004</u>
Net current assets	<u>1,829</u>	<u>31,037</u>	<u>14,919</u>	<u>16,232</u>

Net current assets increased from approximately RMB1.8 million as at 31 December 2015 to approximately RMB31.0 million as at 31 December 2016, primarily due to the receipt of Pre-IPO investment funds from our Pre-IPO Investor, Season Empire Group and the increase in our trade and other receivables. For details of Pre-IPO investment, please see the section headed “History, Reorganisation and Group Structure — Pre-IPO Investment” in this prospectus.

Net current assets decreased to approximately RMB14.9 million as at 31 December 2017 primarily due to long term bank borrowings as at 31 December 2016 falling due within 1 year as at 31 December 2017 and increase in trade and other payables.

As at 28 February 2018, we had net current assets of approximately RMB16.2 million.

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INDEBTEDNESS

	As at 31 December			As at
	2015	2016	2017	28 February
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>
Current liabilities				
Amount due to a related party	—	300	160	—
Bank borrowings	12,000	10,500	20,350	20,350
Finance lease obligation	—	2,163	3,664	3,330
	<u>12,000</u>	<u>12,963</u>	<u>24,174</u>	<u>23,680</u>
Non-current liabilities				
Bank borrowings	17,000	18,000	7,350	7,350
Finance lease obligation	—	3,664	—	—
	<u>17,000</u>	<u>21,664</u>	<u>7,350</u>	<u>7,350</u>

The amount due to a related party is trade in nature, unsecured, interest free and has no fixed terms of repayment.

FINANCIAL INFORMATION

Bank borrowings

Set out below is a breakdown of our bank borrowings as at the dates indicated:

	As at 31 December			As at
	2015	2016	2017	28 February
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2018
				<i>RMB'000</i>
				<i>(Unaudited)</i>
Bank borrowings — secured:				
Fixed rate	<u>29,000</u>	<u>28,500</u>	<u>27,700</u>	<u>27,700</u>
Carrying amounts of bank borrowings that are repayable within one year from the end of the reporting period shown under current liabilities	12,000	10,500	20,350	20,350
Carrying amounts of bank borrowings that are repayable beyond one year but not exceeding two years from the end of the reporting period shown under non-current liabilities	<u>17,000</u>	<u>18,000</u>	<u>7,350</u>	<u>7,350</u>
	<u>29,000</u>	<u>28,500</u>	<u>27,700</u>	<u>27,700</u>

For the years ended 31 December 2015, 2016 and 2017, the annual interest rates of our bank borrowing ranged from 6.93% to 8.29% per annum, 6.53% to 7.36% per annum and 6.53% to 8.08% per annum, respectively.

As at 31 December 2015, 31 December 2016 and 31 December 2017, certain of our Group's property, plant and equipment with aggregate carrying amounts of approximately RMB16.5 million, RMB12.8 million and RMB11.9 million were pledged to secure certain bank borrowings granted to our Group. Please refer to the paragraph headed "Property, Plant and Equipment" in this section for further details.

As at 31 December 2015, 31 December 2016 and 31 December 2017, aggregate carrying amounts of approximately RMB10.0 million, RMB9.8 million and RMB9.5 million of prepaid lease payments were pledged to secure certain bank borrowings as provided by the banks. Please refer to the paragraph headed "Prepaid Lease Payments" in this section for further details.

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As at 31 December 2015, secured bank loans of approximately RMB25.5 million were personally guaranteed by our director, Mr. Fan. The above guarantee has been released during the year ended 31 December 2016.

As at 31 December 2016 and 31 December 2017, the secured bank loans of approximately RMB28.5 million and RMB27.7 million were guaranteed by an independent guarantee company, namely, Chuzhou Yin Feng. Please refer to the section headed “Business — Legal Compliance — Non-compliant Loan Financing Arrangements” for further details.

During the years ended 31 December 2015 and 31 December 2016, our Group has Non-compliant Loan Financing Arrangements. Please refer to section headed “Business — Legal Compliance — Non-compliant Loan Financing Arrangements” for further details.

Finance lease obligation

Our Group leased certain of its plant and machinery under finance lease. Interest rates underlying all obligations under finance leases are nil, 8.91% per annum and 8.91% per annum for the years ended 31 December 2015, 2016 and 2017, respectively.

In November 2016, certain plant and machinery of our Group was under finance lease in form of sale and leaseback arrangements with a finance leasing corporation, which is an Independent Third Party. There was no disposal gain or loss recognised for the transaction as the fair value was not significantly different to the carrying amounts of the relevant plant and machinery. At the end of the lease period, if no default occurs during the lease period, the ownership of the plant and machinery shall be automatically transferred to our Group at nil consideration.

A mortgage agreement in relation to the above mentioned plant and machinery was entered into between the finance leasing corporation and Xiezhong Home Appliances.

The finance lease obligation was secured by a refundable performance security.

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The following table set out our obligation under finance leases repayable as at the respective dates indicated:

	As at 31 December			As at 28 February
	2015	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>
Minimum lease payments				
Amounts payable under leases:				
Within one year	—	2,594	3,977	3,590
In more than one year and not more than five years	—	<u>3,977</u>	—	—
	—	6,571	3,977	3,590
Less: future finance charges	—	<u>(744)</u>	<u>(313)</u>	<u>(260)</u>
Present value of lease obligation	<u>—</u>	<u>5,827</u>	<u>3,664</u>	<u>3,330</u>
Present value of minimum lease payments				
Amount due for settlement more than one year, but not exceeding two years (shown under non-current liabilities)				
	—	3,664	—	—
Amount due for settlement within a year (shown under current liabilities)				
	<u>—</u>	<u>2,163</u>	<u>3,664</u>	<u>3,330</u>
Total present value of lease obligation	<u>—</u>	<u>5,827</u>	<u>3,664</u>	<u>3,330</u>

Except as disclosed above, as at 28 February 2018, our Group did not have any outstanding loan capital or debt securities issued or agreed to be issued, bank overdrafts, loans, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities. Our Group did not have any unutilised banking facilities as at 28 February 2018.

FINANCIAL INFORMATION

KEY FINANCIAL RATIOS

The following sets out our key financial ratios as at the dates and for the periods indicated:

	Year ended 31 December		
	2015	2016	2017
Return on equity (%) ⁽¹⁾	38.4	20.5	10.3
Return on total assets (%) ⁽²⁾	9.1	8.3	3.9
Interest coverage (times) ⁽³⁾	3.8	5.5	2.8

	As at 31 December		
	2015	2016	2017
Current ratio ⁽⁴⁾	1.0	1.8	1.3
Quick ratio ⁽⁵⁾	0.9	1.6	1.1
Gearing ratio ⁽⁶⁾	1.7	0.8	0.8
Net debt to equity ratio ⁽⁷⁾	1.7	0.4	0.4

Notes:

- (1) Return on equity ratio is calculated by dividing profit after tax by total equity and multiplying the resulting value by 100%.
- (2) Return on total assets ratio is calculated by dividing profit after tax by total assets and multiplying the resulting value by 100%.
- (3) Interest coverage is calculated by dividing profit before interest and tax by finance costs.
- (4) Current ratio is calculated by dividing current assets by current liabilities.
- (5) Quick ratio is calculated by dividing current assets less inventory by current liabilities.
- (6) Gearing ratio is calculated by dividing debts comprising of bank borrowings and finance lease obligation by total equity.
- (7) Net debt to equity ratio is calculated by dividing debts comprising of bank borrowings and finance lease obligation after net of cash and cash equivalents by total equity.

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Return on equity ratio

Our return on equity ratio decreased from approximately 38.4% for the year ended 31 December 2015 to approximately 20.5% for the year ended 31 December 2016. Such decrease was mainly due to the increase in total equity attributable to owners of our Company as a result of the issue of new shares.

Our return on equity ratio further decreased to approximately 10.3% for the year ended 31 December 2017, primarily due to the increase in recognition of Listing expenses of approximately RMB5.7 million which in turn, resulted in the decrease in our net profit.

Return on total asset ratio

Our return on total asset ratio decreased from approximately 9.1% for the year ended 31 December 2015 to approximately 8.3% for the year ended 31 December 2016. Such decrease was mainly due to the increase in total assets as a result of the increase in our trade receivables and cash and bank balances.

Our return on total asset ratio decreased to 3.9% for the year ended 31 December 2017, primarily due to the increase in recognition of Listing expenses of approximately RMB5.7 million which in turn, resulted in the decrease in our net profit.

Interest coverage ratio

Our interest coverage ratio increased from approximately 3.8 times for the year ended 31 December 2015 to approximately 5.5 times for the year ended 31 December 2016. Such an increase was primarily due to the increase in our profit before tax, as a result of increase in revenue.

Our interest coverage ratio decreased to approximately 2.8 times for the year ended 31 December 2017, as a result of increase in recognition of Listing expenses of approximately RMB5.7 million which in turn, resulted in the decrease in our net profit.

Current ratio

Our current ratio increased from approximately 1.0 as at 31 December 2015 to approximately 1.8 as at 31 December 2016 due to increase in trade and other receivables and cash and bank balances.

Our current ratio decreased to approximately 1.3 as at 31 December 2017, which was primarily due to long term bank borrowings as at 31 December 2016 falling due within 1 year as at 31 December 2017 and increase in trade and other payables.

Please refer to the section headed “Net Current Assets” in this section for further details.

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Quick ratio

Our quick ratio increased from approximately 0.9 as at 31 December 2015 to approximately 1.6 as at 31 December 2016.

Our quick ratio decreased to 1.1 as at 31 December 2017, primarily due to long term bank borrowings as at 31 December 2016 falling due within 1 year as at 31 December 2017 and increase in trade and other payables.

Gearing ratio

Our gearing ratio decreased from approximately 1.7 as at 31 December 2015 to approximately 0.8 as at 31 December 2016, which was primarily due to the increase in total equity attributable to owners of our Company as a result of the issue of new shares.

Our gearing ratio remained stable at approximately 0.8 as at 31 December 2017.

Net debt to equity ratio

Our net debt to equity ratio decreased from approximately 1.7 as at 31 December 2015 to approximately 0.4 as at 31 December 2016. Such decrease is mainly due to the increase in total equity attributable to owners of our Company as a result of the issue of new shares.

Our net debt to equity ratio remained stable at approximately 0.4 as at 31 December 2017.

RELATED PARTY TRANSACTIONS

Our Group enter into transactions with our related parties from time to time. It is the view of our Director that each of the significant related party transactions set out in note 32 of our historical financial information in the Accountants' Report in Appendix I to this prospectus were conducted in the ordinary course of business on an arm's length basis and with normal commercial terms between the relevant parties. Our Directors are also of the view that our related party transactions during the Track Record Period would not distort our track record results or make our historical results not reflective of our future performance.

FINANCIAL INFORMATION

Amounts due from a director/to a related party

Set out below is a breakdown of our balances with related parties:

	As at 31 December		
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amount due from a director			
Mr. Fan	<u>103</u>	<u>56</u>	<u>32</u>
Amount due to a related party			
Chuzhou Genxing	<u>—</u>	<u>300</u>	<u>160</u>

As at 31 December 2016 and 31 December 2017, our Group had balances due to Chuzhou Genxing of approximately RMB0.3 million and RMB0.2 million, respectively. Such balances were in relation to the rental payable of the premises of our Group. As at 28 February 2018, the Group had no amount due to related parties and approximately RMB187,000 due from Mr. Fan, our executive Director and Controlling Shareholder. The amount due from Mr. Fan will be settled prior to the Listing.

The amounts due are unsecured, non-interest bearing and have no fixed terms of repayment.

Please refer to the section headed “Connected Transactions” in this prospectus for further details.

CAPITAL COMMITMENTS

	As at 31 December			As at 28
	2015	2016	2017	February
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>
Contracted but not provided for				
- Property, plant and equipment	<u>107</u>	<u>329</u>	<u>385</u>	<u>277</u>

As at 31 December 2015, 31 December 2016 and 31 December 2017, we had capital commitments of approximately RMB0.1 million, RMB0.3 million and RMB0.4 million respectively, in relation to the purchase of property, plant and equipment, which had been contracted but not provided for.

FINANCIAL INFORMATION

OPERATING LEASE COMMITMENTS

As at the respective dates as set out below, 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			As at 28 February
	2015	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	—	300	329	329
In the second to fifth years inclusive	—	300	329	274
	—	600	658	603

Operating leases relate to leases in relation to warehouse and premises with lease terms of 2 to 3 years. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

WORKING CAPITAL

Our Directors are of the opinion that after taking into account the existing financial resources available to us, the available banking facilities, the expected internally generated funds and the estimated net proceeds from the Share Offer, we have sufficient working capital for our present requirements, that is, for at least the next 12 months from the date of this prospectus.

OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, our Directors confirm our Group did not have any off-balance sheet arrangements or contingents.

CONTINGENT LIABILITIES

Our Directors have confirmed that, as at the Latest Practicable Date, we did not have any significant contingent liabilities and there has not been any material change in the contingent liabilities of our Group since 31 December 2017.

FINANCIAL AND CAPITAL RISK MANAGEMENT

We are exposed to the following financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk.

FINANCIAL INFORMATION

Foreign currency risk

Our Group operates in the PRC and our assets and liabilities are mainly denominated in RMB. Our Group does not expect significant foreign currency exposure in relation to the exchange rate fluctuation between RMB and other currencies and our Group's income and operating cash flows are substantially independent of changes in foreign currency exchange. Our Group currently does not have a foreign currency hedging policy. However, as Directors monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Credit Risk

Our Group's credit risk is primarily attributable to trade and other receivables. We have a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In order to minimise the credit risk, our Group has delegated a team responsible for determining of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, our Group reviews the recoverable amount of each individual trade and other receivables at the end of each of the Track Record Period to ensure that adequate impairment losses are made for irrecoverable amounts. As at 31 December 2015, 31 December 2016 and 31 December 2017, the amount of trade receivables due from the five largest customers represented approximately 42.1%, 48.7% and 70.1% of the trade receivables respectively. The management closely monitors the subsequent settlement of the customers in this regard and considers that our Group's credit risk is significantly reduced.

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, our Group does not have any other significant concentration of credit risk.

Liquidity Risk

Liquidity risk is the risk that our Group will not be able to meet its financial obligations as they fall due.

Our objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. Our policy is to regularly monitor the current and expected liquidity requirements, to ensure that we maintain sufficient reserves of cash and available banking facilities to meet our liquidity requirements in the short and long terms.

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The maturity profile of our financial liabilities as of 31 December 2015, 31 December 2016 and 31 December 2017, based on the contractual and undiscounted payments, is as follows:

	Weighted average interest rate %	As at 31 December 2015 Contractual undiscounted cash outflow			Carrying amount RMB'000
		Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	Total undiscounted amount RMB'000	
Trade and other payables	—	24,032	—	24,032	24,032
Bank borrowings	7.54	14,075	17,642	31,717	29,000
		<u>38,107</u>	<u>17,642</u>	<u>55,749</u>	<u>53,032</u>

	Weighted average interest rate %	As at 31 December 2016 Contractual undiscounted cash outflow			Carrying amount RMB'000
		Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	Total undiscounted amount RMB'000	
Trade and other payables	—	22,117	—	22,117	22,117
Amount due to a related party	—	300	—	300	300
Bank borrowings	7.13	12,383	18,487	30,870	28,500
Finance lease obligation	8.91	2,594	3,977	6,571	5,827
		<u>37,394</u>	<u>22,464</u>	<u>59,858</u>	<u>56,744</u>

	Weighted average interest rate %	As at 31 December 2017 Contractual undiscounted cash outflow			Carrying amount RMB'000
		Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	Total undiscounted amount RMB'000	
Trade and other payables	—	31,268	—	31,268	31,268
Amount due to a related party	—	160	—	160	160
Bank borrowings	7.38	21,525	7,480	29,005	27,700
Finance lease obligation	8.91	3,977	—	3,977	3,664
		<u>56,930</u>	<u>7,480</u>	<u>64,410</u>	<u>62,792</u>

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Interest Rate Risk

Our Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings. Our Group is also exposed to cash flow interest rate risk due to fluctuation of the prevailing market interest rate on bank deposits and bank borrowings carried at prevailing market interest rates. Our Group currently does not have an interest rate hedging policy. However, our management monitors our Group's interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

LISTING EXPENSE

Assuming the Offer Price of HK\$0.5 per Offer Share, being the mid-point of the indicative range of the Offer Price stated in this prospectus, the Listing expenses (including underwriting commission to be paid to the Underwriters) are estimated to be approximately RMB25.9 million (approximately HK\$32.0 million). Expenses in relation to the Listing are non-recurring in nature. Approximately RMB9.0 million (approximately HK\$11.1 million) is directly attributable to the issue of the Offer Shares and is expected to be accounted for as a deduction from equity upon Listing. The remaining amount of approximately RMB16.9 million (approximately HK\$20.9 million), which cannot be so deducted, has been or is expected to be recognised in our consolidated statements of profit or loss and other comprehensive income.

Approximately RMB4.9 million (approximately HK\$6.1 million) and approximately RMB10.5 million (approximately HK\$13.0 million) have been recognised in our consolidated statements of profit or loss and other comprehensive income for the year ended 31 December 2016 and 31 December 2017, respectively. Our Directors expect that the remaining amount of approximately RMB1.5 million (approximately HK\$1.8 million) will be recognised in our consolidated statements of profit and loss and other comprehensive income for the financial year ending 31 December 2018, respectively. Our Directors would like to emphasise that the aforesaid Listing expenses are the current estimate for reference only and the actual amount to be recognised is subject to adjustment based on audit and the changes in variables and assumptions. Prospective investors should note that our Group's financial performance and results of operations for the year ending 31 December 2018 will be adversely affected by the non-recurring Listing expenses.

DIVIDENDS

During the Track Record Period, the interim dividend declared and paid by our Company to its then shareholders was RMB 1.9 million and RMB4.3 million for the year ended 31 December 2016 and the year ended 31 December 2017, respectively.

The declaration of dividends of our Company is subject to the discretion of our Board and the approval of our Shareholders. Our Directors may recommend a payment of dividends in the future after taking into account our operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditure and future development requirements, shareholders' interests and other factors which they may deem relevant at such time. Any declaration

FINANCIAL INFORMATION

and payment as well as the amount of the dividends will be subject to our constitutional documents and the Companies Law, including the approval of our Shareholders. Any future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of our Directors.

Future dividend payments will also depend on the availability of dividends received from our operating subsidiary in the PRC. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including the HKFRSs. PRC laws also require foreign-invested enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distribution from our PRC operating subsidiary may also be subject to any restrictive covenant in bank credit facilities or loan agreements, convertible bond instruments or other agreements that we may enter into in the future.

DISTRIBUTABLE RESERVES

As at 31 December 2017, our aggregate amount of distributable reserves was approximately RMB39.3 million.

PROPERTY INTERESTS AND VALUATION OF PROPERTIES

The properties of the Group were revalued at approximately RMB40.0 million as of 31 January 2018 by Asset Appraisal Limited. Details of the valuation are summarised in Appendix III to this prospectus.

A statement of the reconciliation of the audited carrying amounts of the property interests of our Group as of 31 December 2017 and the valuation of such property interests as of 31 January 2018 as required under Rule 8.30 of the GEM Listing Rules is set out below:

	<i>RMB'000</i>
Carrying amounts of property interests of our Group as of 31 December 2017	
— Buildings	11,922
— Prepaid lease payments	<u>9,538</u>
Carrying amounts as of 31 December 2017 (audited)	21,460
less: Depreciation of buildings from 1 January 2018 to 31 January 2018	(71)
Amortisation of prepaid lease payments from 1 January 2018 to 31 January 2018	(18)
Carrying amounts as of 31 January 2018 (unaudited)	21,371
Valuation surplus as of 31 January 2018 (unaudited)	<u>18,629</u>
Valuation as of 31 January 2018	<u><u>40,000</u></u>

FINANCIAL INFORMATION

NO ADDITIONAL DISCLOSURE REQUIRED UNDER 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.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, save as disclosed in the paragraph headed “Listing Expenses” in this section, up to the date of this prospectus, (i) there has been no material adverse change in the general economic and market conditions, legal and regulatory environment, and the industry in which we operate since 31 December 2017, being the date to which our latest audited financial statements were prepared, (ii) there has been no other material adverse change in the operating and financial positions or prospects of our Group since 31 December 2017, and (iii) no event has occurred since 31 December 2017 which would materially affect the information shown in the Accountants’ Report set forth in Appendix I to this prospectus.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of our adjusted consolidated net tangible assets prepared in accordance with Rule 7.31 of the GEM Listing Rules is for illustration purposes only, and is set out here to illustrate the effect of the Share Offer as if it had taken place on 31 December 2017.

