



MENGKE HOLDINGS LIMITED

盟科控股有限公司

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE: **1629**

Share Offer



Sole Sponsor

Joint Bookrunners and Joint Lead Managers

RaffAello
CAPITAL LIMITED

RaffAello
Securities (HK) Ltd

第一上海
FIRST SHANGHAI GROUP
FIRST SHANGHAI SECURITIES LIMITED
第一上海證券有限公司

IMPORTANT

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



Mengke Holdings Limited

盟科控股有限公司

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SHARE OFFER

Number of Offer Shares	: 125,000,000 Shares
Number of Placing Shares	: 112,500,000 Shares (subject to re-allocation)
Number of Public Offer Shares	: 12,500,000 Shares (subject to re-allocation)
Maximum Offer Price	: HK\$0.70 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal Value	: HK\$0.01 per Share
Stock Code	: 1629

Sole Sponsor



Joint Bookrunners and 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 of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "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 for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement among the Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or about Friday, 18 November 2016 and, in any event, unless otherwise announced, not later than Wednesday, 23 November 2016. The Offer Price will be no more than HK\$0.70 and is currently expected to be no less than HK\$0.50 unless otherwise announced. Investors applying for the Public Offer Shares must pay, on application, the maximum Offer Price of HK\$0.70 for each Offer Share together with a brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is lower than HK\$0.70.

The Joint Lead Managers (for themselves and on behalf of the Underwriters) may, where considered appropriate, reduce the number of Offer Shares being offered under the Share Offer and/or the indicative offer price range below that which is stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such a case, an announcement will be published on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.mengkeholdings.com not later than the morning of the day which is the last day for lodging applications under the Public Offer. For further information, see the sections headed "Structure and Conditions of the Share Offer" and "How to Apply for the Public Offer Shares" in this prospectus.

If, for any reason, the Offer Price is not agreed between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and us on or before Wednesday, 23 November 2016, the Share Offer will not proceed and will lapse.

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

The obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement to subscribe for, and to procure applicants for the subscription for, the Public Offer Shares are subject to termination by the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that trading in the Shares commences on the Stock Exchange. Such grounds are set out in the section headed "Underwriting — Underwriting Arrangements and Expenses — Grounds for Termination" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been, and will not be, registered under the U.S. Securities Act or with any securities regulatory authority of any state of the United States, and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares will be offered and sold only outside the United States in reliance on Regulation S.

15 November 2016

EXPECTED TIMETABLE⁽¹⁾

Latest time to complete **electronic application instructions** under **HK eIPO White Form**

service through the designated website

at www.hkeipo.hk ⁽²⁾ 11:30 a.m. on Friday, 18 November 2016

Application lists open⁽³⁾ 11:45 a.m. on Friday, 18 November 2016

Latest time to lodge **WHITE** and **YELLOW**

Application Forms⁽⁴⁾ and electronic application

instructions to HKSCC 12:00 noon on Friday, 18 November 2016

Latest time to complete payment of **HK eIPO White Form**

applications by effecting internet banking transfer(s)

or PPS payment transfer(s) 12:00 noon on Friday, 18 November 2016

Application lists close 12:00 noon on Friday, 18 November 2016

Expected Price Determination Date⁽⁵⁾ on or about Friday, 18 November 2016

Announcement of

- the Offer Price;
- the level of applications in the Public Offer;
- the level of indications of interest in the Placing; and
- the basis of allotment of the Public Offer Shares, to be published on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.mengkeholdings.com on or before Thursday, 24 November 2016

Results of allocations of the Public Offer (including successful applicants' identification document numbers, where appropriate)

to be available through a variety of channels (see the section headed "How to Apply for the Public Offer Shares — 11.

Publication of Results" in this prospectus) from Thursday, 24 November 2016

Results of allocations in the Public Offer will be available at

www.tricor.com.hk/ipo/result with a "search by ID" function Thursday, 24 November 2016

Despatch of **HK eIPO White Form** e-Auto Refund payment

instructions/refund cheque(s) on or before⁽⁶⁾ Thursday, 24 November 2016

Despatch of share certificates or deposited into CCASS

on or before⁽⁶⁾ Thursday, 24 November 2016

Dealings in Shares on the Stock Exchange

expected to commence at 9:00 a.m. on Friday, 25 November 2016

EXPECTED TIMETABLE⁽¹⁾

Notes:

- (1) All times refer to Hong Kong local time, except as otherwise stated. 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” in this prospectus.
- (2) You will not be permitted to submit your application through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force at any time between 9:00 a.m. and 12:00 noon on Friday, 18 November 2016, the application lists will not open on that day. Further information is set out in the section headed “How to Apply for the Public Offer Shares — 10. Effect of Bad Weather on the Opening of the Application Lists” in this prospectus.
- (4) If you apply by giving electronic application instructions to HKSCC, you should refer to the section headed “How to Apply for the Public Offer Shares — 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS” in this prospectus.
- (5) We expect to determine the Offer Price by agreement with the Joint Bookrunners (for themselves and on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or about Friday, 18 November 2016 and, in any event, not later than Wednesday, 23 November 2016. If, for any reason, the Offer Price is not agreed between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and us by Wednesday, 23 November 2016, the Share Offer will not proceed.
- (6) We will issue refund cheque(s) to you if your application is wholly or partially unsuccessful or if the Offer Price is less than the price per Offer Share payable on application. We will despatch share certificates and refund cheque(s) by ordinary post to you at your own risk to the address you specified in your Application Form. If you have applied for 1,000,000 Offer Shares or more and have provided all information required in your Application Form, you may collect refund cheque(s) and/or share certificates 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 Thursday, 24 November 2016 or any other place and date we announce in the newspapers as the place and date of despatch of share certificates/e-Auto Refund payment instructions/refund cheque(s). If you are an individual applicant, you may not authorise any other person to collect on your behalf. If you are a corporate applicant, you must attend by your authorised representative with your letter of authorisation stamped with your corporate chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to Tricor Investor Services Limited. If you fail to collect within the time specified for collection, we will despatch uncollected share certificates and refund cheque(s) by ordinary post at your own risk to the address specified in the relevant Application Forms. Further information is set out in the section headed “How to Apply for the Public Offer Shares” in this prospectus.

Share certificates are expected to be issued on Thursday, 24 November 2016 but will only become valid certificates of title if the Share Offer has become unconditional in all respects and neither of the Underwriting Agreements is terminated in accordance with its terms before 8:00 a.m. on the Listing Date, which is expected to be Friday, 25 November 2016.

For details of the structure of the Share Offer, including its conditions, you should refer to the section headed “Structure and Conditions of the Share Offer” in this prospectus.

CONTENTS

This prospectus is issued by our Company solely for the Public Offer and the Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to buy in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction outside Hong Kong. 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 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 and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from the information contained in this prospectus. Any information or representation not included in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers, employees, agents, affiliates or advisers or any other party involved in the Share Offer.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this prospectus. You should read the whole prospectus including the appendices hereto, which constitute an integral part of this prospectus, before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are the leading cigarette packaging paper manufacturer in Hubei Province, China. In 2015, we had the largest market share of 16.0% in Hubei Province in terms of sales of cigarette packaging paper and were also one of the top 10 cigarette packaging paper manufacturers in China by sales, with a market share of 0.9% in terms of sales of cigarette packaging paper in China, according to Ipsos. We have more than 10 years of experience in the field of cigarette packaging paper manufacture in China.

We produce metallised packaging paper for sale to cigarette package manufacturers. Our metallised packaging paper is used as cigarette external packaging paper to produce cigarette packs and boxes. We procure raw materials, including principally white cardboard and metallised film, which are then processed by us at our production facility in Yichang, Hubei Province to manufacture metallised packaging paper pursuant to customer orders. Our main lines of products are transfer metallised paper and laminated metallised paper.

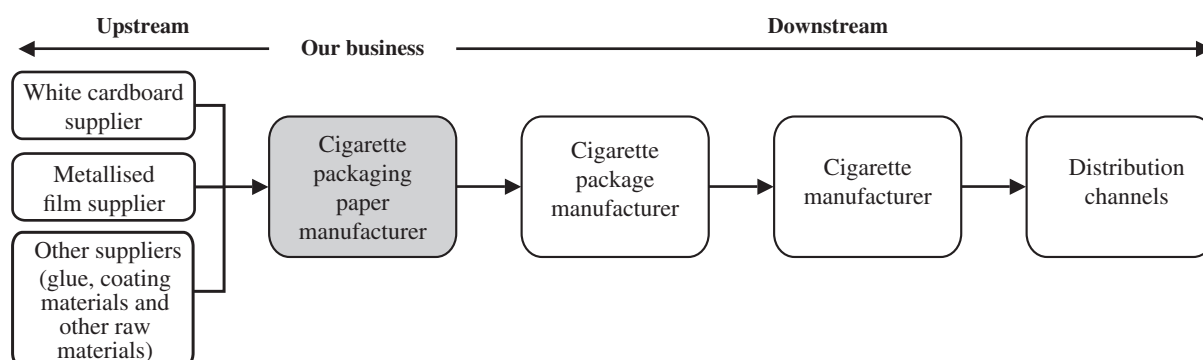
In line with our corporate value of pursuing product enhancement and excellence, we are dedicated to enhancing productivity and efficiency by developing new technologies and know-how in relation to our production. We have a strong research and development team which focuses on developing technologies and know-how to respond to evolving customer demand. As at the Latest Practicable Date, we had registered 13 patents and had three pending patent registrations. In addition, we have been recognised by the relevant provincial and local government authorities as a “High and New Technology Enterprise” since 2013 and a “Pilot Enterprise for Technological SME Innovation and Growth Projects in Yichang City” in 2014, respectively. Please refer to the sections headed “Business — Competitive Strengths — We have strong research and development capabilities in the area of high-end environmentally friendly metallised packaging paper” and “Business — Product Research and Development” for details of our research and development capabilities.

In addition to our efforts in the area of product development, we place strong emphasis on quality control management. Our comprehensive quality control system covers every stage of our business from procurement to production and delivery and is accredited to the ISO 9001:2008 standard. We also have a dedicated quality control team to oversee and monitor the implementation of our quality control system.

SUMMARY

Our business

We produce metallised packaging paper for cigarette package manufacturers. The following flowchart illustrates our role within the cigarette packaging paper manufacturing value chain:



Our major suppliers include white cardboard and metallised film suppliers. Our direct customers are cigarette package manufacturers, which in turn supply printed cigarette packages to cigarette manufacturers. Upon final packaging, packaged cigarettes will be distributed to customers through various distribution channels. For details, please refer to the section headed “Industry Overview”.

Our products

We manufacture metallised packaging paper for cigarette package manufacturers as our principal products. We have two main lines of products, namely transfer metallised paper and laminated metallised paper. All our products are made to orders and produced in accordance with customers’ product specifications. The gross profit margin for transfer metallised paper and laminated metallised paper varies by customer order and depends on, among other factors, the types and amounts of raw materials required, the technological requirements and other product specifications.

The following table sets out the revenue, sales volume and average selling price of our transfer metallised paper and laminated metallised paper, as well as revenue from providing processing service, for the periods indicated:

	Year ended 31 December											
	2013				2014				2015			
	% of total Revenue		Sales volume		% of total Revenue		Sales volume		% of total Revenue		Sales volume	
	RMB'000	%	tonnes	Average selling price RMB per tonne	RMB'000	%	tonnes	Average selling price RMB per tonne	RMB'000	%	tonnes	Average selling price RMB per tonne
Transfer metallised paper . . .	190,087	70.8	11,347	16,752	212,262	78.6	13,225	16,050	267,769	83.9	16,778	15,960
Laminated metallised paper . .	78,513	29.2	6,304	12,454	55,528	20.6	4,500	12,340	47,269	14.8	3,365	14,047
Processing service income . . .	55	0.0	N/A	N/A	2,113	0.8	N/A	N/A	4,235	1.3	N/A	N/A
Total	268,655	100.0	17,651		269,903	100.0	17,725		319,273	100.0	20,143	

SUMMARY

Five months ended 31 May								
2015				2016				
Revenue	% of total revenue	Sales volume	Average selling price	Revenue	% of total revenue	Sales volume	Average selling price	
<i>RMB'000</i>	<i>%</i>	<i>tonnes</i>	<i>RMB per tonne</i>	<i>RMB'000</i>	<i>%</i>	<i>tonnes</i>	<i>RMB per tonne</i>	
<i>(unaudited)</i>								
Transfer metallised paper	79,992	84.9	5,062	15,802	84,242	85.1	5,441	15,483
Laminated metallised paper	12,842	13.6	982	13,077	12,968	13.1	1,003	12,929
Processing service income	<u>1,385</u>	<u>1.5</u>	N/A	N/A	<u>1,787</u>	<u>1.8</u>	N/A	N/A
Total	<u>94,219</u>	<u>100.0</u>	<u>6,044</u>	<u>98,997</u>	<u>100.0</u>	<u>6,444</u>		

Production

All our production operations are conducted in one production facility which we operate and own in Yichang, Hubei Province. This production facility has a gross floor area of approximately 10,800 sq.m.

We currently operate seven production lines, including five that we had installed prior to the Track Record Period, one installed in 2013 and one installed in December 2015. Our production capacity, measured by total length of metallised packaging paper that can be produced, for the years ended 31 December 2013, 2014, 2015 and the five months ended 31 May 2016 was approximately 169.3 million m., 190.5 million m., 191.6 million m. and 81.0 million m., respectively, and our estimated annual production capacity for the year ending 31 December 2016 is 222.3 million m.

Set out in the table below are the details of the production capacity, actual production volume and utilisation rate for our metallised packaging paper production for the periods indicated:

	Year ended 31 December			Five months ended 31 May	
	2013	2014	2015	2015	2016
Production capacity ⁽¹⁾⁽²⁾ (m.) ('000)	169,344	190,512	191,646	79,853	80,968
Actual production volume ⁽³⁾ (m.) ('000)	142,615	139,330	152,840	43,940	44,509
Utilisation rate	84.2%	73.1%	79.8%	55.0%	55.0%

Notes:

(1) Production capacity is determined and calculated by multiplying the daily capacity of the laminating machines with the applicable number of days of operation and the number of laminating machines during the period.

SUMMARY

- (2) We assume the daily operating hours for our laminating machines to be 18 hours, operating 280 days per year or 102 days for the five-month period from January to May, taking into account staff holidays, public holidays and seasonal factors. Our production capacity is based on 70% of the maximum speed at which the laminating machines are operated for quality optimisation purpose.
- (3) Utilisation rate is calculated by dividing actual production volume by production capacity for the relevant periods.

For the year ended 31 December 2014, the utilisation rate dropped from 84.2% in 2013 to 73.1% due to an increase in production capacity of one additional laminating machine in the last quarter of 2013. For the year ended 31 December 2015, the utilisation rate increased to 79.8% due to an increase in purchase orders in 2015. For the five months ended 31 May 2016, which was typically our low season, the utilisation rate was 55.0% which is similar to the same period in 2015 despite our increase in production capacity in 2016.

Our utilisation rate typically peaked during the second half of the year due to the higher demand for cigarette packaging before Chinese New Year and Mid-Autumn Festival as cigarettes are often used as gifts in China during these periods. For example, the utilisation rate for the periods between September 2015 and December 2015 exceeded 100%.

Please refer to the section headed “Business — Our Production — Production facility” for further details on our production capabilities and utilisation rates during the Track Record Period.

Major customers

Our customers include “Top 100 Enterprises” in the printing industry awarded by the 2016 China Printing Manager Annual Conference, such as Hubei Golden, and other leading cigarette package manufacturers in China, such as Beijing Leigh-mardon Pacific Packaging Co., Ltd., Wuhan Hongzhicai Packaging Company Limited and Wuhan Hongjinlong Printing Company Limited. We have a stable customer base during the Track Record Period, most of which have been our customers for more than three years.

During the Track Record Period, we generally maintained a high contract renewal rate with our 10 largest customers, from which we derived more than 95% of our total revenue. In particular, of the 10 largest customers for the year ended 31 December 2013, nine renewed contracts with us in 2014 and the remaining one did not renew its contract with us since its initial contract had a two-year term. Of the 10 largest customers for the year ended 31 December 2014, eight remained among our 10 largest customers for the year ended 31 December 2015 and renewed contracts with us in 2015, while the other two ceased to be among our top 10 customers for the year ended 31 December 2015 although they have renewed their contracts with us.