The unaudited pro forma statement of adjusted consolidated net tangible assets has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets as of 31 December 2017 or any future date following the Share Offer. It is prepared based on our audited consolidated net tangible assets of our Group attributable to the owners of the Company as of 31 December 2017 as set out in the Accountants’ Report in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of net tangible assets does not form part of the Accountants’ Report as set out in Appendix I of this prospectus, and adjusted as described below.

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	Audited consolidated net tangible assets of our Group attributable to owners of the Company as at 31 December 2017 RMB\$'000 (Note 1)	Add: Estimated net proceeds from the Share Offer RMB\$'000 (Note 2)	Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of the Company RMB\$'000	Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of the Company per Share RMB cents (Note 3)	HK\$ cents (Note 5)
Based on the Offer Price of HK\$0.48 per Share	<u>40,558</u>	<u>30,362</u>	<u>70,920</u>	<u>16.89</u>	<u>20.89</u>
Based on the Offer Price of HK\$0.52 per Share	<u>40,558</u>	<u>33,486</u>	<u>74,044</u>	<u>17.63</u>	<u>21.81</u>

Notes:

1. The audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2017 are based on audited consolidated net assets of the Group attributable to owners of the Company as at 31 December 2017 of approximately RMB40,558,000 extracted from the Accountants' Report set out in Appendix I to this prospectus.
2. The estimated net proceeds from the Share Offer are based on Offer Price of lower limit and upper limit of HK\$0.48 and HK\$0.52 per Offer Share, respectively, after deduction of relevant estimated underwriting fees and other related fees and expenses but without taking into account any Offer Shares which may fall to be allotted and issued upon exercise of the Offer Size Adjustment Option. The estimated net proceeds from the Share Offer are converted from HK\$ to RMB at an exchange rate of HK\$1.00 to RMB0.8082. No representation is made that HK\$ amounts have been, could have been or may be converted into RMB, or vice versa, at that rate.
3. The unaudited pro forma adjusted consolidated net tangible assets per Share are determined after the adjustments as described in Notes 1 and 2 above and on the basis that 420,000,000 Offer Shares are issued and outstanding as set out in the section headed "Share Capital" in this prospectus, but take no account of any Offer Shares which may fall to be allotted and issued upon exercise of the Offer Size Adjustment Option.
4. 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 2017).
5. The unaudited pro forma adjusted consolidated net tangible assets per Share is converted into HK\$ at an exchange rate of RMB0.8082 to HK\$1.00. No representation is made that RMB amounts have been, could have been or may be converted into HK\$, or vice versa, at that rate.

FUTURE PLANS AND USE OF PROCEEDS

BUSINESS OBJECTIVES AND BUSINESS STRATEGIES

Our business objective is to expand our market share and strengthen our market position in the steel and plastic component industry for white goods in the PRC. Please refer to the section headed “Business — Business Strategies” in this prospectus for a detailed description of our business strategies.

USE OF PROCEEDS AND IMPLEMENTATION PLANS

Based on the Offer Price of HK\$0.50 per Offer Share (being the mid-point of the indicative Offer Price range), we estimate that the net proceeds from the Share Offer (after deducting underwriting fees and estimated expenses in connection with the Share Offer, assuming that the Offer Size Adjustment Option is not exercised) will be approximately HK\$20.5 million.

We plan to allocate the net proceeds from the Share Offer for the following purposes:

- approximately 22.1% of the net proceeds from the Share Offer or approximately HK\$4.5 million will be used for increasing our production capacity of stamping components by acquisition of two automatic roll manufacturing lines, seven stamping machines and the moulds required, and the related additional labour cost, out of which approximately HK\$2.3 million and HK\$2.2 million will be used by the six months ending 31 December 2018 and the six months ending 30 June 2019, respectively;
- approximately 22.7% of the net proceeds from the Share Offer or approximately HK\$4.7 million will be used for increasing our production capacity of powder-coating peripheral components by acquisition of one new processing line and the related additional labour cost by the six months ending 30 June 2019;
- approximately 14.9% of the net proceeds from the Share Offer or approximately HK\$3.1 million will be used for increasing our production capacity of spray-painting components by acquisition of one new processing line and the related additional labour cost by the six months ending 30 June 2019;

FUTURE PLANS AND USE OF PROCEEDS

- approximately 36.2% of the net proceeds from the Share Offer or approximately HK\$7.4 million will be used by the six months ending 31 December 2018 for repayment of part of our bank loans, details of which are as follows:

Type of loan	Maturity date	Annual interest rate	Outstanding principal amount (RMB'000)	Principal use of loan proceeds
Guaranteed and secured bank loan	15 March 2019	8.075%	7,350	Repayment of bridging fund provided by the government, which was used in repayment of the RMB8.35 million loan borrowed from the Bank in June 2016

- approximately 4.1% of the net proceeds from the Share Offer or approximately HK\$0.8 million will be used for general working capital.

If the Offer Price is set at the high-end of the indicative Offer Price range, being HK\$0.52 per Offer Share, the net proceeds of the Share Offer will increase by approximately HK\$2.1 million to approximately HK\$22.6 million, assuming the Offer Size Adjustment Option is not exercised. In such case, the Company intends to apply the additional net proceeds for the above purposes on a pro-rata basis.

If the Offer Price is set at the low-end of the indicative Offer Price range, being HK\$0.48 per Offer Share, the net proceeds of the Share Offer will decrease by approximately HK\$2.1 million to approximately HK\$18.4 million, assuming the Offer Size Adjustment Option is not exercised. In such case, the Company intends to reduce the allocation of such net proceeds for the above purposes on a pro-rata basis.

If the Offer Size Adjustment Option is exercised in full, the net proceeds of the Share Offer will increase by approximately HK\$7.6 million (assuming the Offer Price is set at the low-point of the indicative Offer Price range, being HK\$0.48 per Offer Share), HK\$7.9 million (assuming the Offer Price is set at the mid-point of the indicative Offer Price range, being HK\$0.5 per Offer Share) and HK\$8.2 million (assuming the Offer Price is set at the high-end of the indicative Offer Price range, being HK\$0.52 per Offer Share), respectively. Our Group intends to allocate the additional net proceeds received from the exercise of the Offer Size Adjustment Option to the same purposes above on a pro rata basis. For details of the Offer Size Adjustment Option, please refer to the paragraph headed "Offer Size Adjustment Option" under the section headed "Structure and Conditions of the Share Offer" in this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

To the extent our net proceeds are not sufficient to fund the purposes set out above, we intend to fund the balance through a variety of means, including cash generated from operations and bank loans.

To the extent that the net proceeds from the Share Offer are not immediately used for the above purposes, we intend to place such net proceeds on short-term interest bearing deposits with licensed commercial banks or financial institutions. We will make appropriate announcement if there is any change to the above proposed use of proceeds and implementation plans.

Investors should note that the above proposed use of proceeds and implementation plans are formulated on the bases and assumptions referred to in the paragraph headed “Bases and key assumptions” below. These bases and assumptions are inherently subject to uncertainties, variables and unpredictable factors, in particular the risk factors set out in the section headed “Risk Factors” in this prospectus. There can be no assurance that our plans will materialise in accordance with our expected time frame or that our objectives will be accomplished at all.

BASES AND KEY ASSUMPTIONS

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

- (a) our Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the business objectives relate;
- (b) there will be no material changes in existing laws and regulations, or other governmental policies relating to our Group, or in the political, economic or market conditions in which our Group operates;
- (c) there will be no change in the funding requirement for each of the implementation plans described under the section headed “Future Plans and Use of Proceeds — Use of Proceeds and Implementation Plans” in this prospectus from the amount estimated by our Directors;
- (d) there will be no material changes in the bases or rates of taxation applicable to the activities of our Group;
- (e) the Share Offer will be completed in accordance with and as described in the section headed “Structure and Conditions of the Share Offer” in this prospectus;
- (f) our Group is able to retain its major customers and suppliers;
- (g) there will be no material changes in the industries or businesses of our Group’s major customers;
- (h) our Group will be able to retain its key staff in the management and the main operational departments;

FUTURE PLANS AND USE OF PROCEEDS

- (i) there will be no disasters, natural, political or otherwise, which would materially disrupt the business or operations of our Group;
- (j) our Group will not be materially affected by any risk factors set out in the section headed “Risk Factors” in this prospectus; and
- (k) our Group will be able to continue its operation in substantially the same manner as it has been operating during the Track Record Period and the Group will also be able to carry out its development plans without material adverse disruptions.

REASONS FOR THE LISTING

Our Directors believe that the Share Offer will enhance our Group’s competitiveness and provide our Group with additional capital to implement the future plans as set out in the paragraph headed “Use of Proceeds and Implementation Plans” in this section.

Increased competitiveness through enhanced corporate profile and corporate governance

According to the Ipsos Report, white goods manufacturers, being our major clients, usually have high standards and stringent requirements on quality of products. Our Directors believe that our overall operational efficiency and product quality control would be further enhanced through compliance with rigorous requirements of corporate governance and internal control measures. In addition, following the Listing, we can evaluate our corporate image and status and provide reassurance to our clients and suppliers, which could in turn provide us with a stronger bargaining position when negotiating terms with our suppliers and exploring new business opportunities with our clients.

Additional sources to raise capital to expand our business

We have historically relied on funds generated from our business and bank borrowings to support our capital requirements. Our Directors believe that, following the Listing, we will have access to the capital markets, which could broaden the debt and equity financing alternatives of our business expansion going forward. Furthermore, our Directors are of the view that a listing status would provide us with a better corporate profile and more leverage in obtaining bank financing for our expansion and our working capital needs on relatively more favourable terms which would reduce our financial costs.

UNDERWRITING

PUBLIC OFFER UNDERWRITERS

Joint Bookrunners

Cinda International Capital Limited

Head & Shoulders Securities Limited

Joint Lead Managers

Cinda International Capital Limited

Head & Shoulders Securities Limited

Supreme China Securities Limited

Co-Lead Manager

ChaoShang Securities Limited

UNDERWRITING ARRANGEMENTS, COMMISSIONS AND EXPENSES

Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, our Company has agreed to initially offer 10,500,000 new Shares for subscription by members of the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to, among other conditions, the granting of the approval for the listing of, and permission to deal in, all the Shares in issue and any Shares to be issued as mentioned in this prospectus by the Listing Division and certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriters have severally, but not jointly nor jointly and severally, agreed to subscribe or procure subscribers for their respective applicable proportions of the Public Offer Shares which are not taken up under the Public Offer on the terms and conditions of this prospectus, the Application Forms and the Public Offer Underwriting Agreement. In addition, the Public Offer Underwriting Agreement is conditional on and subject to the Placing Underwriting Agreement having been executed, becoming, and continuing to be, unconditional and not having been terminated.

UNDERWRITING

Grounds for termination

The respective obligations of the Public Offer Underwriters to subscribe, or procure subscribers for, the Public Offer Shares under the Public Offer Underwriting Agreement are subject to termination. The Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) shall have the absolute right to terminate the Public Offer Underwriting Agreement by notice in writing to our Company with immediate effect if at any time prior to 8:00 a.m. on the Listing Date:

- (a) there develops, occurs, exists or comes into effect:
 - (i) any local, national, regional or international event or circumstances in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of infectious disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism; or
 - (ii) any change, or development involving a prospective change, or any event or circumstances likely to result in any change or development involving a prospective change, in any local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions, equity securities or other financial markets (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets), in or affecting Hong Kong, the PRC, the British Virgin Islands, the Cayman Islands or any other jurisdiction that any member of the Group has a presence (the “**Relevant Jurisdictions**”) that is/are relevant to the business of the Group; or
 - (iii) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange; or
 - (iv) any general moratorium on commercial banking activities in any of the Relevant Jurisdictions, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in the Relevant Jurisdictions due to exceptional financial circumstances; or
 - (v) any new law or regulation or any change or any development involving a prospective change or any event or circumstances likely to result in a change or a development involving a prospective change in (or in the interpretation, implementation or application by any court or other competent authority of) existing laws, in each case, in or affecting any of the Relevant Jurisdictions relevant to the business of the Group; or

UNDERWRITING

- (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or on, any of the Relevant Jurisdictions where the Group has a presence and relevant to the business of the Group; or
- (vii) a change or development involving a prospective change in or affecting taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollar or RMB against any foreign currencies), or the implementation of any exchange control, in any of the Relevant Jurisdictions where the Group has a presence and relevant to the business of the Group; or
- (viii) any litigation or claim of any third party being commenced against any member of the Group that is of material adverse effect on the operation, trading and financial conditions of the Group; or
- (ix) any change or development involving a prospective material adverse change or materialisation of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (x) a Director being convicted with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (xi) save as disclosed in this prospectus, a contravention by any member of the Group of the GEM Listing Rules; or
- (xii) a prohibition on our Company for whatever reason from offering, allotting, issuing or selling any of the Shares pursuant to the terms of the Share Offer; or
- (xiii) any order or petition for the winding up of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding-up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group;

which, individually or in the aggregate, in the sole opinion of the Joint Bookrunners (1) has or will have or may have a material adverse effect on the operation, trading and financial conditions of the Group as a whole; or (2) has or will have or may have a material adverse effect on the success of the Share Offer or the level of applications under the Public Offer or the level of interest under the Placing; or (3) makes or will make it inappropriate or inadvisable or inexpedient or impracticable for the Share Offer to proceed or to market the Share Offer; or (4) has or will or may have the effect of making any part of the Public Offer Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms pursuant to the Share Offer or pursuant to the underwriting thereof; or

UNDERWRITING

- (b) there has come to the notice of the Joint Bookrunners:
- (i) that any statement contained in this prospectus, the Application Forms, the formal notice issued or used by or on behalf of the Company in connection with the Public Offer (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or misleading in any material respects, or that any forecast, estimate, and expression of opinion contained in any of this prospectus, the Application Forms and the formal notice issued or used by or on behalf of the Company in connection with the Public Offer (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions; or
 - (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission in any material respects from any of this prospectus, the Application Forms and the formal notice issued or used by or on behalf of the Company in connection with the Public Offer (including any supplement or amendment thereto); or
 - (iii) any material breach of the obligations imposed upon any party to the Public Offer Underwriting Agreement or the Placing Underwriting Agreement (other than upon any of the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Manager, the Public Offer Underwriter(s) or the Placing Underwriter(s)); or
 - (iv) any event, act or omission which gives or is likely to give rise to any liability in any material respects of any indemnifying parties under the Public Offer Underwriting Agreement; or
 - (v) any material adverse change, or any development involving a prospective adverse change, in the operation, trading and financial conditions of the Group taken as a whole; or
 - (vi) any breach of, or any event or circumstance rendering untrue or incorrect in any material respects, any of the representations, warranties, agreements and undertakings of the Company, the Controlling Shareholders and the executive Directors under the Public Offer Underwriting Agreement; or
 - (vii) the approval by the Listing Division of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer is refused or not granted, other than subject to customary conditions, on or before the date of the listing or such other date as may be extended by the Joint Bookrunners, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

UNDERWRITING

- (viii) the Company withdraws this prospectus (and/or any other documents issued or used in connection with the Share Offer) or the Share Offer; or
- (ix) any person (other than the Sole Sponsor, the Joint Bookrunners and the Public Offer Underwriter(s)) has withdrawn or sought to withdraw its consent to being named in this prospectus as expert or to the issue of this prospectus.

Undertakings pursuant to the Public Offer Underwriting Agreement

Undertakings by our Company

Pursuant to the Public Offer Underwriting Agreement, our Company have undertaken to each of the Sole Sponsor, the Joint Bookrunners and the Public Offer Underwriters, and each of our Company, the executive Directors and our Controlling Shareholders has undertaken to each of the Sole Sponsor, the Joint Bookrunners and the Public Offer Underwriters to use reasonable endeavours to procure, at any time from the date of the Public Offer Underwriting Agreement until the expiry of six months from the Listing Date (the “**First Six-Month Period**”), except pursuant to the Share Offer, the Capitalisation Issue, the Offer Size Adjustment Option, the grant of any option under the Share Option Scheme or the exercise of any option to be granted under the Share Option Scheme, or with the prior written consent of the of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) and unless in compliance with the requirements of the GEM Listing Rules, that:

- (a) our Company will not and will procure each other member of the Group will not offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell any option or contract to sell, create or agree to create any options, warrants or other rights to purchase or subscribe for, make share sale, lend or otherwise transfer or dispose of, either directly or indirectly, any of our Company’s share capital or any securities of the Group or any interest therein (including but not limited to any warrants and securities which are convertible into or exchangeable or exercisable for, or represent the right to receive, or any warrants or other rights to purchase, any such share capital or securities or interest therein, as applicable);
- (b) our Company will not and will procure each other member of the Group will not enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of share capital, any other equity securities of our Company or any interest in any of the foregoing (including, without limitation, any securities which are convertible into or exchangeable or exercisable for, or represent the right to receive, or any warrants or other rights to purchase, any Shares);
- (c) our Company will not and will procure each other member of the Group will not our Company will not and will procure each other member of the Group will not enter into any transaction with the same economic effect as any transaction described in paragraph (a) or (b) above; or

UNDERWRITING

- (d) our Company will not and will procure each other member of the Group will not agree to, or contract to, or announce any intention to enter into any transaction described in paragraph (a) or (b) above,

whether any of the foregoing transactions described in paragraph (a), (b) or (c) above is to be settled by delivery of Shares or such other equity securities of our Company, or, in cash or otherwise provided that the foregoing restrictions shall not apply to the issue of Shares by the Company pursuant to the Share Offer, the Capitalisation Issue, the Offer Size Adjustment Option, the grant of any option under the share option scheme or the exercise of any option to be granted under the share option scheme; and

- (e) our Company will ensure that if it enters into any of the transactions specified in paragraph (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction during the period of six months immediately following the expiry of the First Six-Month Period (the “**Second 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 any Shares or other securities of our Company.

Undertakings by our Controlling Shareholders, Mr. Zhou and Season Empire Group

Pursuant to the Public Offer Underwriting Agreement, each of our Controlling Shareholders, Mr. Zhou and Season Empire Group has jointly and severally undertaken to our Company, the Sole Sponsor, the Joint Bookrunners and the Public Offer Underwriters that, except pursuant to the Share Offer and/or the Offer Size Adjustment Option, without the prior written consent of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) and unless in compliance with the requirements of the GEM Listing Rules, he/it will not, and will procure that his/its affiliates and associates (as defined in the GEM Listing Rules) or any company controlled by him/it or any nominee or trustee holding in trust for him/it will not:

- (a) at any time during the First Six-Month Period,
- (i) offer, accept subscription for, sell, pledge, mortgage, charge, contract to sell, sell any option or contract to sell, create or agree to create any option, right or warrant to purchase or subscribe for, make any short sale, lend, or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, right or interests or Encumbrance in respect of), either directly or indirectly, conditionally or unconditionally, any of the Shares or any other securities of the Company or any interest in any of the foregoing (including, without limitation, any securities which are convertible into or exchangeable or exercisable for, or that represent the right to receive, or any warrants or other rights to purchase, any Shares or securities or interest therein beneficially owned by him/it); or

UNDERWRITING

- (ii) enter into any swap or other arrangement that transfers, before the expiry of the Second Six-Month Period to another, in whole or in part, any of the economic consequences of ownership of any Shares or securities or interest therein beneficially owned by him/it; or
- (iii) enter into any transaction with the same economic effect as any transaction specified in paragraph (a)(i) or (a)(ii) above; or
- (iv) offer to, or agree to, or contract to, or announce any intention to effect any transaction specified in paragraph (a)(i), (a)(ii) or (a)(iii) above,

whether any of the foregoing transactions described in paragraph (a)(i), (a)(ii) or (a)(iii) above is to be settled by delivery of Shares or any other securities of the Company, or in cash or otherwise;

- (b) at any time during the Second Six-Month Period, enter into any of the transactions specified in paragraph (a)(i), (a)(ii) or (a)(iii) above or offer to, or agree to, or contract to, or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, he/it individually or together would cease to be a Controlling Shareholder of our Company; and
- (c) until the expiry of the Second Six-Month Period, in the event that he/it enters into any of the transactions specified in paragraph (a)(i), (a)(ii) or (a)(iii) above or offer to, or agrees to, or contract to, or announce any intention to effect any such transaction, he/it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of the Company.

provided that the restriction above shall not apply to any Shares which the Controlling Shareholders or any of his/its respective close associate may acquire or become interested in following the Listing Date.

Undertakings pursuant to the GEM Listing Rules

Undertakings by our Company

Pursuant to Rule 17.29 of the GEM Listing Rules, our Company has undertaken to the Stock Exchange that save as pursuant to the Capitalisation Issue, the Share Offer, the Offer Size Adjustment Option and the Share Option Scheme, no further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) will be issued by our Company or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities of our Company will be completed within six months from the Listing Date) except in certain circumstances prescribed by Rule 17.29 of the GEM Listing Rules.