During the Track Record Period, our success rates for tender were 50.0%, 33.3%, 50.0% and 100% for the years ended 31 December 2013, 2014, 2015 and the five months ended 31 May 2016, respectively. We recorded a lower success rate in 2014 because for the tenders that we participated during that year, we did not bid at very aggressive prices to compete for new contracts as we did not wish to lower the bidding price at the cost of product quality.

SUMMARY

For the years ended 31 December 2013, 2014, 2015 and the five months ended 31 May 2016, revenue from our five largest customers amounted to RMB235.0 million, RMB242.4 million, RMB278.2 million and RMB88.8 million, respectively, which accounted for 87.5%, 89.8%, 87.1% and 89.7% of our total revenue for the respective periods. Revenue from our largest customer for these periods accounted for RMB96.1 million, RMB86.6 million, RMB105.3 million and RMB33.1 million, respectively, which accounted for 35.8%, 32.1%, 33.0% and 33.4% of our total revenue, respectively.

PRODUCT RESEARCH AND DEVELOPMENT

We place great emphasis on our product research, know-how and development capabilities. Our main objective is to develop products which are competitive and unique.

We have our own in-house product research and development team, which consists of 12 core members of the production department with extensive experience in metallised cigarette packaging paper production and some of them have worked with us for over six years.

We have an established product development process before implementing a product development project to ensure that each product development project is properly and orderly executed. Moreover, we have been in strategic cooperation with a tertiary institution to strengthen our research and development capabilities.

As at the Latest Practicable Date, 19 of our research results had been recognised as “technological achievements” in Hubei Province by the Science and Technology Department of Hubei Province. We also had 13 registered patents, including seven utility patents and six invention patents, and three pending invention patent registrations. For details of our intellectual properties, please refer to the section headed “Statutory and General Information — B. Further Information about the Business of our Group — 2. Intellectual property rights” set out in Appendix V to this prospectus.

Our research and development expenses amounted to RMB11.3 million, RMB10.8 million, RMB10.6 million and RMB1.9 million for the years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2016, respectively, representing 4.2%, 4.0%, 3.3% and 2.0% of our revenue and 22.1%, 21.8%, 15.9% and 8.9% of our gross profit, for the respective periods.

Please refer to the section headed “Business — Product Research and Development” for further details on our product research and development capabilities.

SUMMARY

COMPETITIVE STRENGTHS

We believe the following competitive strengths contribute to our success:

- Our products are used as packaging materials for key cigarette brands in China;
- We have a strong market position as a leading cigarette packaging paper manufacturer in Hubei Province and our production facility is strategically based in Central China;
- We have strong research and development capabilities in the area of high-end environmentally friendly metallised packaging paper;
- We implement stringent quality control management to ensure a high quality standard; and
- We have a team of experienced management and operating staff with a proven track record.

BUSINESS STRATEGIES

We aim to be one of the most competitive paper products manufacturers in China. We will continue to embrace our corporate value of pursuing product enhancement and excellence. To achieve our goals, we plan to implement the following strategies:

- We will seek to increase our marketing efforts to strengthen our leading market position in Hubei Province and to expand the geographic coverage of our sales network;
- We will continue to make significant investments in enhancing our product research and development capabilities;
- We will seek to further increase our operational efficiency by enhancing our operational management and its effectiveness; and
- We plan to increase our production capacity and expand into new markets to meet future demand.

INDUSTRY DEVELOPMENTS

We operate in the cigarette packaging paper manufacturing industry in China which is highly fragmented. In 2015, there were approximately 180 cigarette packaging paper manufacturers in China and there were six major ones in Hubei Province.

SUMMARY

The cigarette packaging paper manufacturing industry is expected to grow in China and Hubei Province during the period from 2016 to 2020 as driven by an anticipated increase in cigarettes production. According to Ipsos, the total estimated sales value of the cigarette packaging paper manufacturing industry in China is expected to grow steadily from RMB35,893.0 million in 2016 to RMB36,145.5 million in 2020, representing a CAGR of 0.2%. The total estimated sales value of the industry in Hubei Province is also expected to increase from RMB1,951.8 million in 2016 to RMB1,993.4 million in 2020, representing a CAGR of 0.5%.

SUMMARY HISTORICAL FINANCIAL INFORMATION

The following tables set out our summary financial information for the periods indicated and should be read together with the consolidated financial information in Appendix I to this prospectus, including the accompanying notes, and the information set forth in the section headed “Financial Information” in this prospectus.

Summary of consolidated statement of comprehensive income information

	Year ended 31 December						Five months ended 31 May			
	2013		2014		2015		2015		2016	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
Revenue	268,655	100.0	269,903	100.0	319,273	100.0	94,219	100.0	98,997	100.0
Cost of sales	(217,627)	(81.0)	(220,580)	(81.7)	(252,900)	(79.2)	(74,271)	(78.8)	(77,281)	(78.1)
Gross profit	51,028	19.0	49,323	18.3	66,373	20.8	19,948	21.2	21,716	21.9
Other income and other expenses — net	345	0.1	(212)	(0.1)	1,481	0.5	370	0.4	325	0.3
Distribution expenses	(12,271)	(4.6)	(13,360)	(4.9)	(17,225)	(5.4)	(6,311)	(6.7)	(6,074)	(6.1)
Administrative expenses	(17,554)	(6.5)	(18,689)	(6.9)	(24,201)	(7.6)	(6,021)	(6.4)	(15,463)	(15.6)
Operating profit	21,548	8.0	17,062	6.3	26,428	8.3	7,986	8.5	504	0.5
Finance expenses — net	(2,010)	(0.7)	(327)	(0.1)	(911)	(0.3)	(182)	(0.2)	(280)	(0.3)
Profit before income tax	19,538	7.3	16,735	6.2	25,517	8.0	7,804	8.3	224	0.2
Income tax expense	(2,500)	(1.0)	(2,156)	(0.8)	(3,625)	(1.1)	(1,127)	(1.2)	(1,382)	(1.4)
Profit/(loss) for the year/period	17,038	6.3	14,579	5.4	21,892	6.9	6,677	7.1	(1,158)	(1.2)

SUMMARY

Summary of consolidated balance sheet information

	As at 31 December			As at 31 May
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets	<u>42,034</u>	<u>42,625</u>	<u>52,478</u>	<u>52,610</u>
Current assets				
Inventories	57,073	60,671	48,566	42,559
Trade and other receivables and prepayments ..	88,081	116,255	146,693	115,596
Notes Receivables	2,100	18,467	1,200	5,799
Amounts due from related parties	472	8,533	—	275
Restricted cash	15,175	30,800	37,565	59,765
Cash and cash equivalents	<u>2,848</u>	<u>392</u>	<u>7,754</u>	<u>8,142</u>
Total current assets	<u>165,749</u>	<u>235,118</u>	<u>241,778</u>	<u>232,136</u>
Current liabilities				
Borrowings	30,000	20,060	15,000	17,000
Trade and other payables	109,043	142,466	142,639	102,394
Notes payables	25,130	55,800	65,130	89,830
Amounts due to related parties	414	—	15,223	9,883
Current income tax liabilities	<u>—</u>	<u>1,124</u>	<u>1,704</u>	<u>2,261</u>
Total current liabilities	<u>164,587</u>	<u>219,450</u>	<u>239,696</u>	<u>221,368</u>
Net current assets	<u>1,162</u>	<u>15,668</u>	<u>2,082</u>	<u>10,768</u>
Non-current liabilities	<u>582</u>	<u>1,100</u>	<u>1,502</u>	<u>11,467</u>
Total equity	<u>42,614</u>	<u>57,193</u>	<u>53,058</u>	<u>51,911</u>

SUMMARY

Summary consolidated statement of cash flow information

	Year ended 31 December			Five months ended 31 May	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Net cash generated from/(used in)					
operating activities	6,333	27,696	36,420	12,377	(3,075)
Net cash (used in)/generated from					
investing activities	(8,744)	(19,422)	(956)	5,534	(1,438)
Net cash generated from/(used in)					
financing activities	<u>2,930</u>	<u>(10,730)</u>	<u>(28,102)</u>	<u>(15,766)</u>	<u>4,892</u>
Net increase/(decrease) in cash and cash					
equivalents	519	(2,456)	7,362	2,145	379
Cash and cash equivalents at beginning of					
the year/period	2,329	2,848	392	392	7,754
Exchange gains on cash and cash					
equivalents	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>9</u>
Cash and cash equivalents at end of the					
year/period	<u><u>2,848</u></u>	<u><u>392</u></u>	<u><u>7,754</u></u>	<u><u>2,537</u></u>	<u><u>8,142</u></u>

Analysis of net loss and negative operating cash flow for the five months ended 31 May 2016

While we made net profit for each of the years ended 31 December 2013, 2014 and 2015, we recorded a loss of RMB1.2 million for the five months ended 31 May 2016. This loss was mainly attributable to the increased administrative expenses incurred for the period, particularly the professional fees of RMB8.8 million incurred in connection with the Listing.

We also experienced negative cash flows from operating activities for the five months ended 31 May 2016, as compared to positive cash flows from operating activities for each of the years ended 31 December 2013, 2014 and 2015. Our net cash used in operating activities for the five months ended 31 May 2016 was RMB3.1 million, which was mainly attributable to (i) the lower profit before income tax primarily due to the expenses incurred during the period in connection with the Listing as described above; and (ii) a decrease in cash related to changes in working capital, particularly for the settlement of trade and other payables during this period as we settled a large amount of trade payables from late 2015.

SUMMARY

KEY FINANCIAL RATIOS

Set out below is the summary of our key financial ratios during the Track Record Period:

	As at/year ended 31 December			As at/ five months ended
				31 May
	2013	2014	2015	2016
Return on equity ⁽¹⁾ (%)	40.0	25.5	41.3	N/A
Return on assets ⁽²⁾ (%)	8.2	5.2	7.4	N/A
Current ratio ⁽³⁾	1.01	1.07	1.01	1.05
Quick ratio ⁽⁴⁾	0.66	0.79	0.81	0.86
Gearing ratio ⁽⁵⁾ (%)	71.4	35.1	57.0	71.1
Debt to equity ratio ⁽⁶⁾ (%)	64.7	34.4	42.3	55.4

Notes:

- (1) Return on equity was calculated by dividing profit for the year by total equity as at the closing of the year and multiplied by 100%.
- (2) Return on assets was calculated by dividing profit for the year by total assets as at the closing of the year and multiplied by 100%.
- (3) Current ratio was calculated by dividing total current assets by total current liabilities as at the date indicated.
- (4) Quick ratio was calculated by dividing the difference of current assets and inventories by total current liabilities as at the date indicated.
- (5) Gearing ratio was calculated by dividing total debt (which consists of borrowings and amounts due to related parties) by total equity as at the date indicated and multiplied by 100%.
- (6) Debt to equity ratio was calculated by dividing the difference of total debt (which consists of borrowings and amounts due to related parties) and cash and cash equivalents by total equity as at the date indicated and multiplied by 100%.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

In December 2015, we installed a new laminating machine and our estimated annual production capacity has increased to 222.3 million m. for the year ending 31 December 2016. With this new laminating machine, we will be able to increase our production output during peak seasons if required by potential increases in purchase orders, and thus further increase our revenue.

Subsequent to the Track Record Period, based on our unaudited management accounts, our revenue for the four months ended 30 September 2016 increased slightly compared to the four months ended 30 September 2015. Our cost of sales remained relatively stable for the four months ended 30 September 2016, as compared to the four months ended 30 September 2015 due to our efforts to control costs. As a result, our gross profit also increased for the four months ended 30 September 2016 as compared to the four months ended 30 September 2015.

SUMMARY

Our Directors confirmed that there has been no material adverse change in our business or financial condition since 31 May 2016 (being the date of our latest audited consolidated balance sheet, as set out in the Accountant's Report in Appendix I to this prospectus) and up to the date of this prospectus.

Despite the increase in gross profit for the nine months ended 30 September 2016 and the absence of any material adverse change in our business as described above, we expect our net profit for the year ending 31 December 2016 to decrease significantly as compared to the year ended 31 December 2015 and we may even record a net loss for the year ending 31 December 2016, primarily due to a significant increase in administrative expenses, in particular the listing expenses to be charged to our profit or loss and the maintenance and compliance costs to be incurred after the Listing. We estimate total payments of listing expenses of approximately RMB31.7 million to be made for the year ending 31 December 2016, the majority of which will constitute cash outflows from operating activities and consequently have a negative impact on our cash flows from operating activities for the year ending 31 December 2016.

SHAREHOLDER INFORMATION

Immediately following the completion of the Capitalisation Issue and the Share Offer, Happily Soar, which is beneficially owned by Mr. Zhang as to 76%, will hold 281,252,000 Shares, representing approximately 56.25% of the issued share capital of our Company. As Happily Soar and Mr. Zhang are directly or indirectly entitled to exercise or control the exercise of 30% or more of the voting power at general meetings of our Company immediately following the Listing, each of them will be regarded as our Controlling Shareholder under the Listing Rules. Please refer to the section headed "Relationship with Controlling Shareholders" in this prospectus for further details.

Mr. Shiu, our pre-IPO investor, acquired the entire issued share capital of Prime Vantage, which, immediately before the Reorganisation, directly held 25% of the equity interest of Hubei Mengke, our sole PRC operating subsidiary, from Mr. Tam at a consideration of RMB11,435,098.84. This acquisition was completed on 29 December 2015. Mr. Shiu and Mr. Tam reached agreement on the consideration after arm's length negotiation with reference to 25% of the unaudited net asset value of Hubei Mengke as at 30 September 2015. As a result of the Reorganisation and immediately following the completion of the Capitalisation Issue and the Share Offer, Liberal Rite, which is wholly owned by Mr. Shiu, will own the issued share capital of our Company as to approximately 18.75%. Please refer to section headed "History, Development and Reorganisation — Pre-IPO investment" in this prospectus for further details.

SUMMARY

SHARE OFFER STATISTICS

The statistics below are based on the assumption that 125,000,000 Offer Shares are issued under the Share Offer.

	Based on the low end of the indicative Offer Price range of HK\$0.50 per Share	Based on the high end of the indicative Offer Price range of HK\$0.70 per Share
Market capitalisation of our Shares ⁽¹⁾	HK\$250 million	HK\$350 million
Unaudited pro forma adjusted consolidated net tangible assets per Share ⁽²⁾	HK\$0.20	HK\$0.25

Notes:

- (1) The calculation of market capitalisation is based on the assumption that 500,000,000 Shares will be in issue immediately following the completion of the Capitalisation Issue and the Share Offer.
- (2) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated after the adjustments referred to in the section headed “Financial Information — Unaudited Pro Forma Adjusted Consolidated Net Tangible Assets” in this prospectus and on the basis of 500,000,000 Shares to be in issue immediately following the completion of the Capitalisation Issue and the Share Offer.

DIVIDEND

We do not have a fixed dividend policy. While we have in the past declared dividends of RMB11.2 million and RMB15.4 million for the years ended 31 December 2013 and 2014 to our then shareholders, respectively, these historical dividends are not indicative of the amount of future dividends, if any, and there can be no assurance that any dividends will be paid for any future period. The form, frequency and amount of future dividends on the Shares will be at the discretion of the Board and will depend on factors such as our results of operations, cash flows, financial conditions, future prospects and regulatory restrictions on the payment of dividends by us or our subsidiaries.

USE OF PROCEEDS

The net proceeds from the Share Offer, after deducting underwriting commission and estimated expenses in relation to the Share Offer, are estimated to be approximately HK\$36.8 million, assuming an Offer Price of HK\$0.60 per Share, being the mid-point of the indicative Offer Price range of HK\$0.50 to HK\$0.70 per Share. We intend to use such net proceeds for the purposes:

- Approximately HK\$22.8 million (approximately 62% of our total estimated net proceeds) for the purchase and upgrade of production equipment, as well as expansion and maintenance of our production facility;

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- Approximately HK\$5.5 million (approximately 15% of our total estimated net proceeds) for the expansion and upgrade of our non-production facilities, including but not limited to warehouse and other supporting facilities;
- Approximately HK\$4.8 million (approximately 13% of our total estimated net proceeds) for (i) business development expenditures and (ii) research and development expenditures relating to the purchase of research and development equipment and to future research and development projects; and
- Approximately HK\$3.7 million (approximately 10% of our total estimated net proceeds) for working capital and general corporate purposes.