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Undertakings by our Controlling Shareholders

Each of our Controlling Shareholders has undertaken to our Company and to the Stock Exchange that, except pursuant to the Share Offer and the Offer Size Adjustment Option and for the circumstances permitted pursuant to Rule 13.18 of the GEM Listing Rules, he/it shall not and shall procure that the relevant registered holder(s) shall not:

- (a) at any time during the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, 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 securities of our Company in respect of which he/it is shown by this prospectus to be the beneficial owner(s); and
- (b) at any time 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 securities referred to in a 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 to be a controlling shareholder.

Pursuant to Rule 13.19 of the GEM Listing Rules, each of our Controlling Shareholders has jointly and severally undertaken to and covenanted with each of our Company, the Sole Sponsor, the Joint Bookrunners, the Public Offer Underwriters and the Stock Exchange that:

- (a) in the event that he/it pledges or charges any of his/its direct or indirect interest in the Shares or other securities of our Company under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, at any time during the period commencing on the date by reference to which disclosure of the shareholding of our Controlling Shareholders in the Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, he/it must inform our Company, the Sole Sponsor and the Joint Bookrunners immediately thereafter, disclosing the details specified in Rule 17.43(1) to (4) of the GEM Listing Rules; and
- (b) having pledged or charged any of his/its interests in the Shares or other securities of our Company under paragraph (a) above, he/it must inform our Company, the Sole Sponsor and the Joint Bookrunners immediately in the 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 the Shares or other securities of our Company affected.

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 the GEM Listing Rules as soon as possible after being so informed by any of our Controlling Shareholders.

UNDERWRITING

Indemnity

Our Company, our Controlling Shareholders and the executive Directors have agreed to indemnify the Public Offer Underwriters from certain losses which they may suffer, including losses arising from their performance of their obligations under the Public Offer Underwriting Agreement and any breach by our Company or our Controlling Shareholders or the executive Directors of the Public Offer Underwriting Agreement.

Placing Underwriting Agreement

In connection with the Placing, it is expected that our Company and the covenantors to be named therein (namely our Controlling Shareholders and the executive Directors) will enter into the Placing Underwriting Agreement with the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Placing Underwriters on terms and conditions that are substantially similar to the Public Offer Underwriting Agreement as described above and on the additional terms described below.

Under the Placing Underwriting Agreement, subject to the conditions set forth therein, the Placing Underwriters are expected to severally, but not jointly, agree to procure subscribers to subscribe for the Placing Shares initially being offered pursuant to the Placing. It is expected that the Placing Underwriting Agreement may be terminated on similar grounds as the Public Offer Underwriting Agreement. Potential investors shall be reminded that in the event that the Placing Underwriting Agreement is not entered into, the Share Offer will not proceed. The Placing Underwriting Agreement is conditional on and subject to the Public Offer Underwriting Agreement having been executed, becoming unconditional and not having been terminated. It is expected that pursuant to the Placing Underwriting Agreement, our Company and our Controlling Shareholders will make similar undertakings as those given pursuant to the Public Offer Underwriting Agreement.

In connection with the Placing, the Company has granted to the Joint Bookrunners the Offer Size Adjustment Option, exercisable by the Joint Bookrunners (for themselves and on behalf of the Placing Underwriters) in their discretion, to require the Company to issue and allot up to an aggregate 15,750,000 additional Shares for the purpose of covering any excess demand in the Placing. Further information on the Offer Size Adjustment Option is set forth in the paragraph headed “Structure and Conditions of the Share Offer” in this prospectus.

Commission and expenses

The Public Offer Underwriters will receive an underwriting commission of 7.0% of the aggregate Offer Price of all Public Offer Shares underwritten by them, which are to be borne by our Company, out of which they will pay any sub-underwriting commission, praecipium and selling concession and will be reimbursed for their reasonable expenses. Cinda International Capital Limited may, at the sole and absolute discretion of the Company, receive an additional incentive fee of 1.0% of the aggregate Offer Price of all Offer Shares.

UNDERWRITING

The total commission and expenses relating to the Share Offer and Listing (including the GEM Listing fees, legal and other professional fees, and printing), are estimated to be approximately RMB25.9 million (approximately HK\$32.0 million), assuming an Offer Price of HK\$0.5, being the mid-point of the indicative Offer Price range, and the Offer Size Adjustment Option is not exercised, which will be payable by our Company.

UNDERWRITERS' INTERESTS IN OUR COMPANY

Save as provided for under the Underwriting Agreements and save as disclosed in this prospectus, none of 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 nor any interest in the Share Offer.

SOLE SPONSOR'S INDEPENDENCE

The Sole Sponsor satisfies the independence criteria applicable to sponsor as set out in Rule 6A.07 of the GEM Listing Rules.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

THE SHARE OFFER

The Share Offer consists of:

- (i) the Public Offer of 10,500,000 Public Offer Shares (subject to reallocation) in Hong Kong as described in the paragraphs headed “The Public Offer” below in this section; and
- (ii) the Placing of an aggregate of 94,500,000 Placing Shares (subject to reallocation and the Offer Size Adjustment Option) to professional, institutional and other investors.

Investors may apply for the Shares under the Public Offer or indicate an interest, if qualified to do so, for the Shares under the Placing, but may not do both. Reasonable steps will be taken to identify and reject applications in the Public Offer from investors who have received Placing Shares in the Placing, and to identify and reject indications of interest in the Placing from investors who have applied for Public Offer Shares in the Public Offer.

THE PUBLIC OFFER

Number of Public Offer Shares

Our Company is initially offering 10,500,000 Public Offer Shares for subscription (subject to reallocation) under the Public Offer, representing 10% of the total number of Offer Shares offered under the Share Offer. The Public Offer is fully underwritten by the Public Offer Underwriters subject to the Offer Price being agreed on or before the Price Determination Date. Applicants for the Public Offer Shares are required on application to pay the maximum Offer Price of HK\$0.52 per Share plus the brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%.

The Public Offer is open to all members of the public in Hong Kong as well as to professional, institutional and other investors in Hong Kong. An applicant for Shares under the Public Offer will be required to give an undertaking and confirmation in the application submitted by him/her/it that he/she/it has not applied for nor taken up any Shares under the Placing nor otherwise participated in the Placing. Applicants should note that if such undertaking and/or confirmation given by an applicant is breached and/or is untrue (as the case may be), such applicant's application under the Public Offer is liable to be rejected. Multiple or suspected multiple applications and any application for more than 100% of the Public Offer Shares initially comprised in the Public Offer are liable to be rejected.

Allocation of the Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. When there is over-subscription under the Public Offer, allocation of the Public Offer Shares may involve balloting, which would mean that some applicants may be allotted more Public Offer Shares than others who have applied for the same number of the Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

THE PLACING

Our Company is expected to offer initially 94,500,000 Placing Shares (subject to reallocation and the Offer Size Adjustment Option) at the Offer Price under the Placing. The number of Placing Shares expected to be initially available for application under the Placing represents 90% of the total number of Offer Shares being initially offered under the Share Offer. The Placing is expected to be fully underwritten by the Placing Underwriters subject to the Offer Price being agreed on or before the Price Determination Date.

It is expected that the Placing Underwriters or selling agents nominated by it, on behalf of our Company, will conditionally place the Placing Shares at the Offer Price with selected professional, institutional and other investors. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Allocation of the Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to acquire further Shares and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and its Shareholders as a whole. Investors to whom Placing Shares are offered will be required to undertake not to apply for Shares under the Public Offer.

OFFER SIZE ADJUSTMENT OPTION

It is expected that, pursuant to the Placing Underwriting Agreement, our Company will grant the Offer Size Adjustment Option to the Placing Underwriters, which is exercisable by the Joint Bookrunners (for themselves and on behalf of the Placing Underwriters) in their absolute discretion at any time from the date of the Placing Underwriting Agreement up to 5:00 p.m. on the business day immediately before the date of announcement of the results of allocation and the basis of allocation of the Public Offer Shares, in writing, to require our Company to allot and issue up to 15,750,000 additional Shares at the Placing Price, representing 15% of the total number of Shares initially available for subscription under the Share Offer. Any such additional Shares may be issued to cover any excess demand in the Placing at the absolute discretion of the Joint Bookrunners.

For the avoidance of doubt, the purpose of the Offer Size Adjustment Option is to provide flexibility for the Joint Bookrunners (for themselves and on behalf of the Placing Underwriters) to meet any excess demand in the Placing. The Offer Size Adjustment Option will not be associated with any price stabilisation activity of the Shares in the secondary market after the Listing of the Shares on GEM and will not be subject to the Securities and Futures (Price Stabilizing) Rules of the SFO (Chapter 571W of the Laws of Hong Kong). No purchase of the Shares in the secondary market will be effected to cover any excess demand in the Placing which will only be satisfied by the exercise of the Offer Size Adjustment Option in full or in part.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Our Company will disclose in its announcement of the results of allocation and the basis of allocation of the Public Offer Shares whether and to what extent the Offer Size Adjustment Option has been exercised, and will confirm in the announcement that, if the Offer Size Adjustment Option is not exercised by then, the Offer Size Adjustment Option will lapse and cannot be exercised on any future date.

In the event that the Offer Size Adjustment Option is exercised in full, 15,750,000 additional Shares will be issued resulting in a total number of 435,750,000 Shares in issue representing approximately 3.61% of our Company's total number of Shares in issue as enlarged immediately following completion of the Share Offer, the Capitalisation Issue and the exercise of the Offer Size Adjustment Option but without taking into account any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme.

If the Offer Size Adjustment Option is exercised in full, the additional net proceeds received will be allocated in accordance with the allocations as disclosed in the section headed "Future Plans and Use of Proceeds" in this prospectus, on a pro rata basis.

REALLOCATION OF THE OFFER SHARES BETWEEN PLACING AND PUBLIC OFFER

The allocation of Offer Shares between the Public Offer and the Placing is subject to reallocation on the following basis:

- (a) In the event that the Placing Shares are fully subscribed or oversubscribed under the Placing:
 - (i) if the Public Offer Shares are undersubscribed, the Joint Bookrunners, at their sole and absolute discretion, may reallocate all or any of the unsubscribed Public Offer Shares from the Public Offer to the Placing;
 - (ii) if the Public Offer Shares are fully subscribed or oversubscribed and the number of Shares validly applied for under the Public Offer represents less than 15 times the initial number of the Public Offer Shares, then up to 10,500,000 Shares may be reallocated to the Public Offer from the Placing so that the total number of Shares available for subscription under the Public Offer may increase up to 21,000,000 Shares, representing 20% of the total number of the Offer Shares initially available under the Share Offer (before any exercise of the Offer Size Adjustment Option);
 - (iii) if the number of Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the initial number of the Public Offer Shares, then the number of Shares to be reallocated to the Public Offer from the Placing will increase so that the total number of Shares available for subscription under the Public Offer will increase to 31,500,000 Shares, representing 30% of the total number of the Offer Shares initially available under the Share Offer (before any exercise of the Offer Size Adjustment Option);

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

- (iv) if the number of Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the initial number of the Public Offer Shares, then the number of Shares to be reallocated to the Public Offer from the Placing will increase so that the total number of Shares available for subscription under the Public Offer will increase to 42,000,000 Shares, representing 40% of total number of the Offer Shares initially available under the Share Offer (before any exercise of the Offer Size Adjustment Option); and
 - (v) if the number of Shares validly applied for under the Public Offer represents 100 times or more the initial number of the Public Offer Shares, then the number of Shares to be reallocated to the Public Offer from the Placing will increase so that the total number of Shares available for subscription under the Public Offer will increase to 52,500,000 Shares, representing 50% of the total number of the Offer Shares initially available under the Share Offer (before any exercise of the Offer Size Adjustment Option).
- (b) In the event that the Placing Shares are undersubscribed under the Placing:
- (i) if the Public Offer Shares are undersubscribed, the Share Offer shall not proceed unless fully underwritten by the Underwriters pursuant to the Underwriting Agreements; and
 - (ii) if the Public Offer Shares are fully subscribed or oversubscribed irrespective of the number of times the initial number of the Public Offer Shares, then up to 10,500,000 Shares may be reallocated to the Public Offer from the Placing, so that the total number of Shares available for subscription under the Public Offer may increase up to 21,000,000 Shares, representing 20% of the total number of the Offer Shares initially available under the Share Offer (before any exercise of the Offer Size Adjustment Option).

In the event of reallocation of Offer Shares between the Public Offer and the Placing in the circumstances where (x) the Placing Shares are fully subscribed or oversubscribed and the Public Offer Shares are oversubscribed by less than 15 times under paragraph (a)(ii) above or (y) the Placing Shares are undersubscribed and the Public Offer Shares are fully subscribed or oversubscribed under paragraph (b)(ii) above, the final Offer Price shall be fixed at HK\$0.48 per Offer Share, being the low-end of the indicative Offer Price range stated in this prospectus.

In the event of a reallocation of Offer Shares from the Placing to the Public Offer in circumstances under paragraph (a)(ii), (a)(iii), (a)(iv), (a)(v) and (b)(ii) above, the number of Offer Shares allocated to the Placing will be correspondingly reduced.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

PRICING AND ALLOCATION

Determination of the Offer Price

The Placing Underwriters are soliciting from prospective investors indications of interest in acquiring the Offer Shares in the Placing. Prospective investors will be required to specify the number of the Offer Shares under the Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or around, the last day for lodging applications under the Public Offer. Pricing for the Offer Shares for the purpose of the various offerings under the Share Offer will be fixed on the Price Determination Date, which is expected to be on or about Thursday, 12 April 2018, and in any event on or before Friday, 20 April 2018, by agreement between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

Offer Price range

The Offer Price will not be more than HK\$0.52 per Offer Share and is expected to be not less than HK\$0.48 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Public Offer. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but not expected to be, lower than the indicative Offer Price range as stated in this prospectus.

Price payable on application

Applicants for Offer Shares under the Public Offer are required to pay, on application, the maximum Offer Price of HK\$0.52 for each Public Offer Share plus the brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, amounting to a total of HK\$2,626.20 per board lot of 5,000 Offer Shares. If the Offer Price, as finally determined in the manner described above, is lower than the maximum Offer Price of HK\$0.52 per Offer Share, appropriate refund payments (including the related brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the excess application monies) will be made to applicants, without interest. If, for any reason, our Company and the Joint Bookrunners (for themselves and on behalf the Underwriters) are unable to reach agreement on the Offer Price on or before Friday, 20 April 2018, the Share Offer will not proceed and will lapse. Further details are set out in the section headed “How to apply for Public Offer Shares” in this prospectus.

Change to Offer Price range

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective investors during a book-building process in respect of the Placing, and with the consent of our Company, change the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, our Company will, as soon as practicable following the decision to make such change, and in any event not later than the morning of the last day for lodging applications under the Public Offer, cause there to be published on the Stock Exchange’s

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

website at www.hkexnews.hk and our Company's website at www.baoshen.com.hk notices of reduction in the indicative Offer Price range. Upon issue of such a notice, the revised Offer Price range will be final and conclusive. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Share Offer statistics, and any other financial information in this prospectus which may change as a result of any such change. Before submitting applications for Public Offer Shares, applicants should have regard to the possibility that any announcement of an extension or reduction in the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Public Offer. In the event there is a reduction in the indicative Offer Price range, applicants who have submitted their applications for Public Offer Shares before such an announcement is made may subsequently withdraw their applications. However, if the Offer Price range is reduced, applicants will be notified that they are required to confirm the applications. If applicants have been notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be revoked. In the absence of any notice being published in relation to a change in the indicative Offer Price range as stated in this prospectus on or before the morning of the last day for lodging applications under the Public Offer, the Offer Price, if agreed upon by the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

ANNOUNCEMENT OF THE OFFER PRICE AND THE BASIS OF ALLOCATIONS

Announcement of the final Offer Price, together with the level of the indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares are expected to be announced on Friday, 20 April 2018 on the website of the Stock Exchange at www.hkexnews.hk, and our Company's website at www.baoshen.com.hk.

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for the Offer Shares is conditional upon, among others, the satisfaction of all of the following conditions:

1. Listing

The Listing Division of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued pursuant to the Share Offer and Shares which fall to be allotted and issued upon the exercise of the Offer Size Adjustment Option and upon the exercise of any options which may be granted under the Share Option Scheme (and such listing and permission not subsequently being revoked prior to the commencement of dealings in the Shares on the Stock Exchange).

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

2. Underwriting Agreements

The execution and delivery of the Placing Underwriting Agreement on or around the Price Determination Date.

The obligations of the Underwriters under the Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of a waiver of any condition(s)) and such obligations not being terminated in accordance with the terms of the Underwriting Agreements.

3. Price determination

The Offer Price having been fixed on or before the Price Determination Date.

If any of the conditions is not fulfilled or waived on or before the times specified above, the Share Offer will lapse and the application money will be returned to the applicants, without interest. The terms on which the application money will be returned to the applicants are set out in the paragraph headed “How to Apply for Public Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies” in this prospectus.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

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

DEALING ARRANGEMENTS

Assuming that the Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Monday, 23 April 2018, it is expected that dealing in the Shares on the Stock Exchange will commence at 9:00 a.m. on Monday, 23 April 2018. The Shares will be traded in board lots of 5,000 Shares each and the stock code of the Shares will be 8151.

HOW TO APPLY FOR PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for the Public Offer Shares, then you may not apply for or indicate an interest for the Placing Shares.

To apply for the Public Offer Shares, you may:

- (a) use a **WHITE** or **YELLOW** Application Form;
- (b) apply online via **HK eIPO White Form** service at www.hkeipo.hk; or
- (c) electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, **HK eIPO White Form** Service Provider and their respective agents and nominees may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY FOR THE PUBLIC OFFER SHARES

You can apply for the Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- (a) are 18 years of age or older;
- (b) have a Hong Kong address;
- (c) are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- (d) are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, our Company, the Joint Bookrunners and the Joint Lead Managers may accept or reject it at their discretion, and on any conditions they think fit, including evidence of the attorney's authority.

HOW TO APPLY FOR PUBLIC OFFER SHARES

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Public Offer Shares.

Unless permitted by the GEM Listing Rules, you cannot apply for any Public Offer Shares if you:

- are an existing beneficial owner of Shares in our Company and/or any of our subsidiaries;
- are a Director or chief executive officer of our Company and/or any of our subsidiaries;
- are a connected person of our Company or will become a connected person of our Company immediately upon completion of the Share Offer;
- are a close associate of any of the above; and/or
- have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

3. APPLYING FOR THE PUBLIC OFFER SHARES

Which Application Channel to Use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.hkeipo.hk.