For more information, please see the section headed “Future Plans and Use of Proceeds — Use of Proceeds” in this prospectus.

LISTING EXPENSES

Assuming an Offer Price of HK\$0.60 per Share (being the mid-point of the indicative Offer Price range), the total underwriting commission and estimated expenses in relation to the Share Offer are estimated to be approximately HK\$38.2 million. These consist of (i) HK\$19.4 million incurred during the Track Record Period, of which HK\$14.7 million was charged to our profit or loss and HK\$4.7 million was directly attributable to the issue of new Shares in the Share Offer and will be deducted from equity upon the Listing, and (ii) estimated listing expenses of HK\$18.8 million to be incurred for the seven months ending 31 December 2016, of which HK\$12.1 million is expected to be charged to our profit or loss and HK\$6.7 million is expected to be deducted from equity upon listing.

RISK FACTORS

Our business is subject to certain risks involved in our operation, including but not limited to risks relating to our business and industry, risks relating to conducting business in China and risks relating to the Share Offer and the Shares.

In particular, any increasing PRC regulatory or industry requirements such as the following could materially and adversely affect our business, financial condition and results of operations:

- the Requirements for Design of Cigarette Package (《卷煙包裝設計要求》), which were published by the STMA in 2014 to control the cost of cigarette packaging to avoid excessive packaging;
- the Eight-Point Guidelines (《中央政治局會議關於改進工作作風、密切聯繫群眾的八項規定》) which were promulgated in December 2012, with a view to discouraging lavish arrangements and implementing strict-saving policies;
- the Regulations on the Administration of Sanitation at Public Places (《公共場所衛生管理條例》) and the Detailed Rules for the Implementation of the Regulations on the Administration of Sanitation at Public Places (《公共場所衛生管理條例實施細則》), which prohibit smoking in indoor public areas; and

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- the proposed Regulations on Smoking Control in Public Areas (《公共場所控制吸煙條例》), which is intended to prohibit smoking in certain public areas and impose rules on certain types of tobacco advertising and cigarette packages labelling requirements.

Please refer to the section headed “Risk Factors” in this prospectus for further discussion on the risk factors.

REASONS FOR THE LISTING

We aim to be one of the most competitive paper products manufacturers in China. With a view to further developing our business, our Directors believe the Listing would be instrumental in enabling us to achieve the following:

Broader access to capital for future growth

The Listing can provide access for our Company to raise fund not only initially from the Share Offer but also potentially from future issuances of equity or debt securities after the Listing. As disclosed in the section headed “Business — Business Strategies” in this prospectus, we intend to increase our production capacity, expand into new markets such as Yunnan Province and Hunan Province, strengthen our business relationship with existing customers and consider any potential acquisition opportunities, and all of the above expansion plans require heavy capital investment and resources. In view of the high degree of leverage (our gearing ratio was 71.1% as at 31 May 2016), we seek to explore more financing sources beyond obtaining bank facilities, as it would be more difficult and expensive for us to obtain further bank financing and equity financing will enable our Group to seek an alternative source of funding to lower the gearing ratio. In order to generate funds to finance our further expansion while maintaining sufficient working capital for our Group’s operations, our Directors are therefore of the view that equity financing, which is interest free, will provide a better channel for us to raise additional capital.

Based on our management estimates, the average level of monthly cash outflow for our Group’s daily operations is approximately RMB30 million, which includes costs for raw materials and consumables used, staff costs, transportation costs and utilities. Although we currently have sufficient internal cash inflow to maintain our Group’s daily operations, it would be difficult for us to utilise our existing internal cash inflow generated from our sales revenue to fund any further expansion plans. Our Directors are of the view that since it may take an extended period of time to generate additional cash internally, the flexibility of being able to use a wider range of financing sources will benefit our Group and will enable us to implement any future expansion plans more readily and in a timely manner.

SUMMARY

Enhanced brand profile, visibility and market presence

A number of our competitors within the same industry are listed companies or have sought listing in other exchanges, including the Shenzhen Stock Exchange and the Shanghai Stock Exchange. We believe that the Listing can generate a better corporate profile, create greater assurance to our customers and suppliers and thus enhance our competitiveness within this industry.

In addition, the enhanced corporate profile can potentially lead to more business opportunities to the Group as our brand will be more visible to potential customers. This is of significant importance since we intend to expand our sales network and geographical presence in China. Since we obtain most of our sales contracts through tender, reputation and brand profile are often one of the selection criteria in the scoring system of our customers. We therefore consider that an enhanced brand profile and visibility are important factors to succeed in the cigarette packaging paper industry.

Increased competitiveness supported by better corporate governance and greater efficiency

As a listed company, we will strive to maintain high standards of corporate governance and continually improve our internal control, management efficiency and risk management. By improving the efficiency of the Group, we believe we can give better assurance and confidence to our customers and business partners and hence attract more business opportunities and potential customers.

Stronger ability to attract talent and retain existing staff

We believe the Listing will allow us to enhance our market profile and recognition so that we will be more successful in attracting talent. In addition, we believe our business development plan and the Listing will potentially give rise to more career advancement opportunities and will allow us to attract and retain employees more successfully.

Based on the above, our Directors believe that the Listing will benefit the Group as a whole.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following words and expressions have the following meanings. Certain other terms are explained in the section headed “Glossary” in this prospectus.

“Application Form(s)”	WHITE application form, YELLOW application form and GREEN application form or, where the context so requires, any of them, relating to the Public Offer
“Articles”	the amended and restated articles of association of our Company, conditionally adopted on 3 November 2016 and effective upon the Listing as amended from time to time
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	our board of Directors
“Business Day”	a day (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks are generally open for normal banking business
“BVI”	British Virgin Islands
“CAGR”	compound annual growth rate
“Capitalisation Issue”	the issue of 374,999,900 new Shares to be made upon capitalisation of certain sum standing to the credit of the share premium account of our Company as referred to in the section headed “Statutory and General Information — A. Further Information about our Group — 6. Written resolutions of all Shareholders passed on 3 November 2016” 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 participant or a general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person 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

“Central China”	refers to the central region of China comprising Henan Province, Hubei Province and Hunan Province
“CIT Law”	the Corporate Income Tax Law of the PRC (《中華人民共和國企業所得稅法》)
“CNTC”	China National Tobacco Corporation (中國煙草總公司), a national corporation responsible for the management of the tobacco industry in the PRC
“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”	Mengke Holdings Limited (盟科控股有限公司), a company incorporated under the laws of the Cayman Islands as an exempted company with limited liability on 8 January 2016
“connected person”	has the meaning ascribed to it in the Listing Rules
“connected transaction”	has the meaning ascribed to it in the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto in the Listing Rules and, for the purpose of this prospectus, refers to any of Happily Soar and Mr. Zhang
“core connected person”	has the meaning ascribed to it under the Listing Rules
“Deed of Indemnity”	the deed of indemnity dated 14 November 2016 entered into by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for and on behalf of our subsidiaries)
“Deed of Non-Competition”	the deed of non-competition undertaking dated 14 November 2016 entered into by our Controlling Shareholders in favour of our Company (for ourselves and as trustee for and on behalf of our subsidiaries)
“Director”	a director of our Company

DEFINITIONS

“GREEN application form”	the application form to be completed by the HK eIPO White Form Service Provider designated by our Company
“Group” or “our Group”	our Company and its subsidiaries
“Happily Soar”	Happily Soar Limited (翔喜有限公司), a company incorporated in the BVI on 1 September 2015 and one of our Controlling Shareholders which is owned as to 76%, 18% and 6% by Mr. Zhang, Mr. Fu and Mr. Chen, respectively
“Hengqin Jiachuang”	Zhuhai Hengqin Xinqu Jiachuang Investment Company Limited (珠海橫琴新區嘉創投資有限公司), a company established in the PRC with limited liability on 7 November 2012, which was owned as to 60% by Mr. Zhang and 40% by Mr. Chen, respectively, when it acquired 70% of the equity interest in Hubei Mengke on 1 February 2013
“HK dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HK eIPO White Form”	the application for the Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of HK eIPO White Form 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 <u>www.hkeipo.hk</u>
“HKFRSs”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited

DEFINITIONS

“Hubei Golden”	Hubei Golden Three Gorges Printing Industry Co., Ltd. (湖北金三峽印務有限公司), a company established in the PRC with limited liability on 15 August 1992 and an equity holder of Hubei Mengke at the time of its establishment. As at the Latest Practicable Date, Hubei Golden was owned as to 82.86% by Jiayao Holdings Limited (stock code: 1626), which is listed on the Main Board
“Hubei Mengke”	Hubei Mengke Paper Co., Ltd. (湖北盟科紙業有限公司), once a sino-foreign joint venture established in the PRC on 13 June 2005 which subsequently became a wholly owned subsidiary of our Company on 8 March 2016
“Independent Third Party(ies)”	an individual or a company who or which is independent of and not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial shareholders (within the meaning of the Listing Rules) of our Company, its subsidiaries or any of their respective associates
“Ipsos”	Ipsos Limited, a market research company which was commissioned by us to prepare a market research report for the purposes of this prospectus and an Independent Third Party
“Joint Bookrunners” or “Joint Lead Managers”	RaffAello Securities (HK) Limited, being a licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities, and First Shanghai Securities Limited, being a licensed corporation under the SFO to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities, which have been appointed as the joint bookrunners and the joint lead managers for the Share Offer
“Latest Practicable Date”	7 November 2016, being the latest practicable date prior to the issuance of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“Liberal Rite”	Liberal Rite Limited (弘禮有限公司), a company incorporated in the BVI on 11 November 2015, which is wholly owned by Mr. Shiu. Liberal Rite is our substantial shareholder
“Listing”	the listing of our Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing committee of the Stock Exchange

DEFINITIONS

“Listing Date”	the date, expected to be on or about Friday, 25 November 2016, on which the dealings in our Shares first commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Lucky Glorious”	Lucky Glorious Limited (瑞顯有限公司), a company incorporated in the BVI on 9 November 2015 and a wholly owned subsidiary of our Company
“m.”	metre
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange
“Medicon”	Medicon Pharmaceutical Industries Limited (盟科藥業有限公司), a company incorporated in Hong Kong with limited liability on 5 May 1999 and an equity holder of Hubei Mengke at the time of its establishment
“Memorandum”	the memorandum of association of our Company
“Mengke (Hong Kong)”	Mengke (Hong Kong) Company Limited (盟科(香港)有限公司), a company incorporated in Hong Kong with limited liability on 25 January 2016 under the Companies Ordinance and a wholly owned subsidiary of our Company
“Mr. Chen”	Mr. Chen Yongqiao (陳永橋), a director of Hubei Mengke and a shareholder of Happily Soar holding 6% of its issued share capital
“Mr. Fu”	Mr. Fu Mingping (付明平), our executive Director and chief executive officer as well as a shareholder of Happily Soar holding 18% of its issued share capital
“Mr. Shiu”	Mr. Shiu Kwok Kuen (邵國權), our pre-IPO investor who owns the entire issued share capital of Liberal Rite. Mr. Shiu is our substantial shareholder
“Mr. Tam”	Mr. Tam Man Hung (譚文雄), the former shareholder of Prime Vantage who sold the entire issued share capital of Prime Vantage to Mr. Shiu on 29 December 2015

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“Mr. Zhang”	Mr. Zhang Weixiang (張偉翔) (formerly known as Zhang Jue (張覺)), our Chairman, non-executive Director and one of our Controlling Shareholders
“Offer Price”	the final price per Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed for or issued pursuant to the Share Offer, to be determined as further described in the section headed “Structure and Conditions of the Share Offer — Determining the Offer Price” in this prospectus
“Offer Share(s)”	collectively, the Public Offer Shares and the Placing Shares
“Placing Shares”	the 112,500,000 Shares being initially offered by our Company for subscription under the Placing, subject to re-allocation as described in the section headed “Structure and Conditions of the Share Offer” in this prospectus
“Placing”	the conditional placing of the Placing Shares to professional, institutional and other investors by the Placing Underwriters, as described in the section headed “Structure and Conditions of the Share Offer” in this prospectus
“Placing Underwriters”	the underwriters of the Placing, who are expected to enter into the Placing Underwriting Agreement
“Placing Underwriting Agreement”	the underwriting agreement relating to the Placing expected to be entered into among our Company, the Placing Underwriters and the Joint Bookrunners to be dated on or about the Price Determination Date
“PRC” or “China”	the People’s Republic of China. For the purpose of this prospectus and for geographical reference only and except where the context requires otherwise, references in this prospectus to the “PRC” and “China” do not include Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC government”	the government of the PRC, including all political subdivisions (including provincial, municipal, and other local or regional government entities) and organisations of such government or, as the context requires, any of them
“PRC Legal Adviser”	Beijing Jingtian & Gongcheng Law Firm

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“Price Determination Date”	the date, expected to be on or about Friday, 18 November 2016, but no later than Wednesday, 23 November 2016, on which the Offer Price is to be fixed by agreement among our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Underwriters) for the purpose of the Share Offer
“Prime Vantage”	Prime Vantage International Limited (匯庫國際有限公司), a company incorporated in Hong Kong with limited liability on 7 May 2013, which is wholly owned by Mr. Shiu and which, immediately before the Reorganisation, held 25% of the equity interest in Hubei Mengke
“Principal Share Registrar”	Estera Trust (Cayman) Limited
“province”	a province, autonomous region or municipality under the direct supervision of the central government of the PRC
“Public Offer”	the offer of the Offer Shares for subscription by the public in Hong Kong at the Offer Price, on and subject to the terms and conditions described in the section headed “Structure and Conditions of the Share Offer” in this prospectus and the Application Forms
“Public Offer Shares”	the 12,500,000 Shares (subject to adjustment as described in the section headed “Structure and conditions of the Share Offer” in this prospectus), being initially offered by us for subscription at the Offer Price under the Public Offer
“Public Offer Underwriters”	the underwriters of the Public Offer listed in the section headed “Underwriting — Public Offer Underwriter” in this prospectus
“Public Offer Underwriting Agreement”	the underwriting agreement dated 14 November 2016, relating to the Public Offer entered into by our Company, our executive Director, our Controlling Shareholders, the Sole Sponsor, the Joint Bookrunners and the Public Offer Underwriters, as further described in the paragraph headed “Underwriting — Underwriting Arrangements and Expenses” in this prospectus
“Reorganisation”	the reorganisation arrangements implemented by our Group in preparation for the Listing, details of which are more particularly described in the section headed “History, Development and Reorganisation” in this prospectus
“RMB”	Renminbi, the lawful currency of the PRC

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“SAFE”	the State Administration of Foreign Exchange of the PRC, which is the PRC government agency responsible for matters relating to foreign exchange administration
“SAFE Circular No. 13”	the Circular of the State Administration of Foreign Exchange 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》) promulgated by SAFE on 13 February 2015
“SAFE Circular No. 37”	the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Offshore Investment and Financing and Roundtrip Investment through Special Purpose Vehicles (《國家外匯管理局關於境內居民通過境外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》) promulgated by SAFE on 4 July 2014
“SAT”	the State Administration of Taxation of 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)”	share(s) of HK\$0.01 each in the share capital of our Company
“Shareholder”	a holder of the Shares from time to time
“Share Offer”	the Public Offer and the Placing
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 3 November 2016 and effective upon the Listing, the principal terms of which are summarised under the section headed “Statutory and General Information — D. Share Option Scheme” in Appendix V to this prospectus
“Sole Sponsor”	RaffAello Capital Limited, a licensed corporation under the SFO and registered to conduct type 6 (advising on corporate finance) regulated activity
“sq.ft.”	square feet
“sq.m.”	square metres
“State Council”	the State Council of the PRC

DEFINITIONS

“STMA”	the State Tobacco Monopoly Administration (中國國家煙草專賣局), a governmental administration responsible for the management of the tobacco industry in the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed thereto in section 15 of the Companies Ordinance
“substantial shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Takeovers Code”	The Code on Takeovers and Mergers, as approved by the SFC, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the three years ended 31 December 2013, 2014, 2015 and the five months ended 31 May 2016
“Underwriters”	the Public Offer Underwriters and the Placing Underwriters
“Underwriting Agreements”	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
“US\$”	United States dollars, the lawful currency of the United States
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“we”, “us” or “our”	our Company and its subsidiaries or, where the context so requires in respect of the period before our Company became the holding company of our present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries
“Yichang Kunxiang”	Yichang Kunxiang Trading Company Limited (宜昌坤祥商貿有限公司), a company established in the PRC with limited liability on 12 December 2014, which was owned as to 76% by Mr. Zhang, 18% by Mr. Fu and 6% by Mr. Chen, respectively, when it acquired 75% of the equity interest in Hubei Mengke on 25 December 2014
“%”	per cent

If there is any inconsistency between the official Chinese name of the PRC laws or regulations or the PRC government authorities or the PRC entities mentioned in this prospectus and their English translation, the Chinese version shall prevail.