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 9 April 2018 until 12:00 noon on Thursday, 12 April 2018 from:

- (a) any of the following address of the Public Offer Underwriters:

Cinda International Capital Limited

45/F, COSCO Tower
183 Queen's Road Central
Hong Kong

Head & Shoulders Securities Limited

Room 2511, 25/F, COSCO Tower
183 Queen's Road Central
Hong Kong

HOW TO APPLY FOR PUBLIC OFFER SHARES

Supreme China Securities Limited

Suite 2701-02, 27/F
Everbright Centre
108 Gloucester Road
Wanchai, Hong Kong

ChaoShang Securities Limited

Rooms 4001—2, 40/F
China Resources Building
26 Harbour Road
Wanchai, Hong Kong

(b) or any of the following branches of DBS Bank (Hong Kong) Limited:

	Sub-Branch Name	Address
Hong Kong Island	United Centre Branch	Shops 1015-1018 on 1/F & Shops 2032-2034 on 2/F, United Centre, 95 Queensway, Admiralty
	Happy Valley Branch	G/F, 18A-22 King Kwong Street, Happy Valley
Kowloon	Mei Foo Branch	Shops N26A & N26B, Stage V Mei Foo Sun Chuen, 10 & 12 Nassau Street
New Territories	Kwai Chung Branch	G/F, 1001 Kwai Chung Road, Kwai Chung

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 9 April 2018 until 12:00 noon on Thursday, 12 April 2018 from:

- (i) the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong; or
- (ii) your stockbroker.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Ting Hong Nominees Limited — Bao Shen 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:

Monday, 9 April 2018 — 9:00 a.m. to 5:00 p.m.
Tuesday, 10 April 2018 — 9:00 a.m. to 5:00 p.m.
Wednesday, 11 April 2018 — 9:00 a.m. to 5:00 p.m.
Thursday, 12 April 2018 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 12 April 2018, the last application day or such later time as described in the paragraph headed "10. Effect of Bad Weather on the Opening of the Applications Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form Services**, you (and 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:

- undertake to execute all relevant documents and instruct and authorise our Company, the Sole Sponsor, the Joint Bookrunners, and/or the Joint Lead Managers (or their 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 Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- agree to comply with the Companies Law, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- confirm that you are aware of the restrictions on the Share Offer in this prospectus;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers or any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing nor participated in the Placing;
- agree to disclose to our Company, the Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (if the laws of any place outside Hong Kong apply to your application) agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- agree that your application will be governed by the laws of Hong Kong;
- represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- warrant that the information you have provided is true and accurate;
- agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the share certificate(s) and/or refund cheque(s) in person;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- agree that the shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your investor participant stock account or the stock account of your designated CCASS Participant;
- agree that each of HKSCC and HKSCC Nominees reserves the right (1) not to accept any or part of such allotted shares issued in the name of HKSCC Nominees or not to accept such allotted shares for deposit into CCASS; (2) to cause such allotted shares to be withdrawn from CCASS and issued in your name at your own risk and costs; and (3) to cause such allotted shares to be issued in your name (or, if you are a joint applicant, to the first-named applicant) and in such a case, to post the certificates for such allotted shares at your own risk to the address on your Application Form by ordinary post or to make available the same for your collection;
- agree that each of HKSCC and HKSCC Nominees may adjust the number of allotted shares issued in the name of HKSCC Nominees;
- agree that neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in the Prospectus and this Application Form;
- agree that neither HKSCC nor HKSCC Nominees shall be liable to you in any way;
- declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- understand that our Company, our Directors, the Sole Sponsor, the Joint Bookrunners 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 Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person;
- (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** or to the **HK eIPO White Form** Service Provider on behalf of that other person as their agent; and

HOW TO APPLY FOR PUBLIC OFFER SHARES

- understand that, where (i) the Placing Shares are fully subscribed or oversubscribed and the Public Offer Shares are fully subscribed or oversubscribed by less than 15 times or (ii) the Placing Shares are undersubscribed and the Public Offer Shares are oversubscribed irrespective of the number of times, up to 10,500,000 Offer Shares may be reallocated to the Public Offer from the Placing, so that the total number of the Offer Shares available under the Public Offer will be increased to 21,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Share Offer (before any exercise of the Offer Size Adjustment Option). Further details of the reallocation are stated in the paragraph headed “Structure and Conditions of the Shares Offer — Reallocation of the Offer Shares between Placing and Public Offer” of this prospectus.

Additional Instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH HK EIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in the paragraph headed “2. Who can Apply for the Public Offer Shares” in this section, may apply through the **HK eIPO White Form** service for the Public Offer Shares to be allotted and registered in their own names through the designated website at www.hkeipo.hk.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for submitting applications under the HK eIPO White Form

You may submit your application online to the **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Monday, 9 April 2018 until 11:30 a.m. on Thursday, 12 April 2018 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 12 April 2018 or such later time under the paragraph headed “10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

No multiple applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Public Offer Shares, an actual application shall

HOW TO APPLY FOR PUBLIC OFFER SHARES

be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **HK eIPO White Form** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (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 applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the monies due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System at <https://ip.ccass.com> (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

HOW TO APPLY FOR PUBLIC OFFER SHARES

If you are **not a CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Branch Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Public Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;
 - (if the electronic application 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, our Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;

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- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers or any other parties involved in the Share Offer is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Bookrunners, 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 Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

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- 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;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for the Public Offer Shares;
- agree with 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 our Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

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 Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the final Offer Price is less than the maximum Offer Price per Public Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and Stock Exchange trading fee) by crediting your designated bank account; and
- 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.

HOW TO APPLY FOR PUBLIC OFFER SHARES

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 5,000 Public Offer Shares. Instructions for more than 5,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Monday, 9 April 2018	—	9:00 a.m. to 8:30 p.m.	<i>(Note)</i>
Tuesday, 10 April 2018	—	8:00 a.m. to 8:30 p.m.	<i>(Note)</i>
Wednesday, 11 April 2018	—	8:00 a.m. to 8:30 p.m.	<i>(Note)</i>
Thursday, 12 April 2018	—	8:00 a.m. ^{<i>(Note)</i>} to 12:00 noon	

Note: 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 Monday, 9 April 2018 until 12:00 noon on Thursday, 12 April 2018 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Monday, 9 April 2018, the last application day or such later time as described in the paragraph headed “10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

HOW TO APPLY FOR PUBLIC OFFER SHARES

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).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving bank, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Public Offer Shares through **HK eIPO White Form** service is also only a facility provided by **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or persons applying through the **HK eIPO White Form** service will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, 12 April 2018.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

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for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- 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;
- 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).

9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for the Public Offer Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through **HK eIPO White Form** service in respect of a minimum of 5,000 Public Offer Shares. Each application or electronic application instruction in respect of more than 5,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website www.hkeipo.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, please see the section headed “Structure and Conditions of the Share Offer — Offer Price Range” of this prospectus.

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10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- (a) a tropical cyclone warning signal number 8 or above; or
- (b) a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 12 April 2018. 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 Thursday, 12 April 2018 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” of this prospectus, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the indication of the level of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Friday, 20 April 2018 on our Company’s website at www.baoshen.com.hk and (c) 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:

- (a) in the announcement to be posted on our website at www.baoshen.com.hk and the Stock Exchange’s website at www.hkexnews.hk by no later than 9:00 a.m. on Friday, 20 April 2018;
- (b) from the designated results of allocations website at www.tricor.com.hk/ipo/result with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Friday, 20 April 2018 to 12:00 midnight on Thursday, 26 April 2018 (excluding Saturday and Sunday);
- (c) by telephone enquiry line by calling (852) 3691 8488 between 9:00 a.m. and 6:00 p.m. from Friday, 20 April 2018 to Wednesday, 25 April 2018 (excluding Saturday and Sunday); and
- (d) in the special allocation results booklets which will be available for inspection during opening hours from Friday, 20 April 2018 to Monday, 23 April 2018 at all the receiving bank’s designated sub-branches.

HOW TO APPLY FOR PUBLIC OFFER SHARES

If our Company accepts your offer to purchase (in whole or in part), which we may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in the section headed “Structure and Conditions of the Share Offer” in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

(a) **If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with 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 may withdraw their applications.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions, such acceptance will be subject to the satisfaction of such conditions.

HOW TO APPLY FOR PUBLIC OFFER SHARES

(b) **If our Company or our agents exercise their discretion to reject your application:**

Our Company, the Joint Bookrunners, the Joint Lead Managers, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(c) **If the allotment of the Public Offer Shares is void:**

The allotment of the Public Offer Shares will be void if the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Stock Exchange notifies our Company of that longer period within three weeks of the closing date of the application lists.

(d) **If:**

- you make multiple applications or suspected 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) Public Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- 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 Agreements do not become unconditional or are terminated;
- our Company or the Joint Bookrunners or the Joint Lead Managers believes that by accepting your application, it would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 100% of the Public Offer Shares initially offered under the Public Offer.

HOW TO APPLY FOR PUBLIC OFFER SHARES

13. 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\$0.52 per Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with “Structure and conditions of the Share Offer — Conditions of the Share Offer” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on Friday, 20 April 2018.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- (a) share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- (b) refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the final Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the final Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and Stock Exchange trading fee but without interest).

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 PUBLIC 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 Friday, 20 April 2018. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier order(s).

Share certificates will only become valid at 8:00 a.m. on Monday, 23 April 2018 provided that the Share Offer has become unconditional and the right of termination described in the section headed "Underwriting — Underwriting Arrangements, Commissions and Expenses — Public Offer — Grounds for termination" in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

Personal Collection

(a) *If you apply using a WHITE Application Form*

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Friday, 20 April 2018 or such other date as notified by us.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Friday, 20 April 2018, by ordinary post and at your own risk.

(b) *If you apply using a YELLOW Application Form*

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Friday, 20 April 2018, by ordinary post and at your own risk.

HOW TO APPLY FOR PUBLIC 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 Friday, 20 April 2018, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- (i) *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS participant.

- (ii) *If you are applying as a CCASS investor participant*

We will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in "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 Friday, 20 April 2018 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

- (c) *If you apply through the HK eIPO White Form service*

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your share certificate(s) from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, 20 April 2018, or such other date as notified by our Company as the date of despatch/collection of share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Friday, 20 April 2018 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

HOW TO APPLY FOR PUBLIC OFFER SHARES

(d) *If you apply via Electronic Application Instructions to HKSCC*

Allocation of the Public Offer Shares

For the purposes of allocating the Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Friday, 20 April 2018 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 Shares in the manner specified in the subparagraph headed "11. Publication of Results" above on Friday, 20 April 2018. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 20 April 2018 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Friday, 20 April 2018. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

HOW TO APPLY FOR PUBLIC OFFER SHARES

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications initially paid on application (including brokerage, SFC transaction levy and Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Friday, 20 April 2018.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the GEM Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

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

The following is the text of a report received from the Company's reporting accountants, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.



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

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF BAO SHEN HOLDINGS LIMITED AND CINDA INTERNATIONAL CAPITAL LIMITED

Introduction

We report on the historical financial information of Bao Shen Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-60, which comprises the consolidated statements of financial position as at 31 December 2015, 2016 and 2017, the statement of financial position of the Company as at 31 December 2015, 2016 and 2017, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years ended 31 December 2015, 2016 and 2017 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-60 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated 9 April 2018 (the "Document") in connection with the initial listing of shares of the Company on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as at 31 December 2015, 2016 and 2017 and the Company's financial position as at 31 December 2015, 2016 and 2017 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE GEM OF THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**Adjustments**

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to Note 12 to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the Track Record Period.

No historical financial statements for the Company

No financial statements have been prepared for the Company since its date of incorporation.

HLB Hodgson Impey Cheng Limited

Certified Public Accountants

Lo Kin Kei

Practising Certificate Number: P06413

Hong Kong, 9 April 2018

HISTORICAL FINANCIAL INFORMATION OF THE GROUP**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies that conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December 2015 RMB'000	Year ended 31 December 2016 RMB'000	Year ended 31 December 2017 RMB'000
	<i>Notes</i>			
Revenue	5	55,683	79,167	97,324
Cost of sales		<u>(39,205)</u>	<u>(56,045)</u>	<u>(74,398)</u>
Gross profit		16,478	23,122	22,926
Other income and gains	6	1,047	2,519	4,236
Selling and distribution expenses		(2,008)	(2,402)	(3,147)
Administrative expenses		(3,647)	(8,859)	(14,591)
Finance costs	7	<u>(3,111)</u>	<u>(2,615)</u>	<u>(3,406)</u>
Profit before tax		8,759	11,765	6,018
Income tax expense	8	<u>(2,192)</u>	<u>(3,201)</u>	<u>(1,845)</u>
Profit for the year	9	<u>6,567</u>	<u>8,564</u>	<u>4,173</u>
Other comprehensive income/(expense)				
<i>Items that may be reclassified subsequently to profit or loss</i>				
Exchange differences on translating foreign operations		<u>—</u>	<u>1,473</u>	<u>(1,201)</u>
Other comprehensive income/(expense) for the year		<u>—</u>	<u>1,473</u>	<u>(1,201)</u>
Total comprehensive income for the year		<u>6,567</u>	<u>10,037</u>	<u>2,972</u>
Profit for the year attributable to owners of the Company		<u>6,567</u>	<u>8,564</u>	<u>4,173</u>
Total comprehensive income for the year attributable to owners of the Company		<u>6,567</u>	<u>10,037</u>	<u>2,972</u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<i>Notes</i>	As at 31 December 2015 <i>RMB'000</i>	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>
Non-current assets				
Property, plant and equipment	14	22,890	22,019	22,520
Prepaid lease payments	15	9,756	9,538	9,320
Deposit	17	—	1,200	1,200
		<u>32,646</u>	<u>32,757</u>	<u>33,040</u>
Current assets				
Inventories	16	5,541	7,611	8,873
Prepaid lease payments	15	218	218	218
Trade and other receivables	17	33,237	42,224	47,255
Amount due from a director	18	103	56	32
Pledged bank deposits	19	—	300	1,310
Cash and bank balances	19	574	19,703	15,965
		<u>39,673</u>	<u>70,112</u>	<u>73,653</u>
Total assets		<u>72,319</u>	<u>102,869</u>	<u>106,693</u>
Current liabilities				
Trade and other payables	20	24,032	22,117	31,268
Amount due to a related party	18	—	300	160
Bank borrowings	21	12,000	10,500	20,350
Finance lease obligation	22	—	2,163	3,664
Current tax liabilities		1,812	3,995	3,292
		<u>37,844</u>	<u>39,075</u>	<u>58,734</u>
Net current assets		<u>1,829</u>	<u>31,037</u>	<u>14,919</u>
Total assets less current liabilities		<u>34,475</u>	<u>63,794</u>	<u>47,959</u>
Non-current liabilities				
Bank borrowings	21	17,000	18,000	7,350
Finance lease obligation	22	—	3,664	—
Deferred tax liabilities	23	375	275	51
		<u>17,375</u>	<u>21,939</u>	<u>7,401</u>
Net assets		<u>17,100</u>	<u>41,855</u>	<u>40,558</u>
Capital and reserves				
Equity attributable to owners				
of the Company				
Share capital	24	—	—	—
Reserves	25	17,100	41,855	40,558
Total equity		<u>17,100</u>	<u>41,855</u>	<u>40,558</u>

STATEMENT OF FINANCIAL POSITION

		As at 31 December 2015	As at 31 December 2016	As at 31 December 2017
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets				
Investment in a subsidiary	30	—	—	—
Current assets				
Prepayments	17	—	293	—
Amount due from a subsidiary	30	—	30,304	23,085
Bank balance	19	—	—	85
Total assets		—	30,597	23,170
Total assets less current liabilities		—	30,597	23,170
Net assets		—	30,597	23,170
Capital and reserves				
Equity attributable to owners of the Company				
Share capital	24	—	—	—
Reserves	33	—	30,597	23,170
Total equity		—	30,597	23,170

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Other reserve	Translation reserve	PRC statutory reserve	Retained earnings	Total equity
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Note 24)</i>	<i>(Note 24)</i>	<i>(Note 25(b))</i>		<i>(Note 25(a))</i>		
Balance at 1 January 2015	2,000	—	—	—	—	5,533	7,533
Profit and total comprehensive income for the year	—	—	—	—	—	6,567	6,567
Additions of share capital	3,000	—	—	—	—	—	3,000
Arising from the Corporate Reorganisation	(5,000)	—	5,000	—	—	—	—
Balance at 31 December 2015 and at 1 January 2016	—	—	5,000	—	—	12,100	17,100
Profit and total comprehensive income for the year	—	—	—	1,473	—	8,564	10,037
Issue of new shares	—	30,680	—	—	—	—	30,680
Payments of dividends (Note 12)	—	(1,892)	—	—	—	—	(1,892)
Arising from the Corporate Reorganisation	—	—	(14,070)	—	—	—	(14,070)
Transfer from retained earnings	—	—	—	—	223	(223)	—
Balance at 31 December 2016 and 1 January 2017	—	28,788	(9,070)	1,473	223	20,441	41,855
Profit and total comprehensive income for the year	—	—	—	(1,201)	—	4,173	2,972
Payments of dividends (Note 12)	—	(4,269)	—	—	—	—	(4,269)
Transfer from retained earnings	—	—	—	—	1,048	(1,048)	—
Balance at 31 December 2017	—	24,519	(9,070)	272	1,271	23,566	40,558

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December 2015 <i>RMB'000</i>	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2017 <i>RMB'000</i>
Cash flows from operating activities			
Profit before tax	8,759	11,765	6,018
Adjustments for:			
Amortisation of prepaid lease payments	218	218	218
Depreciation of property, plant and equipment	2,777	3,197	2,912
Net (gains)/losses on disposals of property, plant and equipment	(672)	47	26
Interest income	(12)	(6)	(19)
Finance costs recognised in profit or loss	<u>3,111</u>	<u>2,614</u>	<u>3,406</u>
	14,181	17,835	12,561
Movements in working capital			
Decrease/(increase) in inventories	2,922	(2,070)	(1,262)
Increase in trade and other receivables	(19,846)	(8,777)	(5,040)
Increase/(decrease) in trade and other payables	<u>8,415</u>	<u>(1,868)</u>	<u>9,151</u>
Cash generated from operations	5,672	5,120	15,410
Interest paid	(205)	(298)	(429)
Income tax paid	<u>(1,751)</u>	<u>(1,118)</u>	<u>(2,773)</u>
Net cash generated from operating activities	<u>3,716</u>	<u>3,704</u>	<u>12,208</u>
Cash flows from investing activities			
Proceeds from disposals of property, plant and equipment	1,453	15	153
Payments for property, plant and equipment	(2,100)	(2,388)	(3,592)
Acquisition of a subsidiary, net of cash acquired	—	(14,070)	—
Decrease in amount due from a director	5,415	47	24
Decrease in amounts due from related parties	6,791	—	—
Increase in pledged bank deposits	—	(300)	(1,010)
Interest received	<u>12</u>	<u>6</u>	<u>19</u>
Net cash generated from/(used in) investing activities	<u>11,571</u>	<u>(16,690)</u>	<u>(4,406)</u>

		Year ended 31 December 2015 RMB'000	Year ended 31 December 2016 RMB'000	Year ended 31 December 2017 RMB'000
Cash flows from financing activities				
(Decrease)/increase in amounts due to				
related parties		(8,407)	300	(140)
Interest paid		(2,906)	(2,316)	(2,977)
Additions of share capital/issue of new				
shares		3,000	30,680	—
Dividends paid to owners of the				
Company		—	(1,892)	(4,269)
Inception of finance lease obligation		—	4,543	—
Repayment of finance lease obligation		—	(173)	(2,163)
Proceeds from bank borrowings		55,000	28,500	10,400
Repayment of bank borrowings		<u>(61,800)</u>	<u>(29,000)</u>	<u>(11,200)</u>
Net cash (used in)/generated from				
financing activities		<u>(15,113)</u>	<u>30,642</u>	<u>(10,349)</u>
Net increase/(decrease) in cash and				
cash equivalents		174	17,656	(2,547)
Cash and cash equivalents at the				
beginning of year		400	574	19,703
Effect of foreign exchange rate				
changes		<u>—</u>	<u>1,473</u>	<u>(1,191)</u>
Cash and cash equivalents at the end				
of year		<u>574</u>	<u>19,703</u>	<u>15,965</u>
Analysis of balances of cash and cash				
equivalents				
Cash and bank balances	19	<u>574</u>	<u>19,703</u>	<u>15,965</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1. GENERAL INFORMATION, GROUP REORGANISATION AND BASIS OF PRESENTATION OF HISTORICAL FINANCIAL INFORMATION****General Information**

The Company was incorporated in the Cayman Islands on 14 December 2015 as an exempted company with limited liability. Its parent and ultimate holding company is Wang Mao Investments Limited (“Wang Mao Investments”), a company incorporated in the British Virgin Islands (“BVI”) and owned by Mr. Fan Baocheng (“Mr. Fan”).

The addresses of the registered office and principal place of business of the Company are set out in the section headed “Corporate Information” of the Document. The Company is an investment holding company. The Group is principally engaged in the (i) stamping components manufacturing; (ii) spray-painting components processing and (iii) powder-coating components processing in the People’s Republic of China (the “PRC”).

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 Group’s operating subsidiaries is RMB. The Historical Financial Information is presented in RMB, which is different from the functional currency of the Company (i.e. Hong Kong dollars (“HK\$”). The choice of presentation currency is to better reflect the currency that mainly determines economic effects of transactions, events and conditions of the Group.

Group Reorganisation and Basis of Preparation and Presentation of the Historical Financial Information

Throughout the Track Record Period, the group entities were under the control of the Mr. Fan. Through the Corporate Reorganisation as more fully explained in the paragraph headed “Reorganisation” under the section headed “History, Reorganisation and Group Structure” to the Document (the “Corporate Reorganisation”), the Company became the holding company of the companies now comprising the Group on 20 May 2016. Accordingly, for the purpose of the preparation of the Historical Financial Information of the Group, the Company has been considered as the holding company of the companies now comprising the Group throughout the Track Record Period.

The Historical Financial Information has been prepared as if the Company had been the holding company of the Group throughout the Track Record Period in accordance with Accounting Guideline 5 *Merger Accounting for Common Control Combinations* issued by the HKICPA. The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Track Record Period, 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 Track Record Period,

or since their respective dates of incorporation or establishment where this is a shorter period. The consolidated 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.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently adopted the HKFRSs, Hong Kong Accounting Standards (“HKASs”), amendments and interpretations issued by the HKICPA that are effective for the Group’s financial year beginning 1 January 2018 throughout the Track Record Period.