GLOSSARY

This glossary of technical terms contains certain definitions and other terms related to the business of our Group and used in this prospectus. The terms and their meanings may not correspond to the standard industry meanings or usage of those terms.

“back coating”	the process in which protective back coating materials will be applied onto the white cardboard to prevent the cardboard from distortion and crease
“BOPP”	biaxially oriented polypropylene, is a type of polypropylene film which is widely used as a packaging material for packaging products
“colouring”	the process which applies ink onto the metallised paper for colourings or to improve the adaptability of the paper surface of the metallised paper
“crosscutting”	the production process which cuts the metallised paper into flat sheets
“curing”	the process which controls the humidity and the temperature of the laminated sheets
“ex-factory price ”	the selling price from cigarette manufacturers to cigarette wholesalers
“ISO”	International Organisation for Standardisation, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations
“laminated metallised paper”	the end product of bonding white cardboard and metallised lamination film
“lamination”	the production process through which white cardboard and laminating materials (such as metallised lamination film or transfer metallised film) are bonded using pressure and glue
“metallised lamination film”	a raw material which is vacuum-aluminised and used for production of laminated metallised paper
“metallised paper”	common name of bonded white cardboard and metallised film which have decorative and protective properties, including laminated metallised paper and transfer metallised paper
“PET”	polyethylene terephthalate, a type of thermoplastic polymer resin of the polyester family which is commonly used in fibres for clothing, container for foods and packaging materials for goods

GLOSSARY

“social product(s)”	goods for general consumption other than cigarettes, including but not limited to food, beverages, drugs and medicines
“stripping”	the production process which removes the plastic transparent layer of the transfer metallised film from the metallised paper, leaving a layer of metallic element on the paper. This process only applies to transfer metallised paper
“tier 1 cigarettes”	cigarettes with the ex-factory price of RMB100 or above per carton (excluding value-added tax)
“tier 2 cigarettes”	cigarettes with the ex-factory price of RMB70 or above and below RMB100 per carton (excluding value-added tax)
“tier 3 cigarettes”	cigarettes with the ex-factory price of RMB30 or above and below RMB70 per carton (excluding value-added tax)
“tier 4 cigarettes”	cigarettes with the ex-factory price of RMB16.5 or above and below RMB30 per carton (excluding value-added tax)
“tier 5 cigarettes”	cigarettes with the ex-factory price below RMB16.5 per carton (excluding value-added tax)
“transfer metallised film”	a raw material which is vacuum-aluminised and consists of release coatings for transferring. This is used for production of transfer metallised paper
“transfer metallised paper”	the end product of bonding white cardboard and transfer metallised film
“winding”	the procedure which winds the metallised paper into roll after trimming

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those described in the section headed “Risk Factors” in this prospectus, which may cause our actual results, performance or achievements to be materially different from performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our business prospects, strategies, plans, objectives and goals;
- the business opportunities that we may pursue;
- our dividend policy;
- the amount and nature of, and potential for, future development of our business; and
- certain statements in the section headed “Financial Information” in the prospectus with respect to trends in prices, volumes, operations, margins, overall market trends, risk management and exchange rates.

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

- changes in general economic, market and business conditions as well as domestic consumption and trade volumes in China;
- changes in our customers’ business performance;
- introduction and implementation of new or different laws in the areas we operate in;
- increases in interest rates;
- our ability to obtain adequate capital resources to fund future expansion plans;
- our ability to successfully implement our business plans, strategies, objectives and goals;
- our ability to protect our patents, brand, trademark or other intellectual property rights;
- developments in technology and our ability to successfully keep up with technological improvements;

FORWARD-LOOKING STATEMENTS

- our ability to attract and retain employees and key personnel; and

- the other risk factors discussed in this prospectus as well as other factors beyond our control.

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

RISK FACTORS

Investing in the Shares involves certain risks. You should read this prospectus in its entirety and carefully consider each of the risks described below and all of the other information contained in this prospectus before deciding to purchase the Shares. If any of the following risks materialises, our business, financial condition and results of operations could be materially and adversely affected. The trading price of the Shares could decline and you may lose all or part of your investment.

RISK FACTORS RELATING TO OUR BUSINESS AND INDUSTRY

Increasing PRC regulatory or industry requirements for cigarette packaging could materially and adversely affect our business

In 2014, the STMA published the Requirements for Design of Cigarette Package (《卷煙包裝設計要求》), which limit the cost of cigarette packaging by setting a maximum ratio on the packaging cost to the cigarette selling price to avoid excessive packaging. Under these requirements, the ratio for tier 1 to tier 3 cigarettes must be no more than 8% to 11% and the ratio for tier 4 to tier 5 cigarettes must be no more than 12%. Our products are primarily used for mid to high-end cigarette brands in tier 1 to tier 3. For details on the major cigarette brands served by our major customers using our products and the relevant tiers of those cigarette brands, please refer to the section headed “Business — Sales and Marketing — Our customers”. The PRC cigarette packaging industry could be negatively affected by these requirements or any future regulatory control, industry policies or applicable guidelines or requirements, as they may reduce cigarette manufacturers’ spending on the PRC cigarette packaging or otherwise place negative pricing pressure on cigarette package manufacturers. This may cause cigarette package manufacturers to reduce their demand for our products or result in increased competition among cigarette packaging paper manufacturers and drive down the selling prices of our products. If we are unable to adapt to such changes, our business and results of operations may be materially and adversely affected.

Our sales of cigarette packaging paper are dependent on the PRC legislative and regulatory control on cigarette consumption and awareness of health concerns

The Eight-Point Guidelines (《中央政治局會議關於改進工作作風、密切聯繫群眾的八項規定》) was introduced in December 2012, which aim at, among others, simplifying hospitality arrangements and implementing strict-saving policies. With the introduction of the Eight-Point Guidelines which is intended to discourage officials from extravagant spending, the cigarette industry and the cigarette packaging industry may be affected by this clampdown on the gift-giving culture.

Moreover, in recent years, the PRC government has promulgated a series of legislative and regulatory control on the cigarette industry including the proposed Regulations on Smoking Control in Public Areas (《公共場所控制吸煙條例》), which aims to tighten control of the Chinese cigarette industry and to curb the demand for cigarette consumption due to concern for public health. Such tightened legislative and regulatory control includes regulations limiting smoking in public areas, prohibition on certain types of tobacco advertising, as well as labelling requirements for cigarette

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packages. Other examples include Regulations on the Administration of Sanitation at Public Places (《公共場所衛生管理條例》) and the Detailed Rules for the Implementation of the Regulations on the Administration of Sanitation at Public Places (《公共場所衛生管理條例實施細則》) which prohibit smoking in indoor public areas.

We cannot assure you that the implementation of such measures by the PRC government would have no significant impact on the consumption pattern and purchasing preference in the PRC cigarette market. If cigarette consumption and demand for cigarette packaging paper decrease, our business and results of operations could be materially and adversely affected. There is no assurance that the PRC government will not promulgate any further legislative or regulatory control measures on the PRC cigarette market or industry. In the event that any such measures are promulgated, cigarette consumption and the size of the overall PRC cigarette market may further shrink, as a result of which the demand for cigarette packaging paper may also be negatively affected.

The global trend of increasing awareness of health and the health hazards associated with cigarette smoking may negatively influence the sales of cigarette, which in turn would affect the demand for cigarette packaging in China and our sales of cigarette packaging paper. There is no assurance that consumers will not, in the future, change their habits and reduce consumption of cigarettes. As all of our revenue was derived from the sales of cigarette packaging paper during the Track Record Period, in the event that cigarette demand in China shrinks significantly and we are unable to promptly shift our product mix and customer base to other end markets, our business, results of operations, financial condition and future prospects could be adversely affected.