At the date of this report, the HKICPA has issued the following new standard, amendments and interpretation which are not yet effective:

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers and its related Amendments ¹
HKFRS 16	Leases ²
HKFRS 17	Insurance Contracts ³
HK(IFRIC) — Int 22	Foreign Currency Transactions and Advance Consideration ¹
HK(IFRIC) — Int 23	Uncertainty over Income Tax Treatments ²
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 <i>Financial Instruments</i> with HKFRS 4 <i>Insurance Contracts</i> ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle ¹
Amendments to HKAS 28	Investments in Associates and Joint ventures ²
Amendments to HKAS 40	Transfers of Investment Property ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 — 2017 Cycle ⁴

¹ Effective for annual periods beginning on or after 1 January 2018.

² Effective for annual periods beginning on or after 1 January 2019.

³ Effective for annual periods beginning on or after 1 January 2021.

⁴ Effective for annual periods beginning on or after a date to be determined.

HKFRS 9 *Financial Instruments*

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss;
- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade and other receivables and deposit with finance leasing corporation. Such further impairment recognised under expected credit loss model would reduce the opening retained profits at 1 January 2018.

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; and
- 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 anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases 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, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for

interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2015, 2016 and 2017, the Group has non-cancellable operating lease commitments of nil, approximately RMB600,000 and approximately RMB658,000 respectively as disclosed in Note 29. The directors of the Company 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 statements of financial position as right-of-use assets and lease liabilities.

Management of the Group anticipates that the application of the other new standards, amendments and interpretation will have no material impact on the Historical Financial Information of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and by the Hong Kong Companies Ordinance.

The Historical 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 these Historical 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 Historical 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 consolidated statement 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.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Merger accounting for common control combinations

The Historical Financial Information incorporates the financial statement 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 consolidated statements of profit or loss and other comprehensive income includes 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 Historical 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.

Investment in a subsidiary

Investment in a subsidiary is stated at cost less any identified impairment loss on the statement of the financial position of the Company.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for discounts and other similar allowances.

Revenue for sale of stamping components, spray-painting components and powder-coating components is recognised when the goods are delivered and titles have passed, the revenue can be reliably estimated and it is probable that the revenue will be received.

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 the 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

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

When a sale and leaseback results in a finance lease, any difference on sale is deferred and recognised over the lease term.

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.

Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statements of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchanges prevailing at the dates of the transactions. At the end of each of the Track Record 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.

For the purposes of presenting the Historical Financial Information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each of the Track Record Period. Income and expenses 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 prevailing 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).

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.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Government grants

Government grants are not recognised until there is a reasonable assurance that the Group will comply with 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 consolidated statements 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 at 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.

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 consolidated 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 Track Record Period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. 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 of the Track Record 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 Track Record Period.

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 Track Record Period, 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.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statements of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. 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 (other than properties under construction) less their residual values over their estimated 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.

Impairment of tangible and intangible assets other than goodwill

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 a 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 (where 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 in the consolidated statements of financial position 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 as “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 and points 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 asset, 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.

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, amount due from a director, pledged bank deposits and cash and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Impairment of financial assets

Financial assets 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.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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 average 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 asset. Such impairment loss will not be reversed in subsequent periods.

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 the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment 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 the group entity are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities (including trade and other payables, amount due to a related party, bank borrowings and finance lease obligation) 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 and points 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.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they 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 party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and 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;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group 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); and

(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 parent of the Group.

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 consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are ready 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, less bank overdrafts, if any, which are repayable on demand and form an integral part of the Group's cash management.

4. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are 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.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Historical Financial Information.

Withholding taxes arising from the distributions of dividends

The Group's determination as to whether to accrue for withholding taxes from the distribution of dividends from subsidiary in the PRC according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividend, where the Group considers that if it is probable that the profits of the subsidiaries in the PRC will not be distributed in the foreseeable future, then no withholding taxes are provided.

Key sources of estimation uncertainty

The following are the key assumption concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial periods.

Impairment of trade and other receivables

The Group estimates the provisions for impairment of trade and other receivables by assessing their recoverability based on credit history and prevailing market conditions. This requires the use of estimates and judgements. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimate, such difference will affect the carrying amount of trade and other receivables and thus the impairment loss in the period in which such estimate is changed. The Group reassesses the provisions at the end of each of the Track Record Period.

Write-down of inventories

Inventories are valued at the lower of cost and net realisable value. Also, the Group regularly inspects and reviews its inventories to identify slow-moving and obsolete inventories. The amount of the impairment loss is measured as the difference between inventories' cost and net realisable value.

The identification of impairment of inventories requires the use of judgement and estimate of expected net realisable value. Where the net realisable value is lower than the cost, a material write-down may arise. As at 31 December 2015, 2016 and 2017, the carrying amounts of inventories were approximately RMB5,541,000, RMB7,611,000 and RMB8,873,000 respectively, without written-down recognised on inventories.

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's has determined that it only has one operating segment which is a plastic and steel components processor in the PRC.

An analysis of revenue by products is as follows:

	Year ended 31 December 2015 <i>RMB'000</i>	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2017 <i>RMB'000</i>
Peripheral components			
- Spray-painting peripheral components	33,090	37,778	44,380
- Powder-coating peripheral components	10,389	21,822	35,997
Stamping components	<u>12,204</u>	<u>19,567</u>	<u>16,947</u>
	<u>55,683</u>	<u>79,167</u>	<u>97,324</u>

Geographical information

The Company is domiciled in the Cayman Islands with the Group's major operations in the PRC. All external revenue of the Group during the Track Record Period are attributable to customers incorporated in the PRC, the place of domicile of the Group's operating entities. Substantially all the assets of the Group are located in the PRC.

Information about major customers

Revenue from customers individually contributing over 10% of the total revenue of the Group for the Track Record Period were as follows:

	Year ended 31 December 2015 <i>RMB'000</i>	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2017 <i>RMB'000</i>
Customer A	8,397	9,116	11,220
Customer B	10,379	13,508	13,941
Customer C	N/A ¹	9,831	N/A ¹
Customer D	N/A ¹	N/A ¹	N/A ¹
Customer E	<u>8,242</u>	<u>13,615</u>	<u>32,907</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 2015 <i>RMB'000</i>	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2017 <i>RMB'000</i>
Interest income on bank deposits	12	6	19
Net gains/(losses) on disposals of property, plant and equipment	672	(47)	(26)
Net sales of moulds and leftover	223	763	25
Government grants	140	1,781	4,218
Net foreign exchange gains	—	13	—
Others	<u>—</u>	<u>3</u>	<u>—</u>
	<u>1,047</u>	<u>2,519</u>	<u>4,236</u>

7. FINANCE COSTS

	Year ended 31 December 2015 <i>RMB'000</i>	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2017 <i>RMB'000</i>
Interest on bank borrowings	2,906	2,020	2,054
Interest on finance lease	—	50	498
Finance costs arising on early redemption of note receivables	205	298	429
Costs of guarantees on bank borrowings	—	247	425
	<u>3,111</u>	<u>2,615</u>	<u>3,406</u>

8. INCOME TAX EXPENSE

	Year ended 31 December 2015 <i>RMB'000</i>	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2017 <i>RMB'000</i>
Current tax			
PRC Enterprise Income Tax (“EIT”)			
- Current year	2,192	3,175	1,845
- Underprovision in prior year	—	26	—
	<u>2,192</u>	<u>3,201</u>	<u>1,845</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits during the Track Record Period. No provision for Hong Kong Profits Tax has been made in the Historical Financial Information as the Group had no assessable profits arising in or derived from Hong Kong for the Track Record Period.

PRC subsidiary is subject to PRC EIT at 25% for the Track Record Period.

Taxation arising in other jurisdiction is calculated at the rates prevailing in the relevant jurisdiction.

The tax charge for the Track Record Period can be reconciled to profit before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December 2015 <i>RMB'000</i>	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2017 <i>RMB'000</i>
Profit before tax	<u>8,759</u>	<u>11,765</u>	<u>6,018</u>
Tax at domestic tax rates applicable to profits of taxable entities in the countries concerned	2,191	2,984	1,620
Tax effect of expenses not deductible for tax purpose	1	191	225
Underprovision in respect of prior year	<u>—</u>	<u>26</u>	<u>—</u>
Income tax expense for the year	<u>2,192</u>	<u>3,201</u>	<u>1,845</u>

9. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	Year ended 31 December 2015 <i>RMB'000</i>	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2017 <i>RMB'000</i>
Employee benefits expense (including directors' emoluments (<i>Note 10</i>)):			
Salaries, allowances and other benefits in kind	9,828	12,953	15,559
Contributions to defined contribution plan	<u>1,476</u>	<u>1,402</u>	<u>1,565</u>
Total employee benefits expense	<u>11,304</u>	<u>14,355</u>	<u>17,124</u>
Auditors' remuneration	10	7	8
Amortisation of prepaid lease payments (included in administrative expenses)	218	218	218
Depreciation of property, plant and equipment	2,777	3,197	2,912
Operating lease rentals in respect of rented premises (included in cost of sales and administrative expenses)	—	300	310
Cost of inventories recognised as an expense	38,713	55,608	73,637
Listing expenses (included in administrative expenses)	<u>—</u>	<u>4,852</u>	<u>10,504</u>

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the directors of the Company for the Track Record Period were as follows:

	Other emoluments				Total RMB'000
	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Discretionary bonuses RMB'000	Contributions to defined contribution plan RMB'000	
Year ended 31 December 2015					
<i>Executive director</i>					
Mr. Fan (<i>Note (i)</i>)	—	108	—	27	135
	<u>—</u>	<u>108</u>	<u>—</u>	<u>27</u>	<u>135</u>
Year ended 31 December 2016					
<i>Executive director</i>					
Mr. Fan (<i>Note (i)</i>)	—	113	—	27	140
	<u>—</u>	<u>113</u>	<u>—</u>	<u>27</u>	<u>140</u>
Year ended 31 December 2017					
<i>Executive director</i>					
Mr. Fan (<i>Note (i)</i>)	—	113	—	29	142
Mr. Zhou Zhen Dong (“Mr. Zhou”) (<i>Note (ii)</i>)	—	—	—	—	—
	<u>—</u>	<u>113</u>	<u>—</u>	<u>29</u>	<u>142</u>

Notes:

- (i) Mr. Fan was appointed as director of the Company on 14 December 2015 and was re-designated as executive director of the Company on 14 September 2017. He was also a director of certain subsidiaries of the Company during the Track Record Period and the Group paid emoluments to him in his capacity as director of subsidiaries before his appointment as executive director during the Track Record Period.
- (ii) Mr. Zhou was appointed as executive director of the Company on 14 September 2017. He was also a director of certain subsidiaries of the Company during the Track Record Period and received nil director's remuneration in his capacity as director of those subsidiaries before his appointment as executive director during the Track Record Period.

Mr. Liang Chi, Mr. Ho Ka Chun, and Mr. Chan Chun Chi were appointed as independent non-executive directors of the Company on 31 March 2018. During the Track Record Period, the directors including both executive directors and independent non-executive directors have not yet been appointed and received nil directors' remuneration in the capacity of directors.

None of the directors waived any emoluments during the Track Record Period. In addition, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

11. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one, one and one was a director of the Company for the years ended 31 December 2015, 2016 and 2017 respectively whose emoluments are included in the disclosures in Note 10 above. The emoluments of the remaining four, four and four individuals for the years ended 31 December 2015, 2016 and 2017 respectively were as follows:

	Year ended 31 December 2015	Year ended 31 December 2016	Year ended 31 December 2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries and other benefits in kind	287	329	373
Contributions to defined contribution plan	<u>41</u>	<u>70</u>	<u>83</u>
	<u>328</u>	<u>399</u>	<u>456</u>

Their emoluments were all within nil to HK\$1,000,000.

12. DIVIDENDS

	Year ended 31 December 2015 <i>RMB'000</i>	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2017 <i>RMB'000</i>
Dividends for ordinary shareholders of the Company recognised as distribution during the Track Record Period			
— 2016 Interim — HK\$218 per share (equivalent to approximately RMB189 per share)	—	1,892	—
— 2017 Interim — HK\$482 per share (equivalent to approximately RMB427 per share)	<u>—</u>	<u>—</u>	<u>4,269</u>
	<u>—</u>	<u>1,892</u>	<u>4,269</u>

No final dividend has been paid or declared by the Company since its incorporation.

13. EARNINGS PER SHARE

No earnings per share information is presented for the purpose of this report as its inclusion is not considered meaningful having regard to the Corporate Reorganisation of the Group and the result of the Group for the Track Record Period that is prepared on a combined basis as set out in Note 1.

14. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture and equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
Cost						
Balance at 1 January 2015	17,659	10,846	1,922	182	1,630	32,239
Additions	—	1,477	196	48	379	2,100
Disposals	—	(1,453)	—	—	—	(1,453)
Transfer	333	1,676	—	—	(2,009)	—
Balance at 31 December						
2015 and 1 January 2016	17,992	12,546	2,118	230	—	32,886
Additions	—	1,788	78	43	479	2,388
Disposals	—	(50)	—	(15)	—	(65)
Transfer	—	292	—	—	(292)	—
Balance at 31 December						
2016 and 1 January 2017	17,992	14,576	2,196	258	187	35,209
Additions	—	2,480	—	70	1,042	3,592
Disposals	—	(1,730)	—	(96)	—	(1,826)
Transfer	—	1,114	—	—	(1,114)	—
Balance at 31 December						
2017	<u>17,992</u>	<u>16,440</u>	<u>2,196</u>	<u>232</u>	<u>115</u>	<u>36,975</u>
Accumulated depreciation						
Balance at 1 January 2015	3,513	3,161	1,158	59	—	7,891
Depreciation expense	851	1,457	419	50	—	2,777
Eliminated on disposals	—	(672)	—	—	—	(672)
Balance at 31 December						
2015 and 1 January 2016	4,364	3,946	1,577	109	—	9,996
Depreciation expense	853	2,080	210	54	—	3,197
Eliminated on disposals	—	(3)	—	—	—	(3)
Balance at 31 December						
2016 and 1 January 2017	5,217	6,023	1,787	163	—	13,190
Depreciation expense	853	1,884	128	47	—	2,912
Eliminated on disposals	—	(1,566)	—	(81)	—	(1,647)
Balance at 31 December						
2017	<u>6,070</u>	<u>6,341</u>	<u>1,915</u>	<u>129</u>	<u>—</u>	<u>14,455</u>

	Buildings <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture and equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
Carrying amounts						
Balance at 31 December 2015	<u>13,628</u>	<u>8,600</u>	<u>541</u>	<u>121</u>	<u>—</u>	<u>22,890</u>
Balance at 31 December 2016	<u>12,775</u>	<u>8,553</u>	<u>409</u>	<u>95</u>	<u>187</u>	<u>22,019</u>
Balance at 31 December 2017	<u>11,922</u>	<u>10,099</u>	<u>281</u>	<u>103</u>	<u>115</u>	<u>22,520</u>

The above items of property, plant and equipment, after taking into account of their estimated residual value, are depreciated on a straight-line basis at the following rates per annum:

Buildings	Over the shorter of the term of the lease, and 20 years
Plant and machinery	10%-20%
Motor vehicles	25%
Furniture and equipment	33.33%

As at 31 December 2015, 2016 and 2017, certain of the Group's property, plant and equipment with an aggregate carrying amount of approximately RMB16,506,000, RMB12,775,000 and RMB11,922,000 respectively have been pledged to secure certain bank borrowings granted to the Group.

As at 31 December 2015, 2016 and 2017, the carrying amounts of plant and machinery of the Group include amounts of nil, approximately RMB6,771,000 and RMB5,457,000, respectively, in respect of assets held under finance leases.

15. PREPAID LEASE PAYMENTS

	The Group		
	As at	As at	As at
	31 December	31 December	31 December
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Analysed for reporting purposes as:			
Current assets	218	218	218
Non-current assets	<u>9,756</u>	<u>9,538</u>	<u>9,320</u>
	<u>9,974</u>	<u>9,756</u>	<u>9,538</u>

As at 31 December 2015, 2016 and 2017, the Group's prepaid lease payments with the aggregate carrying amounts of approximately RMB9,974,000, RMB9,756,000 and RMB9,538,000 respectively have been pledged to secure certain bank borrowings granted to the Group.

16. INVENTORIES

Inventories in the consolidated statements of financial position comprise:

	The Group		
	As at	As at	As at
	31 December	31 December	31 December
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	2,449	2,690	3,139
Work-in-progress	911	1,910	1,522
Finished goods	1,810	2,164	2,465
Moulds and consumables	<u>371</u>	<u>847</u>	<u>1,747</u>
	<u>5,541</u>	<u>7,611</u>	<u>8,873</u>

17. TRADE AND OTHER RECEIVABLES

	The Group		
	As at	As at	As at
	31 December	31 December	31 December
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current assets			
Trade receivables	26,258	36,534	43,020
Note receivables (<i>Note (i)</i>)	275	1,333	622
Deposits, prepayments and other receivables (<i>Note (ii)</i>)	6,704	4,357	3,613
	<u>33,237</u>	<u>42,224</u>	<u>47,255</u>
Non-current assets			
Deposit (<i>Note (iii)</i>)	<u>—</u>	<u>1,200</u>	<u>1,200</u>
Total	<u><u>33,237</u></u>	<u><u>43,424</u></u>	<u><u>48,455</u></u>

	The Company		
	As at	As at	As at
	31 December	31 December	31 December
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments	<u>—</u>	<u>293</u>	<u>—</u>

Notes:

- (i) Note receivables are received from customers under ordinary course of business. All of them are bank acceptance notes with a maturity period within six months.
- (ii) This mainly represents the prepaid listing expenses.
- (iii) This represents a refundable performance security for finance lease obligation (Note 22).

An aging analysis of trade receivables based on the revenue recognition date was as follows:

	The Group		
	As at	As at	As at
	31 December	31 December	31 December
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0 — 90 days	24,029	33,169	40,095
91 — 180 days	2,221	3,317	2,925
Over 180 days	<u>8</u>	<u>48</u>	<u>—</u>
	<u>26,258</u>	<u>36,534</u>	<u>43,020</u>

The credit terms granted to customers are varied and are generally the result of negotiations between individual customers and the Group. The credit period was ranging from 30 days to 180 days upon the issue of invoices to its customers for the Track Record Period. 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 2015, 2016 and 2017, 98%, 98% and 97% 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, respectively.

Trade receivables disclosed above include amounts (see below for aged analysis) which are past due at the end of each of the Track Record Period 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

	The Group		
	As at	As at	As at
	31 December	31 December	31 December
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Overdue by:			
1 — 30 days	550	585	986
Over 30 days	<u>8</u>	<u>64</u>	<u>409</u>
	<u>558</u>	<u>649</u>	<u>1,395</u>

18. AMOUNTS DUE FROM/TO A DIRECTOR/A RELATED PARTY

	The Group		
	As at	As at	As at
	31 December	31 December	31 December
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amount due from a director			
Mr. Fan (<i>Note (i)</i>)	<u>103</u>	<u>56</u>	<u>32</u>
Amount due to a related party			
滁州市互興服裝有限公司 (Chuzhou Genxing Clothing Co., Ltd *) (“Chuzhou Genxing”) (<i>Note (ii)</i>)	<u>—</u>	<u>300</u>	<u>160</u>

Notes:

- (i) Executive director of the Company.
- (ii) Chuzhou Genxing was controlled by Mr. Fan.

The amount due from a director is non-trade in nature, unsecured, non-interest bearing and has no fixed terms of repayment. The amount due from a director will be settled before listing.

The amount due to a related party is trade in nature, unsecured, non-interest bearing and has no fixed terms of repayment. The amount due to a related party was fully settled subsequent to 31 December 2017.

* English translation name is for identification purpose only.

19. CASH AND BANK BALANCES/PLEDGED BANK DEPOSITS

The Group

Cash and bank balances comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less which carry interest at market rates 0.35% per annum, 0.35% per annum and 0.35% per annum, as at 31 December 2015, 2016 and 2017, respectively.

Pledged bank deposits represent deposits pledged to banks to secure note payables granted to the Group (Note 20). Deposits amounting to nil, approximately RMB300,000 and RMB1,310,000 as at 31 December 2015, 2016 and 2017, respectively, and are classified as current assets. The pledged bank deposits will be released upon the settlement of relevant note payables. Pledged bank deposits are denominated in RMB, the functional currency of the group entities.

The Group's cash and bank balances with aggregate amounts of approximately RMB574,000, RMB2,398,000 and RMB925,000 at 31 December 2015, 2016 and 2017 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.

The Company

Bank balance is denominated in HK\$.

20. TRADE AND OTHER PAYABLES

	The Group		
	As at 31 December 2015 <i>RMB'000</i>	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>
Trade payables	12,250	14,868	23,775
Other payables and accruals	10,687	6,948	6,148
Receipt in advance	1,095	1	35
Note payables	—	300	1,310
	<u>24,032</u>	<u>22,117</u>	<u>31,268</u>

The following is an aged analysis of trade payables based on the invoice date:

	The Group		
	As at 31 December 2015 <i>RMB'000</i>	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>
0 — 90 days	9,277	10,670	15,907
91 — 180 days	1,692	2,535	6,137
181 — 365 days	878	1,405	1,040
Over 365 days	403	258	691
	<u>12,250</u>	<u>14,868</u>	<u>23,775</u>

The trade payables are non-interest bearing and generally ranging from 30 days to 180 days.

As at 31 December 2016 and 2017, note payables were secured by a charge over the Group's pledged bank deposits.

21. BANK BORROWINGS

	The Group		
	As at	As at	As at
	31 December 2015 <i>RMB'000</i>	31 December 2016 <i>RMB'000</i>	31 December 2017 <i>RMB'000</i>
Bank borrowings — secured:			
Fixed rate	<u>29,000</u>	<u>28,500</u>	<u>27,700</u>
Carrying amounts of bank borrowings that are repayable within one year from the end of the reporting period shown under current liabilities	12,000	10,500	20,350
Carrying amounts of bank borrowings that are repayable beyond one year but not exceeding two years from the end of the reporting period shown under non-current liabilities	<u>17,000</u>	<u>18,000</u>	<u>7,350</u>
	<u>29,000</u>	<u>28,500</u>	<u>27,700</u>

During the years ended 31 December 2015, 2016 and 2017, the bank borrowings bear interest ranging from 6.93% to 8.29% per annum, 6.53% to 7.36% per annum and 6.53% to 8.08% per annum respectively.

At 31 December 2015, the bank borrowings were secured by (i) a charge over the Group's property, plant and equipment and prepaid lease payments and (ii) personal guarantees given by Mr. Fan. The respective guarantees and charges were released during the Track Record Period.

At 31 December 2016 and 2017, the bank borrowings were secured by a charge over the Group's property, plant and equipment, prepaid lease payments and the corporate guarantee given by the third party. The borrowings were denominated in RMB.

From January 2014 to November 2015, 滁州市協眾家電配件有限公司 (Chuzhou Xiezhong Home Appliance Accessories Co., Ltd*) ("Xiezhong"), an indirect wholly-owned subsidiary of the Company, entered into 16 loan contracts ("Loan Contracts") with the bank. Pursuant to the terms of the Loan Contracts, all the loan proceeds should be used to pay for raw materials. During the aforesaid period, a total amount of RMB90,800,000 were drawn down and all the loan proceeds were transferred to 滁州市立華工貿有限公司 (Chuzhou Lihua Industry and Trade Company Limited*) ("Chuzhou Lihua")

(the “Non-compliant Loans”) which was owned by the close family members of Mr. Fan. As there were no actual underlying transactions between Xiezhong and Chuzhou Lihua, Chuzhou Lihua subsequently transferred all the loan proceeds to Xiezhong. Such loan proceeds were later used to supplement working capital of Xiezhong and settle other supply contracts with third parties (the “Non-compliant Loan Financing Arrangements”). Pursuant to the terms of the Loan Contracts, the Non-compliant Loan Financing Arrangements did not comply with the terms and conditions of the Loan Contracts and the applicable PRC laws and regulations. All Loan Contracts were repaid on or before 30 June 2016. Included in the bank borrowings of approximately RMB29,000,000, nil and nil are the outstanding balances of the Non-compliant Loans as at 31 December 2015, 2016 and 2017, respectively. Based on the advice of the PRC legal adviser, the directors are of the view that there would be no material adverse impact on the Group’s financial position and the Group has not made any provision for the Non-compliant Loan Financing Arrangements.

* *English translation names are for identification purpose only.*

22. FINANCE LEASE OBLIGATION

The Group leased certain of its plant and machinery under finance lease. The lease terms are nil, three years and three years for the years ended 31 December 2015, 2016 and 2017, respectively. Interest rates underlying all obligations under finance leases are nil, 8.91% per annum and 8.91% per annum for the years ended 31 December 2015, 2016 and 2017, respectively.

In November 2016, certain plant and machinery was under finance lease in form of sale and leaseback arrangements. There was no disposal gain or loss recognised for the transaction as the fair value was not significant different to the carrying amount of the relevant plant and machinery. At the end of the lease period, if no default occurs during the lease period, the ownership of the equipment shall be automatically transferred to the Group at nil consideration.

A mortgage agreement in relation to the abovementioned plant and machinery was entered into between the finance leasing corporation and Xiezhong, an indirect wholly-owned subsidiary of the Company.

	The Group		
	As at 31 December 2015 RMB'000	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000
Minimum lease payments			
Amounts payable under leases:			
Within one year	—	2,594	3,977
In more than one year and not more than five years	—	3,977	—
	—	6,571	3,977

	As at 31 December 2015 <i>RMB'000</i>	The Group As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>
Less: future finance charges	—	(744)	(313)
Present value of lease obligation	—	5,827	3,664
Present value of minimum lease payments			
Amount due for settlement more than one year, but not exceeding two years (shown under non-current liabilities)	—	3,664	—
Amount due for settlement within a year (shown under current liabilities)	—	2,163	3,664
Total present value of lease obligation	—	5,827	3,664

Finance lease obligation was denominated in RMB. The finance lease obligation was secured by a refundable performance security (Note 17).

23. DEFERRED TAX LIABILITIES

The following is deferred tax liabilities recognised and movements thereon during the Track Record Period:

	Withholding tax <i>RMB'000</i>
Balance at 1 January 2015, 31 December 2015 and 1 January 2016	375
Transfer to current taxation	(100)
Balance at 31 December 2016 and 1 January 2017	275
Transfer to current taxation	(224)
Balance at 31 December 2017	51

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of the profits earned by the PRC subsidiary from 1 January 2008 onwards. Deferred taxation has not been provided in the Historical Financial Information in respect of temporary differences attributable to the profits earned by the PRC subsidiary amounting to approximately RMB12,480,000, RMB19,315,000 and RMB19,298,000 as at 31 December 2015, 2016 and 2017 respectively as the Group is able to control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

24. SHARE CAPITAL

The Company

	Number of shares	Amounts <i>HK\$</i>
Authorised		
Ordinary shares at HK\$0.01 each at the date of incorporation, at 31 December 2016 and 2017	<u>38,000,000</u>	<u>380,000.00</u>
Issued and fully paid		
Ordinary shares of HK\$0.01 each at the date of incorporation	1	0.01
Issue of new shares on 14 December 2015	<u>99</u>	<u>0.99</u>
Ordinary shares of HK\$0.01 each at 31 December 2015	100	1.00
Issue of new shares on 1 April 2016	<u>9,900</u>	<u>99.00</u>
Ordinary shares at HK\$0.01 each at 31 December 2016 and 2017	<u>10,000</u>	<u>100.00</u>
		<i>RMB'000</i>
Shown on the statements of financial position at 31 December 2015, 2016 and 2017		<u>—</u>

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 14 December 2015 with an initial authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each and 1 share was issued thereafter.

On 14 December 2015, 25 and 74 shares of the Company were allotted and issued to Season Empire Group Limited, a company wholly-owned by Mr. Zhou and Wang Mao Investments, a

company wholly-owned by Mr. Fan, at considerations of HK\$0.25 and HK\$0.74, respectively.

As part of the Corporate Reorganisation, on 1 April 2016, 2,875 and 7,025 shares of the Company were allotted and issued to Season Empire Group Limited and Wang Mao Investments, at considerations of HK\$36,900,000 and HK\$70.25, respectively.

Pursuant to the written resolutions passed by the shareholders of the Company on 31 March 2018, the authorised share capital of the Company was increased from HK\$380,000 to HK\$20,000,000 by the creation of a further 1,962,000,000 new shares of HK\$0.01 each, ranking pari passu with the existing share in all respects.

The share capital at 31 December 2015 represents the paid-up capital of Xiezhong prior to the Corporate Reorganisation.

25. RESERVES

(a) PRC statutory reserve

Pursuant to the PRC Company Law, a company shall retain 10% of the profits as the company's statutory reserve funds when the company distributes the profits after tax of the then financial year, and the retention can be stopped upon the company's statutory reserve funds has accumulated up to 50% of the registered capital of the Company.

According to the Regulations for the Implementation of the Law of the PRC on Sino-foreign Equity Joint Ventures, an enterprise shall, after payment of income tax in compliance with the PRC Enterprise Income Tax Law, retain reserve funds, staff incentive, and welfare funds and enterprise development funds from profits after tax at such proportion at the discretion of the board of directors of the enterprise.

As stipulated by the relevant laws and regulations for foreign invested enterprises in the PRC, the wholly-owned foreign enterprise is required to maintain statutory reserve which is non-distributable. Appropriations to such reserves are made out of net profit after payment of income taxes on the profits pursuant to the tax laws of China annually but must not be less than 10% of the net profit after tax, until such reserves reach 50% of the registered capital.

(b) Other reserve

Other reserve of the Group represents the difference between the amount of consideration paid by the Group for the acquisition of Xiezhong and the amount of paid-up capital of the aforesaid subsidiary acquired pursuant to the Corporate Reorganisation.

26. RETIREMENT BENEFIT PLANS

The employees of the Group's subsidiary in the PRC are members of a state-managed retirement benefit plan operated by the government of the PRC. The subsidiary is 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 plan is to make the specified contributions. The total expenses recognised in the consolidated statements of profit or loss and other comprehensive income amounted to approximately RMB1,476,000, RMB1,402,000 and RMB1,565,000 for the years ended 31 December 2015, 2016 and 2017, respectively and represented contributions payable to these plans by the Group at rates specified in the rules of plans.

27. 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 Track Record Period.

The capital structure of the Group consists of net debt (which includes 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 risk associated with the capital. The Group will balance its overall capital structure through the issuance of new shares, raise of borrowings or repayment of the existing borrowings.

The adjusted debt-to-equity ratios at the end of each of the Track Record Period were as follows:

	As at 31 December 2015 <i>RMB'000</i>	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>
Debts (<i>Note (i)</i>)	29,000	34,627	32,674
Cash and cash equivalents	<u>(574)</u>	<u>(19,703)</u>	<u>(15,965)</u>
Net debt	28,426	14,924	16,709
Equity (<i>Note (ii)</i>)	<u>17,100</u>	<u>41,855</u>	<u>40,558</u>
Adjusted debt-to-equity ratio	<u>166%</u>	<u>36%</u>	<u>41%</u>

Notes:

- (i) Debt comprises note payables, bank borrowings and finance lease obligation as detailed in Notes 20, 21 and 22 respectively.
- (ii) Equity includes all capital and reserves attributable to owners of the Company.

28. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The Group

	As at 31 December 2015 <i>RMB'000</i>	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>
Financial assets			
Loans and receivables (including cash and cash equivalents)	<u>29,837</u>	<u>60,991</u>	<u>64,410</u>
Financial liabilities			
Amortised cost	<u>51,937</u>	<u>56,742</u>	<u>62,757</u>

The Company

	As at 31 December 2015 <i>RMB'000</i>	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>
Financial assets			
Loans and receivables (including cash and cash equivalents)	<u>—</u>	<u>30,304</u>	<u>23,170</u>

(b) Financial risk management objectives and policies

The Group's major financial instruments include deposit, trade and other receivables, amount due from a director, pledged bank deposits, cash and bank balances, trade and other payables, amount due to a related party, bank borrowings and finance lease obligation. 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, interest rate risk and price 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 Track Record Period.

Foreign currency risk management

As the assets and liabilities of the Group are mainly denominated in RMB at 31 December 2015, 2016 and 2017, the management does not expect significant foreign currency exposure in relation to the exchange rate fluctuation between RMB and other currencies and the Group's income and operating cash flows are substantially independent of changes in foreign currency exchange.

Interest rate risk management

The Group are exposed to fair value interest rate risk in relation to fixed-rate bank borrowings. The Group are also exposed to cash flow interest rate risk due to fluctuation of the prevailing market interest rate on bank deposits and bank borrowings carried at prevailing market interest rates. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

As the Group is not exposed to significant interest rate risk, the directors of the Company consider that the presentation of sensitivity analysis is unnecessary.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Price risk management

As the Group did not have any financial assets classified as financial assets at fair value through profit or loss, or available-for-sale financial assets at the end of each of the Track Record Period, the Group is not exposed to significant price risk.

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 consolidated statements of financial position at the end of each of the Track Record Period.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determining of credit limits, credit approvals and other monitoring procedures 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 Track Record Period 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 42%, 49% and 70% of these receivables are due from the Group's largest five customers as at 31 December 2015, 2016 and 2017 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 tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, the maturity analysis for non-derivative financial liabilities is prepared based on the scheduled repayment dates.

	Weighted average interest rate %	On demand or less than 1 year RMB'000	More than 1 year but less than 2 years RMB'000	Total undiscounted amount RMB'000	Total carrying amount RMB'000
The Group					
At 31 December 2015					
Trade and other payables	—	24,032	—	24,032	24,032
Bank borrowings	7.54	14,075	17,642	31,717	29,000
		<u>38,107</u>	<u>17,642</u>	<u>55,749</u>	<u>53,032</u>
At 31 December 2016					
Trade and other payables	—	22,117	—	22,117	22,117
Amount due to a related party	—	300	—	300	300
Bank borrowings	7.13	12,383	18,487	30,870	28,500
Financial lease obligation	8.91	2,594	3,977	6,571	5,827
		<u>37,394</u>	<u>22,464</u>	<u>59,858</u>	<u>56,744</u>

	Weighted average interest rate %	On demand or less than 1 year RMB'000	More than 1 year but less than 2 years RMB'000	Total undiscounted amount RMB'000	Total carrying amount RMB'000
At 31 December 2017					
Trade and other payables	—	31,268	—	31,268	31,268
Amount due to a related party	—	160	—	160	160
Bank borrowings	7.38	21,525	7,480	29,005	27,700
Financial lease obligation	8.91	3,977	—	3,977	3,664
		<u>56,930</u>	<u>7,480</u>	<u>64,410</u>	<u>62,792</u>

(c) **Fair value measurements of financial instruments**

Management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information approximate their fair values.

The Group has no financial instruments measured at fair value subsequent to initial recognition on a recurring basis throughout the Track Record Period.

During the Track Record Period, there were no transfers of fair value measurements between level 1 and level 2 and no transfers into or out of level 3.

29. COMMITMENTS

(a) **Operating lease commitments as lessee**

At the end of the Track Record Period, the Group had operating lease commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	The Group		
	As at 31 December 2015 RMB'000	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000
Within one year	—	300	329
In the second to fifth years inclusive	—	300	329
	<u>—</u>	<u>600</u>	<u>658</u>

Operating leases relate to warehouse and premises with lease terms of 2 to 3 years. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

(b) 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 Track Record Period as follows:

	The Group		
	As at	As at	As at
	31 December	31 December	31 December
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted but not provided for:			
- Property, plant and equipment	<u>107</u>	<u>329</u>	<u>385</u>

30. INVESTMENT IN A SUBSIDIARY**The Company**

	As at	As at	As at
	31 December	31 December	31 December
	2015	2016	2017
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted investment, at cost	<u>—</u>	<u>—</u>	<u>—</u>

The amount due from a subsidiary is unsecured, interest-free and repayable on demand. The amount is denominated in HK\$.

As at the date of this report, the Company has direct and indirect equity interests in the following subsidiaries:

Name of company	Date and place of incorporation/ establishment	Issued and fully paid share capital/ paid-up capital	Equity interest attributable to the Company as at				Principal activities	Notes:
			2015	31 December 2016	2017	the date of this report		
Wealthy Square Developments Limited ("Wealthy Square")	28 September 2015, the British Virgin Islands (the "BVI")	1 ordinary share of US\$1	100% (directly)	100% (directly)	100% (directly)	100% (directly)	Investment holding	(ii)
Dragon Shiner Development Limited ("Dragon Shiner")	24 July 2015, Hong Kong	HK\$1	100% (indirectly)	100% (indirectly)	100% (indirectly)	100% (indirectly)	Investment holding	(iii)
Xiezhong	16 November 2010, PRC	RMB5,000,000	100% (indirectly)	100% (indirectly)	100% (indirectly)	100% (indirectly)	(i) stamping components manufacturing; (ii) spray-painting components processing and (iii) powder-coating components processing in the PRC	(iv)

Notes:

- (i) 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 on any business other than those transactions relating to the Corporate Reorganisation.
- (ii) No audited statutory financial statements have been prepared for Wealthy Square since its date of incorporation as it was incorporated in a country where there is no statutory audit requirement.

- (iii) The statutory financial statements of Dragon Shiner for the year ended 31 December 2015 were prepared in accordance with the HKFRSs issued by the HKICPA and audited by Messer Chan Wing Fai Certified Public Accountant (Practising).
- (iv) The statutory financial statements of Xiezhong for the years ended 31 December 2015 and 2016 were prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC and were audited by 安徽智聯會計師事務所 (Anhui Zhilian Certified Public Accountants*), Certified Public Accountants registered in the PRC.

* English translation name is for identification purpose only.

31. PLEDGE OF ASSETS

Assets with the following carrying amounts have been pledged to secure banking facilities granted to the Group or borrowings of the Group:

	As at 31 December 2015 RMB'000	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000
Prepaid lease payments	9,974	9,756	9,538
Property, plant and equipment	16,506	12,775	11,922
Pledged bank deposits	<u>—</u>	<u>300</u>	<u>1,310</u>
	<u>26,480</u>	<u>22,831</u>	<u>22,770</u>

32. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed in Note 18 in the Historical Financial Information, the Group entered into the following significant related party transactions during the Track Record Period:

- (i) During the year ended 31 December 2015, the bank borrowings were secured by (i) the personal guarantees by Mr. Fan and his spouse and the close family members of Mr. Fan; and (ii) the charges over the properties of the close family members of Mr. Fan and Chuzhou Genxing. The respective guarantees and charges were released in June 2016.

- (ii) The Group also entered into the following significant related party transactions with related parties based on the term mutually agreed by both parties during the Track Record Period:

Name of related party	Nature of transaction	Year ended	Year ended	Year ended
		31 December	31 December	31 December
		2015	2016	2017
		RMB'000	RMB'000	RMB'000
滁州市新互興塗裝設備有限公司 (Chuzhou Xingexing Painting Equipment Company Limited*)	Purchase of property, plant and equipment	1,034	—	—
Chuzhou Lihua	Purchase of raw material	27	—	—
Chuzhou Genxing	Rental expense	—	300	310

* English translation name is for identification purpose only.

- (iii) Compensation of key management personnel

The remuneration of directors and other members of key management during the Track Record Period were as follows:

	Year ended	Year ended	Year ended
	31 December	31 December	31 December
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Salaries and other benefits in kind	108	113	113
Contributions to defined benefit plan	27	27	29
	<u>135</u>	<u>140</u>	<u>142</u>

33. RESERVES

The Company

	Share premium <i>RMB'000</i>	Translation reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
At the date of incorporation	—	—	—	—
Profit and total comprehensive income for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Balance at 31 December 2015 and 1 January 2016	—	—	—	—
Issue of new shares (Note 24)	30,680	—	—	30,680
Payments of dividends (Note 12)	(1,892)	—	—	(1,892)
Loss and total comprehensive income for the year	<u>—</u>	<u>2,294</u>	<u>(485)</u>	<u>1,809</u>
Balance at 31 December 2016 and 1 January 2017	28,788	2,294	(485)	30,597
Payments of dividends (Note 12)	(4,269)	—	—	(4,269)
Loss and total comprehensive expense for the period	<u>—</u>	<u>(1,855)</u>	<u>(1,303)</u>	<u>(3,158)</u>
Balance at 31 December 2017	<u>24,519</u>	<u>439</u>	<u>(1,788)</u>	<u>23,170</u>

34. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statements of cash flows as cash flows from financing activities.

	Amount due to a related party	Bank borrowings	Finance lease obligation	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 2015	8,407	35,800	—	44,207
Financing cash flows	(8,407)	(9,706)	—	(18,113)
Finance costs recognised	—	2,906	—	2,906
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2015 and 1 January 2016	—	29,000	—	29,000
Financing cash flows	300	(2,766)	4,320	1,854
Finance costs recognised	—	2,266	50	2,316
Sale and leaseback arrangements (Note)	—	—	1,457	1,457
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2016 and 1 January 2017	300	28,500	5,827	34,627
Financing cash flows	(140)	(3,279)	(2,661)	(6,080)
Finance costs recognised	—	2,479	498	2,977
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2017	<u>160</u>	<u>27,700</u>	<u>3,664</u>	<u>31,524</u>

Note: Sale and leaseback arrangements mainly represent a refundable performance security paid to a finance leasing corporation for a sale and leaseback agreement entered into in November 2016 and prepaid finance costs.

35. SUBSEQUENT EVENTS

The following significant events took place subsequent to 31 December 2017:

- (i) Pursuant to the written resolution of the shareholders of the Company passed on 31 March 2018, the Company has conditionally adopted a share option scheme, details of which are set out in the section headed “Statutory and General Information” in Appendix V to the Document.

- (ii) Pursuant to the written resolution of the shareholders of the Company passed on 31 March 2018, the Company has conditionally approved the issue of shares pursuant to the capitalisation issue. Details of which are set out in the section headed “Statutory and General Information” in Appendix V to the Document.

36. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to 31 December 2017.

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 the Group for the Track Record Period prepared by HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set out in Appendix I to this document, and is included in this document for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this document and the Accountants' Report set out in Appendix I to this document.

A. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets of the Group prepared in accordance with paragraph 7.31 of the GEM Listing Rules are set out below to illustrate the effect of the Share Offer on the consolidated net tangible assets of the Group attributable to the owners of the Company as of 31 December 2017 as if the Share Offer had taken place on that date.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group have been prepared for illustrative purposes only and, because of their hypothetical nature, they may not give a true picture of the consolidated net tangible assets of the Group had the Share Offer been completed as of 31 December 2017 or of any future dates. The unaudited pro forma adjusted consolidated net tangible assets are prepared based on the audited consolidated net tangible assets of the Group attributable to the owners of the Company as of 31 December 2017 as set out in the Accountants' Report of the Company, the text of which is set out in Appendix I to this document, and adjusted as described below.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2017 RMB'000 (Note 1)	Add: Estimated net proceeds from the Share Offer RMB'000 (Note 2)	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company RMB'000	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share RMB cents HK cents (Note 3) (Note 5)	
Based on the Offer Price of HK\$0.48 per Share	<u>40,558</u>	<u>30,362</u>	<u>70,920</u>	<u>16.89</u>	<u>20.89</u>
Based on the Offer Price of HK\$0.52 per Share	<u>40,558</u>	<u>33,486</u>	<u>74,044</u>	<u>17.63</u>	<u>21.81</u>

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

1. The audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2017 are based on audited consolidated net assets of the Group attributable to owners of the Company as at 31 December 2017 of approximately RMB40,558,000 extracted from the Accountants' Report set out in Appendix I to this document.
2. The estimated net proceeds from the Share Offer are based on Offer Price of lower limit and upper limit of HK\$0.48 and HK\$0.52 per Offer Share, respectively, after deduction of relevant estimated underwriting fees and other related fees and expenses but without taking into account any Offer Shares which may fall to be allotted and issued upon exercise of the Offer Size Adjustment Option. The estimated net proceeds from the Share Offer are converted from Hong Kong dollars ("HK\$") to Renminbi ("RMB") at an exchange rate of HK\$1.00 to RMB0.8082. No representation is made that HK\$ amounts have been, could have been or may be converted into RMB, or vice versa, at that rate.
3. The unaudited pro forma adjusted consolidated net tangible assets per Share are determined after the adjustments as described in Notes 1 and 2 above and on the basis that 420,000,000 Shares are issued and outstanding as set out in the section headed "Share Capital" in this document, but take no account of any Offer Shares which may fall to be allotted and issued upon exercise of the Offer Size Adjustment Option.
4. 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 2017).
5. The unaudited pro forma adjusted consolidated net tangible assets per Share is converted into HK\$ at an exchange rate of RMB0.8082 to HK\$1.00. No representation is made that RMB amounts have been, could have been or may be converted into HK\$, or vice versa, at that rate.

B. LETTER FROM THE REPORTING ACCOUNTANTS 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 document.



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

**INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

To the Directors of Bao Shen Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Bao Shen 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 consolidated net tangible assets of the Group as at 31 December 2017, and related notes (the "Unaudited Pro Forma Financial Information") as set out in Section A of Appendix II to the document issued by the Company dated 9 April 2018 (the "Document"). 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 Share Offer (as defined in the Document) of the Company on the Group's financial position as at 31 December 2017 as if the Share Offer had taken place at 31 December 2017. 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 year ended 31 December 2017, 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 GEM 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").

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 behavior.

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 Document 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 2017 would have been as presented.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

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:

- 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.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Lo Kin Kei
Practising Certificate Number: P06413

Hong Kong, 9 April 2018

The following is the text of a letter, summary of valuation and valuation certificate, prepared for the purpose of incorporation in this prospectus received from Asset Appraisal Limited, an independent property valuer, in connection with its valuation as at 31 January 2018 the property interests held by the Group.

**Asset Appraisal Limited****中誠達資產評值顧問有限公司**

Rm 901 9/F On Hong Commercial Building
No.145 Hennessy Road Wanchai HK
香港灣仔軒尼詩道145號安康商業大廈9樓901室
Tel: (852) 2529 9448 Fax: (852) 3521 9591

9 April 2018

The Board of Directors
Bao Shen Holdings Limited

Dear Sirs,

An Industrial Complex
No. 719 Shuangying Avenue
Chuzhou City, Anhui Province
the People's Republic of China (the "PRC")

In accordance with the instructions of **Bao Shen Holdings Limited** (the "**Company**") to value the property interests (the "**Property**") held by the Company or its subsidiaries (altogether referred to as the "**Group**") situated in the PRC, we confirm that we have carried out inspections of the Property, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Property as at **31 January 2018** (the "**date of valuation**").

BASIS OF VALUATION

Our valuation of the Property represents the market value which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

TITLESHIP

We have been provided with copies of legal documents regarding the Property. However, we have not verified ownership of the Property and the existence of any encumbrances that would affect their ownership.

Further, we have relied upon the legal opinion provided by the PRC legal advisers, namely Beijing Dentons Law Offices, LLP (Shanghai) (北京大成(上海)律師事務所) (the “**PRC Legal Opinion**”), to the Company on the relevant laws and regulations in the PRC, on the nature of leasehold interests in the property situated in the PRC. Its material content has been summarised in the valuation certificate attached herewith.

VALUATION METHODOLOGY

The Property is valued by the comparison method where comparison based on prices realised or market prices of comparable properties is made. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values.

ASSUMPTIONS

Our valuation has been made on the assumption that the Group sells its interests in the Property on the market without the benefit of deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to affect the value of the property interests.

As the Property are held by the Group under leasehold interest, we have assumed that the Group has free and uninterrupted rights to use the Properties for the whole of the respective unexpired terms of the leasehold interests.

Other special assumptions for our valuation (if any) would be stated out in the footnotes of the valuation certificate attached herewith.

LIMITING CONDITIONS

No allowance has been made in our report for any charges, mortgages or amounts owing on the Properties valued nor for any expenses or taxation. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the floor areas in respect of the Properties but have assumed that the floor areas shown on the legal documents handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

The Property was last inspected on 28 February 2018 by Mr. Zhou Tong, who is a registered PRC registered property appraiser. We have inspected the exterior and, where possible, the interior of the

Property. However, no structural survey has been made for them. In the course of our inspection, we did not note any apparent defects. We are not, however, able to report whether the buildings and structures inspected by us are free of rot, infestation or any structural defect. No test was carried out on any of the building services and equipment.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

In valuing the Property, we have complied with all the requirements contained in Chapter 8 to the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange issued by The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors.

Our valuation certificate is attached herewith.

Yours faithfully,
for and on behalf of
Asset Appraisal Limited

Tse Wai Leung
MFin BSc MRICS MHKIS RPS(GP)
Director

Tse Wai Leung is a member of the Royal Institution of Chartered Surveyors, a member of The Hong Kong Institute of Surveyors, a Registered Professional Surveyor in General Practice and a qualified real estate appraiser in the PRC. He is on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors, Registered Business Valuer under the Hong Kong Business Valuation Forum and has over 10 years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.

VALUATION CERTIFICATE

Properties held and occupied by the Group

Property	Description and tenure	Particulars of occupancy	Value of property interests attributable to the Group as at 31 January 2018																					
An Industrial Complex No.719 Shuangying Avenue, Chuzhou City, Anhui Province, The PRC. (位於安徽省滁州市雙迎大道719號之廠房)	<p>The property comprises a parcel of industrial land with an area of 62,416 square metres on which 4 blocks of single to 2-storey workshops and various ancillary structures were erected.</p> <p>The property was completed in about 2013 and has a total gross floor area (GFA) of 27,281.96 square metres as broken down into the followings:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;"><u>Block No.</u></th> <th style="text-align: left;"><u>Storey</u></th> <th style="text-align: right;"><u>GFA</u> (sq. m.)</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>1</td> <td style="text-align: right;">6,992.87</td> </tr> <tr> <td>2</td> <td>1</td> <td style="text-align: right;">4,815.11</td> </tr> <tr> <td>3</td> <td>1</td> <td style="text-align: right;">6,021.64</td> </tr> <tr> <td>4</td> <td>2</td> <td style="text-align: right;">4,709.96</td> </tr> <tr> <td>4</td> <td>2</td> <td style="text-align: right;">4,742.38</td> </tr> <tr> <td colspan="2" style="text-align: right;">Total:</td> <td style="text-align: right;">27,281.96</td> </tr> </tbody> </table>	<u>Block No.</u>	<u>Storey</u>	<u>GFA</u> (sq. m.)	1	1	6,992.87	2	1	4,815.11	3	1	6,021.64	4	2	4,709.96	4	2	4,742.38	Total:		27,281.96	The property is occupied by the Group as a production base.	RMB40,000,000
<u>Block No.</u>	<u>Storey</u>	<u>GFA</u> (sq. m.)																						
1	1	6,992.87																						
2	1	4,815.11																						
3	1	6,021.64																						
4	2	4,709.96																						
4	2	4,742.38																						
Total:		27,281.96																						
	<p>The aforesaid buildings were completed in 2013.</p> <p>The land use rights of the property have been granted for a term expiring on 29 August 2061 for industrial use.</p>																							

Notes:

1. As revealed by a Grant Contract for State-owned Land Use Rights (341100 Chu Rang (2011) No.086, 341100 出讓(2011)086號) entered into between the Chuzhou Land Resource Administrative Bureau (滁州市國土資源局, as Grantor) and Chuzhou Xiezhong Home Appliance Accessories Co., Ltd. (滁州市協眾家電配件有限公司, as Grantee) on 19 August 2011, the Grantor has granted the land use rights of the Property with an area of 62,416 square metres to the Grantee for a term of 50 years for industrial use at a land premium of RMB10,500,000. As advised by the Company and stated in the PRC Legal Opinion, the land premium has been fully settled.
2. As revealed by a State-owned Land Use Rights Certificate (Ref: Chu Guo Yong (2012) No.09092, 滁國用(2012)第09092號) dated 10 October 2012, the land use rights of the Property with an area of 62,416 square metres are held by Chuzhou Xiezhong Home Appliance Accessories Co., Ltd., for a term expiring on 29 August 2061 for industrial use.
3. As revealed by the Building and Land Ownership Certificates (房地產權證, Ref: Fang Di Quan Chu Zi No. 2013007131, 房地權證滁字第2013007131號) registered on 15 March 2013, the land and building ownership rights of Block No. 1 of the Property with a gross floor area of 6,992.87 square metres are held by Chuzhou Xiezhong Home Appliance Accessories Co., Ltd. for industrial use.
4. As revealed by another Building and Land Ownership Certificates (Ref: Fang Di Quan Chu Zi No. 2013007134, 房地權證滁字第2013007134號) registered on 15 March 2013, the land and building ownership rights of Block No. 2 of the Property with a gross floor area of 4,815.11 square metres are held by Chuzhou Xiezhong Home Appliance Accessories Co., Ltd. for industrial use.
5. As revealed by another Building and Land Ownership Certificates (Ref: Fang Di Quan Chu Zi No. 2013007133, 房地權證滁字第2013007133號) registered on 15 March 2013, the land and building ownership rights of Block No. 3 of the Property with a gross floor area of 6,021.64 square metres are held by Chuzhou Xiezhong Home Appliance Accessories Co., Ltd. for industrial use.
6. As revealed by another Building and Land Ownership Certificates (Ref: Fang Di Quan Chu Zi No. 2013007132, 房地權證滁字第2013007132號) registered on 15 March 2013, the land and building ownership rights of Block No. 4 of the Property with a total gross floor area of 9, 452.34 square metres are held by Chuzhou Xiezhong Home Appliance Accessories Co., Ltd. for industrial use.
7. Pursuant to the Mortgage Agreement (Ref: Cheng Zhong Zhi Hang Zui Gao Di Zi 2016 No. 0019, 城中支行最高抵字2016第0019號) and the Banking Facilities Agreement (Ref: Cheng Zhong Zhi Hang Liu Jie Zi 2016 No. 0423, 城中支行流借字2016第0423號) both dated 30 June 2016, Block Nos. 2 and 4 of the Property have been pledged for a loan in favour of Chuzhou Wandong Rural Commercial Bank Limited Chengzhong Branch (滁州皖東農村商業銀行股份有限公司城中支行) with a loan period from 30 June 2016 to 30 June 2018.
8. Pursuant to the Mortgage Agreement (Ref: Cheng Zhong Zhi Hang Di Zi 2017 No. 0658, 城中支行抵字2017第0658號) dated 15 September 2017 and the Banking Facilities Agreement (Ref: Cheng Zhong Zhi Hang Liu Jie Zi 2017 No. 1150, 城中支行流借字2017第1150號) dated 15 September 2017, the subject land parcel of the property has been pledged for a loan in favour of Chuzhou Wandong Rural Commercial Bank Limited Chengzhong Branch (滁州皖東農村商業銀行股份有限公司城中支行) with a loan period from 15 September 2017 to 15 March 2019.
9. Pursuant to the Mortgage Agreement (Ref: Cheng Zhong Zhi Hang Di Zi 2018 No. 0021, 城中支行抵字2018第0021號) and the Banking Facilities Agreement (Ref: Cheng Zhong Zhi Hang Liu Jie Zi 2018 No. 0118, 城中支行流借字2018第0118號) both dated 19 March 2018, Block Nos. 1 and 3 of the Property have been pledged for a loan in favour of Chuzhou Wandong Rural Commercial Bank Limited Chengzhong Branch (滁州皖東農村商業銀行股份有限公司城中支行) with a loan period from 19 March 2018 to 19 March 2019.

10. In accordance with the information provided by the Group, the status of title and grant of major approvals and licences are as follows:

State-owned Land Use Rights Certificate	:	Yes (see note 2 above)
Building Ownership Certificate	:	Yes (see note 3 to 6 above)

11. The opinion from the PRC legal adviser of the Company on the property is as follows:

- i. Chuzhou Xiezhong Home Appliance Accessories Co., Ltd. has obtained the title certificates for the Property and is the sole legal owner of the Property. It has the rights to transfer, lease or mortgage the Property in favour of any third party free from any additional land premium or any charge. It also has the right to occupy and use the Property subject to the restrictions imposed by the title certificates of the Property and the PRC laws. The existing use of the Property is consistent with its registered use. Its building ownership rights in the Property are protected by the PRC laws.
- ii. Chuzhou Xiezhong Home Appliance Accessories Co., Ltd. has completed the necessary registration procedures for pledging the Property to the mortgage loans mentioned in note 7 to 9 above in the Chuzhou Property Administration Bureau and the following Encumbrance Rights Certificates (他項權利證) have been issued:
 - Wan (2018) Chu Zhou Shi Bu Dong Chan Zheng Ming No. 0012179 (皖(2018)滁州市不動產證明第0012179號) for Block No. 1 of the Property
 - Wan (2018) Chu Zhou Shi Bu Dong Chan Zheng Ming No. 0012180 (皖(2018)滁州市不動產證明第0012180號) for Block No. 3 of the Property
 - Wan (2016) Chu Zhou Shi Bu Dong Chan Zheng Ming No. 0017117 (皖(2016)滁州市不動產證明第0017117號) for Block No. 2 of the Property
 - Wan (2016) Chu Zhou Shi Bu Dong Chan Zheng Ming No. 0017120 (皖(2016)滁州市不動產證明第0017120號) for Block No. 4 of the Property
 - Wan (2017) Chu Zhou Shi Bu Dong Chan Zheng Ming No. 0034407 (皖(2017)滁州市不動產證明第0034407號) for the subject land parcel of the Property
- iii. Except for the aforesaid mortgages, the Property is not subject to any other encumbrances and third parties' right. The Property does not have any dispute, potential dispute on the title, and other restriction on the property rights.

APPENDIX IV 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 14 December 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 31 March 2018. 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 authorised representative) or

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) *Alteration of capital*

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; and (g) change the currency of denomination of its share capital.

(iv) *Transfer of shares*

Subject to the Companies Law and the requirements of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register. Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on

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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.

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(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.

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(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.

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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 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.

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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 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.

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(v) *Remuneration*

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, pro rata. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

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(vi) Compensation or payments for loss of office

Payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually or statutorily entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more of the Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(viii) Disclosure of interest in contracts with the Company or any of its subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

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There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (aa) the giving of any security or indemnity to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has/have himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries, including the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or his close associate(s) any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (ee) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities. 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.

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(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.

(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.

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At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the GEM Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorised corporate representative):

- (A) at least two members;
- (B) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (C) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that any member is, under the GEM Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(iii) *Annual general meetings*

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

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(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.

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.

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(vi) *Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(e) **Accounts and audit**

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the 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.

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Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarised financial statements to shareholders who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarised financial statements instead of the full financial statements. The summarised financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

(f) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;
- (ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and
- (iii) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

- (aa) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or

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(bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20% per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

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(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 summarized in paragraph 3(f) of this Appendix.

(i) **Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up, the surplus assets remaining after payment to all creditors shall be divided among the members in proportion to the capital paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the surplus assets available for distribution among the members are insufficient to repay the whole of the paid-up capital, such assets shall be distributed, subject to the rights of any Shares which may be issued on special terms and conditions, so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the 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.

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(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.

3. **CAYMAN ISLANDS COMPANY LAW**

The Company was incorporated in the Cayman Islands as an exempted company on 14 December 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

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- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorise the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the 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.

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A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

Subject to a solvency test, as prescribed in the 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.

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(g) Disposal of assets

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

(h) Accounting and auditing requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet that:

- (i) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and

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(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 2 February 2016.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

(n) Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands.

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(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.

(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

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appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

(q) **Reconstructions**

Reconstructions and amalgamations may be approved by a majority in number representing 75% in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management, and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(r) **Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

(s) **Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

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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 Available for Inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

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 14 December 2015. Our Company has established a principal place of business in Hong Kong at Room 1603, 16/F, China Building, 29 Queen's Road Central, Central, Hong Kong and was registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance on 27 December 2017. Adrian Yeung & Cheng of Suite 1201-2A, 12th Floor, Golden Centre, No.188 Des Voeux Road Central, Central, Hong Kong 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 our constitution, which comprises the Memorandum and the Articles. A summary of various provisions of our constitution and relevant aspects of the Companies Law is set out in Appendix IV to this prospectus.

2. Changes in share capital of our Company

- (a) As at the date of incorporation, our Company has an authorised share capital of HK\$380,000 divided into 38,000,000 Shares with a par value of HK\$0.01 each. One Share was allotted and issued as fully paid at par to the subscriber on 14 December 2015, and was subsequently transferred to Wang Mao Investments on the same day. 74 and 25 Shares were allotted and issued as fully paid at par to Wang Mao Investments and Season Empire Group respectively on the same day. After the aforesaid transfer and allotment of Shares, 75 Shares and 25 Shares were held by Wang Mao Investments and Season Empire Group respectively and our Company was held by Wang Mao Investments as to 75% and by Season Empire Group as to 25%.
- (b) As part of the Reorganisation, on 1 April 2016, 2,875 Shares were allotted and issued as fully paid to Wang Mao Investments at the consideration of HK\$36,900,000. On the same day, 7,025 Shares were allotted and issued fully paid at par to Wang Mao Investments. After the aforesaid allotment of Shares, 7,100 Shares and 2,900 Shares were held by Wang Mao Investments and Season Empire Group respectively and our Company was held by Wang Mao Investments as to 71% and by Season Empire Group as to 29%.
- (c) On 31 March 2018, our Company resolved to increase the authorised share capital of our Company from HK\$380,000 to HK\$20,000,000 by the creation of an additional of 1,962,000,000 Shares, each ranking pari passu with the Shares then in issue in all respects.
- (d) Immediately following completion of the Share Offer and the Capitalisation Issue and taking no account any Share which may be issued pursuant to the exercise of the Offer Size Adjustment Option and any option which may be granted under the Share Option Scheme, 420,000,000 Shares will be issued fully paid or credited as fully paid, and 1,580,000,000 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 31 March 2018” in this appendix and pursuant to the Offer Size Adjustment Option and 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 the 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 31 March 2018

On 31 March 2018, 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 IV to this prospectus;
- (b) the Company increased its authorised share capital from HK\$380,000 divided into 38,000,000 Shares of a par value HK0.01 each to HK\$20,000,000 divided into 2,000,000,000 Shares of a par value HK\$0.01 each by the creation of additional 1,962,000,000 new Shares of a par value HK\$0.01 each, each ranking pari passu in all respects with our Shares in issue at the date of passing of these resolutions;
- (c) conditional on the Listing Division granting listing of, and permission to deal in, the 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 Offer Size Adjustment Option and any option granted under the Share Option Scheme) and on the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise, in each case on or before the date falling 30 days after the date of this prospectus:
 - (i) the Share Offer and the Offer Size Adjustment Option were approved and the Directors were authorised to allot and issue the Offer Shares pursuant to the Share Offer and any Shares which may be required to be allotted and issued upon the exercise of the Offer Size Adjustment Option 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 the 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 the 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;

- (iii) conditional further on the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorised to capitalise an amount of HK\$3,149,900 standing to the credit of the share premium account of our Company and to appropriate such amount as to capital to pay up in full at par 314,990,000 Shares for allotment and issue to the persons whose names appear on the register of members of our Company at the close of business on 31 March 2018 in proportion (as nearly as possible without involving fractions) to their then existing shareholdings in our Company, each ranking *pari passu* in all respects with the then existing issued Shares, and the Directors were authorised to give effect to such capitalisation and distributions and the Capitalisation Issue was approved;
- (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 the Offer Size Adjustment Option and 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 Memorandum and the Articles or pursuant to a specific authority granted by the Shareholders in general meeting or pursuant to the Share Offer and the Capitalisation Issue, 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 such number of Shares not exceeding 20% of the total number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option and any option 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 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 the Shareholders in general meeting;
- (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 total number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the

exercise of the Offer Size Adjustment Option and any option 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 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 the Shareholders in general meeting; and
- (f) the general unconditional mandate mentioned in sub-paragraph (d) above was extended by the addition to such number of Shares which may be allotted or agreed to be allotted by our Directors pursuant to such general mandate of an amount representing the number of Shares 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 total number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option and any option which may be granted under the Share Option Scheme.

4. Corporate Reorganisation

The companies comprising our Group underwent the Reorganisation in preparation for the Listing pursuant to which our Company became the holding company of our Group. For detailed steps of the Reorganisation, please refer to the section headed “History, Reorganisation and Group Structure — Reorganisation” in this prospectus.

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, Reorganisation and Group Structure — 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 the 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 31 March 2018, a general unconditional mandate (the “**Repurchase Mandate**”) was granted to the 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 total number of Shares in issue immediately following completion of the Share Offer and the Capitalisation Issue (taking no account any Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option and any option which may be granted 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 Memorandum and 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 the 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 the 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 the 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 420,000,000 Shares in issue immediately after completion of the Share Offer and the Capitalisation Issue (taking no account any Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option and any option which may be granted under the Share Option Scheme), the Directors would be authorised under the Repurchase Mandate to repurchase up to 42,000,000 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 the Directors to have a general authority from the 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 the Directors believe that such repurchases will benefit our Company and the 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 the 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), 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 the 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 the 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 the Directors exercise the power in full to repurchase the 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) a subscription agreement dated 1 April 2016 entered into between Season Empire Group as subscriber and our Company as issuer pursuant to which Season Empire Group acquired 2,875 newly issued shares in our Company at a consideration of HK\$36,900,000;
- (b) an equity interest transfer agreement dated 8 May 2016 entered into between Dragon Shiner Development and Mr. Fan, pursuant to which Dragon Shiner Development acquired 71% equity interests of Xiezhong Home Appliances from Mr. Fan at the consideration of RMB9,990,000;
- (c) an equity interest transfer agreement dated 8 May 2016 entered into between Dragon Shiner Development and Gift Horizon, pursuant to which Dragon Shiner Development acquired 29% equity interests of Xiezhong Home Appliances from Gift Horizon at the consideration of RMB4,080,000;
- (d) the Deed of Non-competition;
- (e) the Deed of Indemnity; and
- (f) the Public Offer Underwriting Agreement.

2. Intellectual property rights of our Group

(a) *Domain name(s)*

As at the Latest Practicable Date, our Group had registered the following domain names:

Registered Owner	Domain Name	Registration Date	Expiry Date
Dragon Shiner Development	www.baoshen.com.hk	5 September 2017	5 September 2018

3. Information about the PRC subsidiary of our Group

Xiezhong Home Appliances

Date of establishment	:	16 November 2010
Corporate nature	:	limited liability company (wholly foreign-owned enterprise)
Paid-up registered capital	:	RMB5,000,000
Attributable effective interest of our Company	:	100%
Term	:	16 November 2010 to 15 November 2020
Scope of business	:	engaged in the production, processing and sales of components of white goods
Legal representative	:	Mr. Fan

C. 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*

So far as the Directors are aware, immediately following the completion of the Share Offer and the Capitalisation Issue, but taking no account any Shares which may be issued upon the exercise of the Offer Size Adjustment Option and any option which may be granted under the Share Option Scheme, the interests and short positions of the Directors or chief executive of our Company in the 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 the 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 the Directors, to be notified to our Company and the Stock Exchange, will be as follows:

(i) *Long position in the Shares*

Name of Director	Capacity/ Nature of interest	Number of Shares held/ interested in	Percentage of shareholding
Mr. Fan (<i>Note 1</i>)	Interest in a controlled corporation	223,650,000	53.25%
Mr. Zhou (<i>Note 2</i>)	Interest in a controlled corporation	91,350,000	21.75%

Notes:

1. Mr. Fan beneficially owns 100% of the entire issued share capital of Wang Mao Investments. Therefore, Mr. Fan is deemed, or taken to be, interested in all the Shares held by Wang Mao Investments for the purposes of the SFO.
2. Mr. Zhou beneficially owns 100% of the entire issued share capital of Season Empire Group. Therefore, Mr. Zhou is deemed, or taken to be, interested in all the Shares held by Season Empire Group for the purposes of the SFO.

(ii) *Long position in the ordinary shares of associated corporations*

Name of Director	Name of associated corporation	Capacity/ Nature	Number of shares held/ interested in	Percentage of interest in the associated corporation
Mr. Fan	Wang Mao Investments	Beneficial owner	1	100%
Mr. Zhou	Season Empire Group	Beneficial owner	1	100%

(b) *Interests of substantial and other Shareholders in the Shares and Underlying Shares*

So far as our Directors are aware and taking no account of any Shares which may be issued pursuant to the Offer Size Adjustment Option and any option 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 Capitalisation Issue and the Share Offer, have interests or short positions in the Shares or underlying Shares which would be required 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 Shares held/ interested in	Percentage of interest in our Company
Wang Mao Investments	Beneficial Interest	223,650,000	53.25%
Ms. Cao (<i>Note 1</i>)	Interest of spouse	223,650,000	53.25%
Season Empire Group	Beneficial interest	91,350,000	21.75%

Note:

1. Ms. Cao is the spouse of Mr. Fan. For the purposes of the SFO, Ms. Cao is deemed or taken to be interested in all our Shares in which Mr. Fan has, or is deemed to have, an interest for the purpose of the SFO.

2. Particulars of service contracts

None of our Directors has or is proposed to have any service agreement with our Company or any of its subsidiaries (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

3. Remuneration of Directors

- (a) The aggregate remuneration paid by our Group to our Directors in the capacity of directors for each of the years ended 31 December 2015, 2016 and 2017 were approximately RMB135,000, RMB140,000 and RMB142,000 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 the Directors for the year ending 31 December 2018 will be approximately RMB142,000.

- (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 the Directors will be as follows:

Executive Directors	<i>HK\$</i>
Mr. Fan Baocheng	240,000
Mr. Zhou Zhen Dong	240,000
Independent non-executive Directors	<i>HK\$</i>
Mr. Liang Chi	96,000
Mr. Ho Ka Chun	120,000
Mr. Chan Chun Chi	120,000

4. Agency fees or commissions received

Save as disclosed in the section headed “Underwriting — Underwriting Arrangements, Commissions and Expenses — Commission and expenses” in this prospectus, none of the Directors or the experts named in the paragraph headed “E. Other information — 7. 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 32 to the Accountants’ Report set forth in Appendix I to this prospectus.

6. Disclaimers

Save as disclosed in this prospectus:

- (a) taking no account any Shares which may be issued upon the exercise of the Offer Size Adjustment Option and any option which may be granted under the Share Option Scheme, the 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 Share Offer and the Capitalisation Issue, have an interest or short position in the 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 the 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 the Directors, to be notified to our Company and the Stock Exchange, in each case once the Shares are listed on the GEM;

- (c) none of our Directors or the experts named in the paragraph headed “E. Other Information —
6. 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 “E. Other Information —
6. 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 “E. Other Information —
6. 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.

D. SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme on 31 March 2018. The following is a summary of the principal terms of the Share Option Scheme but does not form, 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.

1. Definitions

For the purpose of this section, the following expressions have the meanings set out below unless the context requires otherwise:

“Adoption Date”	31 March 2018, the date on which the Share Option Scheme is conditionally adopted by the Shareholders by way of written resolutions
“Board”	the board of Directors or a duly authorised committee of the board of Directors
“Business Day”	any day on which the Stock Exchange is open for the business of dealings in securities
“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

2. 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 31 March 2018:

(a) *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 (full-time and part-time), directors, consultants, advisers, distributors, contractors, suppliers, agents, customers, business partners or services providers of our Group and to promote the success of the business of our Group.

(b) *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 service provider of our Group, options to subscribe at a price calculated in accordance with paragraph (c) 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 the Board (or as the case may be, the 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.

(c) *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 highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer for the grant of the option, which must be a Business Day; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the date of offer for the grant of the option; and (iii) the nominal value of a Share on the date of grant of the option. 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 issue price of the Shares on the Stock Exchange shall be used as the closing price for any Business Day fall within the period before Listing.

(d) *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.

(e) *Maximum number of Shares*

- (i) subject to sub-paragraph (ii) and (iii) 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 the Shares in issue as at the Listing Date. Therefore, it is expected that our Company may grant options in respect of up to 42,000,000 Shares (or such numbers of Shares as shall result from a sub-division or a consolidation of such 42,000,000 Shares from time to time) to the participants under the Share Option Scheme.
- (ii) the 10% limit as mentioned above may be refreshed at any time by 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 the 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 and 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.

- (iii) subject to sub-paragraph (iv) below, our Company may seek separate approval from the 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 the 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 and all other information required under the GEM Listing Rules.
- (iv) 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 the 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.

(f) ***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 or other share option schemes of our Company, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue. Any further grant of options in excess of such limit must be separately approved by the Shareholders in general meeting with such grantee and his close associates (or his associates if such grantee is a connected person) 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 the Board meeting proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

(g) ***Grant of options to certain connected persons***

- (i) 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).
- (ii) 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 issued upon exercise of all options already granted 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:

- (aa) representing in aggregate over 0.1% of the Shares in issue; and
- (bb) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million.

Such further grant of options is required to be approved by our 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. The grantee, his associates and all core connected persons of our Company must abstain from voting (except where any grantee, his associates or core connected person intends to vote against the proposed grant and his intention to do so has been stated in the aforesaid circular). 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 our Shareholders in the aforesaid manner.

(h) *Restrictions on the times of grant of options*

- (i) Our Company may not grant any options 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:
 - (aa) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or other interim period (whether or not required under the GEM Listing Rules); and
 - (bb) the deadline for our Company to publish an announcement of the results for any year, half-year or quarter-year period under the GEM Listing Rules, or other interim period and ending on the date of the results announcement (whether or not required under the GEM Listing Rules).
- (ii) Further to the restrictions in paragraph (i) above, no option may be granted to a Director on any day on which financial results of our Company are published and:
 - (aa) 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

(bb) 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.

(i) ***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 the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

(j) ***Performance targets***

Save as determined by the Board and provided in the offer of the grant of the relevant options, there is no performance target which must be achieved before any of the options can be exercised.

(k) ***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 the 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.

(l) ***Rights are personal to grantee***

An option shall not be transferable or assignable and shall be personal to the grantee of the option.

(m) ***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 (n) below arises within a period of three 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 (q), (r) and (s) below occurs prior to his death or within such period of 12 months following his death, then his legal personal representative(s) may so exercise the option within such of the various periods respectively set out therein.

(n) ***Rights on cessation of employment by dismissal***

In the event that the grantee is an employee of our Group at the date when an offer for the grant is made 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 or her creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or (if so determined by the 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.

(o) ***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 (n) above, the option (to the extent not already exercised) shall lapse on the expiry of three 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).

(p) ***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 as near as 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.

(q) ***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 lapsed or exercised) at any time within one month after the date on which the offer becomes or is declared unconditional.

(r) ***Rights on winding-up***

In the event a notice is given by our Company to our 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 two 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 the 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.

(s) *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 lapsed or 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 the 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, lapsed and determined. The Board shall endeavour to procure that the 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 wilful default on the part of our Company or any of our officers.

(t) *Lapse of options*

An option shall lapse automatically on the earliest of:

- (i) the expiry of the period referred to in paragraph (i) above;

- (ii) the date on which the Board exercises our Company's right to cancel, revoke or terminate the option on the ground that the grantee commits a breach of paragraph (l);
- (iii) the expiry of the relevant period or the occurrence of the relevant event referred to in paragraphs (m), (n), (o), (q), (r) or (s) above;
- (iv) subject to paragraph (r) above, the date of the commencement of the winding-up of our Company;
- (v) 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;
- (vi) 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
- (vii) subject to the compromise or arrangement as referred to in paragraph (s) become effective, the date on which such compromise or arrangement becomes effective.

(u) *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 the Board may in its absolute discretion sees fit and in manner that complies with all applicable legal requirements for such cancellation.

(v) *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.

(w) *Alteration to the Share Option Scheme*

- (i) The Share Option Scheme may be altered in any respect by resolution of the 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.
- (ii) Any alteration to any terms and conditions 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 our Shareholders in general meeting except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

- (iii) 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.

(x) *Termination of 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.

(y) *Conditions of the Share Option Scheme*

The Share Option Scheme is conditional upon the Listing Division of the Stock Exchange granting the listing of, and permission to deal in the Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and commencement of dealings in the Shares on the Stock Exchange.

(z) *Present status of the Share Option Scheme*

Application has been made to the Listing Division of the Stock Exchange for the listing of, and permission to deal in, 42,000,000 Shares which fall to be issued pursuant to the exercise of any 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.

E. OTHER INFORMATION

1. Tax and other indemnities

Our Controlling Shareholders have, under a Deed of Indemnity, given joint and several indemnities to our Company for itself and as trustee for its subsidiaries in connection with, among other things,

- (a) any liability for Hong Kong estate duty which is or hereafter become payable by any member of our Group under or by virtue of the provisions of section 35 and/or section 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or any similar legislation in any relevant jurisdiction outside Hong Kong arising on the death of any person at any time by reason of any transfer of any property to any member of our Group on or before the date on which the Share Offer becomes unconditional;
- (b) 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 the Share 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 the Share Offer becomes unconditional, but the indemnifiers will not be liable under paragraph (a) above and this paragraph (b) to the extent that:

- (i) specific provision, reserve or allowance has been made for such taxation liability in the audited combined accounts of the Company or any member of our Group for the Track Record Period;
 - (ii) 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 the Share Offer becomes unconditional; or
 - (iii) the taxation liability arises in the ordinary course of business of the Company and/or any members of our Group after 31 December 2017 up to and including the date on which the Share Offer becomes unconditional;
- (c) any penalties, claims, actions, demands, proceedings, judgments, losses, payments, liabilities, damages, settlement payments, costs, administrative or other charges, fees, expenses and fines of whatever nature (which shall include legal fees and costs) which may be imposed on, suffered or incurred by any member of our Group as a result of directly or indirectly or in connection with:
- (i) any litigation, arbitrations, claims (including counter-claims), complaints, demands and/or legal proceedings, whether of criminal, administrative, contractual, tortious or otherwise, instituted by or against any member of our Group in relation to any act, non-performance, omission, events or otherwise occurred on or before the date on which the Share Offer becomes unconditional;
 - (ii) the implementation of the Reorganisation undergone by our Group in preparation for the Listing and/or disposal or acquisition of the equity interest in any member of our Group since the date of incorporation of each member of our Group and up to the date on which the Share Offer becomes unconditional; and
 - (iii) any non-compliance with the applicable laws, rules or regulations by the Company and/or any member of our Group on or before the date on which the Share Offer becomes unconditional,

except that provision, reserve or allowance has been made for such liabilities in the audited consolidated financial statements of the Company for the Track Record Period (if any).

Our Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands is likely to fall on our Group.

2. **Litigation**

Our directors confirmed that as at the Latest Practicable Date, 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 Listing Division for listing of and permission to deal in the Shares in issue and to be issued as mentioned herein (including any Shares which may fall to be issued pursuant to the exercise of the Offer Size Adjustment Option and the options which may be granted under the Share Option Scheme).

The Sole Sponsor has confirmed to the Stock Exchange that it satisfies the independence test as stipulated under Rule 6A.07 of the GEM Listing Rules.

We agreed to pay the Sole Sponsor a fee of HK\$4.5 million, which relates solely to services provided by the Sole Sponsor in the capacity of sponsor.

4. **Preliminary expenses**

The preliminary expenses relating to the incorporation of our Company are estimated to be approximately HK\$39,000 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
Cinda International Capital Limited	A licensed corporation under the SFO to carry on 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
Beijing Dentons Law Offices, LLP (Shanghai)	Legal advisers as to PRC law
Appleby	Legal advisers as to Cayman Islands law
Ipsos Limited	Industry research consultant
Asset Appraisal Limited	Property valuer

7. Consents of experts

Each of the experts named in the sub-section headed “E. Other information — 6. Qualifications of Experts” in this appendix 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 (Chapter 32 of the Laws of Hong Kong) 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 the Shares to be admitted into CCASS.

10. No material adverse change

Save for the expenses expected to be incurred in connection with the Listing, our Directors confirm 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 2017 (being the date to which the latest audited financial statements of our Group were made up), and there is no event since 31 December 2017 which would materially affect the information shown in our consolidated financial information included in the Accountants’ Report set forth in Appendix I to this 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 Share 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. **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 24 months immediately preceding the date of this prospectus;

(iii) none of the experts named in the sub-section headed “E. Other Information — 6. Qualification of Experts” in this appendix:

(aa) is interested beneficially or non-beneficially in any securities in any member of our Group, including our 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) no company within our Group is presently listed on any stock exchange or traded on any trading system; and
 - (vi) our Group has no outstanding convertible debt securities.
- (b) the English text of this prospectus shall prevail over the Chinese text.

13. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided in sections 4 and 5 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to a copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were (a) a copy of each of the **WHITE**, **YELLOW** and **GREEN** Application Form; and (b) the written consents referred to in the section headed “Statutory and General Information — E. Other Information — 7. Consents of experts” in Appendix V to this prospectus; and (c) copies of the material contracts referred to in the section headed “Statutory and General Information — B. Further Information about the Business — 1. Summary of material contracts” in Appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Adrian Yeung & Cheng at Suite 1201-2A, 12th Floor, Golden Centre, No.188 Des Voeux Road Central, Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and the Articles;
- (b) the accountants’ report of our Group dated the date of this prospectus prepared by HLB Hodgson Impey Cheng Limited, the text of which is set out in Appendix I to this prospectus;
- (c) the consolidated audited financial statements of our Group for the years ended 31 December 2015, 2016 and 2017;
- (d) the report on unaudited pro forma financial information prepared by HLB Hodgson Impey Cheng Limited, the text of which is set out in Appendix II to this prospectus;
- (e) the material contracts referred to in the section headed “Statutory and General Information — B. Further information about the Business — 1. Summary of material contracts” in Appendix V to this prospectus;
- (f) the written consents referred to in the section headed “Statutory and General Information — E. Other Information — 7. Consents of experts” in Appendix V to this prospectus;
- (g) the PRC legal opinions prepared by Beijing Dentons Law Offices, LLP (Shanghai), our legal advisers to the PRC law, in respect of certain aspects of our Group and our property interests;
- (h) the Ipsos Report prepared by Ipsos;

**APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
IN HONG KONG AND AVAILABLE FOR INSPECTION**

- (i) the Property Valuation Report issued by Asset Appraisal Limited, the text of which is set out in Appendix III to this prospectus;
- (j) the Companies Law; and
- (k) the letter of advice prepared by Appleby summarising certain aspects of the Cayman Islands company law referred to in Appendix IV to this prospectus.

BAO SHEN HOLDINGS LIMITED
寶申控股有限公司