The demand for cigarettes in China is dependent on, among others, the prices of cigarettes and the economic conditions in China, and any change in the demand for cigarettes in China may affect our sales of cigarette packaging paper

According to Ipsos, in 2015, the sales volume of cigarettes in China and Hubei Province decreased slightly by 2.4% and 1.4%, respectively, compared to 2014. It is forecasted that these sales will further decrease in 2016 but resume an increasing trend from 2017 to 2020. According to Ipsos, the slowdown in the sales volume of cigarettes in China in 2015 and 2016 was mainly due to the recent slowdown in China's economic growth and an increase in specific tax.

The slowdown in China's economic growth in recent years has influenced the purchasing power of cigarette consumers, which in turn affected their willingness to spend on cigarettes and therefore, the amount of cigarettes consumption. If the economic conditions in China continue to be sluggish, we cannot assure you that the demand for cigarettes in China and our sales of cigarette packaging paper to cigarette packaging manufacturers will not be affected.

In addition, in 2015, the PRC government increased the specific tax on cigarette wholesale prices which in turn increased the retail prices of cigarettes. According to Ipsos, such price increases negatively impacted the demand for cigarette products in general and subsequently affected the cigarette packaging industry in China in 2015 and 2016.

If cigarette consumption continues to decrease, the size of the overall cigarettes market in China may shrink and our business and results of operations could be materially and adversely affected.

RISK FACTORS

Our business is subject to intense competition and may be negatively affected by further consolidation of cigarette manufacturers and brands and any upstream expansion by cigarette package manufacturers

According to Ipsos, the cigarette packaging paper manufacturing industry in China is fragmented with approximately 180 cigarette packaging paper manufacturers competing in the market with the top ten manufacturers accounting for a total market share of 21.1% in 2015. In 2015, there were six major cigarette packaging paper manufacturers in Hubei Province, which together accounted for a total market share of 43.4% in Hubei Province in 2015. In 2015, we ranked first among all cigarette packaging paper manufacturers in Hubei Province in terms of sales according to Ipsos. For further details of the competitive landscape, please refer to the section headed “Industry Overview” in this prospectus. Should our competitors equip themselves with, among other things, industry knowledge, technical know-how, equipment and machinery or product design capability that are comparable to or better than ours, we might not be able to maintain our market position and our business, results of operations, financial condition and future prospects might be adversely affected.

Our industry is competitive in part because a tendering system is typically used in order to secure sales contracts from our customers. Cigarette package manufacturers invite cigarette packaging paper manufacturers to participate in the tendering process and they submit tender documents according to the instructions in the invitation. The cigarette package manufacturers typically select cigarette packaging paper manufacturers based on a weighted scoring system which includes a number of factors such as product quality, price, reputation and brand profile. This scoring system facilitates the ease of comparison among all the tender participants and therefore makes it more competitive to win a tender. Moreover, the tendering system intensifies price competition because we may need to submit tenders with competitive prices to secure production orders from cigarette package manufacturers. If we are unable to maintain or improve our gross profit margin, our profitability and results of operations may be adversely affected.

Moreover, due to industry restructuring and consolidation, the number of cigarette manufacturers in China has decreased over the years. In 2015, 29 key cigarette brands contributed approximately 93.9% of total cigarette sales revenue in China and, according to Ipsos, further consolidation is expected in the future. This creates greater competition between the cigarette brands remaining in the market and increases the competition among cigarette manufacturers. In the event that further restructuring or consolidation takes place among cigarette manufacturers in China, the number of cigarette manufacturers and cigarette brands will further reduce, resulting in a more competitive market for cigarette package manufacturers and ultimately affecting the cigarette packaging paper market. If we fail to retain existing customers or to secure new cigarette package manufacturers as our customers in response to the market consolidation, we may lose our market share and our results of operations could be materially and adversely affected.

In addition, if any of our cigarette package manufacturer customers diversify their business and engage in upstream expansion to manufacture metallised packaging paper, this may intensify competition in the cigarette packaging paper industry. If, for any reason, any or all of our customers

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decide to expand upstream and produce all or a substantial portion of their required metallised packaging paper in the future, such customers may cease to place orders with us or may substantially reduce the amount of orders placed with us, and our financial condition, results of operations and future prospects could be materially and adversely affected.

We derived a large percentage of revenue from our major customers and we do not enter into long-term sales contracts with our major customers

For the years ended 31 December 2013, 2014, 2015 and the five months ended 31 May 2016, revenue from our five largest customers amounted to RMB235.0 million, RMB242.4 million, RMB278.2 million and RMB88.8 million, respectively, which accounted for 87.5%, 89.8%, 87.1% and 89.7% of our total revenue for the respective periods. Revenue from our largest customer for these periods accounted for RMB96.1 million, RMB86.6 million, RMB105.3 million and RMB33.1 million, respectively, which accounted for 35.8%, 32.1%, 33.0% and 33.4% of our total revenue, respectively. Our sales contracts with customers generally have a term of one year and we generally obtain these contracts through the tendering process. There is no assurance that we will always be successful in securing sales contacts with our customers or for all of the products we bid for. We will continue to rely on our existing sales to these customers in the future, but there is no assurance that any of our major customers, including our largest customer, will continue to place orders with us in the future, or if so, at the same volume levels or at the same prices.

In addition, the sales contracts we have entered into with our customers do not contain any minimum amount of metallised cigarette packaging paper to be purchased from us. The purchase amount for each of our products is set out in the relevant purchase orders issued by our customers to us from time to time based on their actual purchase requirements. In the event that our customers cease to place or reduce orders placed with us, our results of operations, financial condition and future prospects could be materially and adversely affected.

Any price fluctuations of raw materials used in our production processes, especially white cardboard and metallised film, may increase our production costs

White cardboard and metallised film are our principal raw materials. The cost of white cardboard accounted for 50.1%, 49.0%, 47.8% and 52.0% of our total cost of sales for the years ended 31 December 2013, 2014, 2015 and the five months ended 31 May 2016, respectively, and the cost of metallised film accounted for 36.9%, 37.7%, 36.3% and 34.1% of our total cost of sales for the years ended 31 December 2013, 2014, 2015 and the five months ended 31 May 2016, respectively. Key factors affecting the purchase price of white cardboard and metallised film include supply and demand in the market, the policies of the PRC government and market competition, many of which are beyond our control.

We do not enter into any long-term supply contracts and the term of each of our supply contracts is generally one year. We are therefore required to renegotiate the terms of raw material supplies every year in general and we do not have any hedging facilities to minimise the risk of raw materials price fluctuation. Price fluctuations of our principal or other raw materials will affect our production costs, which will in turn affect our gross profit margin. We cannot assure you that we will be able to transfer any increase in cost to our customers. There is no guarantee that the cost of raw materials will remain

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stable in the future, or that any price increase will not lead to unexpected and potentially significant increase in our production costs. There is no assurance that we will be able to increase the price of our products without affecting our sales in the future. If we are unable to increase the prices of our products to set off any increase in raw material costs, our profitability and profit margins may be adversely affected.

Our production facility is exposed to various risks

We only have one production facility which results in concentrated production risks. During the Track Record Period, we carried out metallised paper manufacturing activities entirely at our production facility in Yichang, Hubei Province.

Should the operations of our production facility be disrupted by any event, including but not limited to any fire, flood, earthquake or other natural disasters, we may not be able to produce and deliver sufficient quantity of products to meet the demand of our customers, which in turn could have a material and adverse effect on our business, financial condition and results of operations.

We may need to invest additional resources to improve our production equipment and systems in response to changes in market demand and government regulations

In order to satisfy the evolving needs of our customers, continual improvement of our operations and production functions is required. We have carried out various research and development projects on new products, techniques and technology and we seek to continue our research and development with a view to improving the functionality of our production facilities and lowering our production cost. Our research and development expenses amounted to RMB11.3 million, RMB10.8 million, RMB10.6 million and RMB1.9 million, respectively, for the years ended 31 December 2013, 2014, 2015 and the five months ended 31 May 2016, representing 4.2%, 4.0%, 3.3% and 2.0% of our total revenue and 22.1%, 21.8%, 15.9% and 8.9% of our gross profit, for the respective periods.

There is no assurance that we will successfully develop or implement any of the research and development projects or be able to complete such projects within their respective time and cost estimates. If we do not develop new techniques and introduce new products which adequately satisfy the market demand and comply with the relevant government regulations or industry standards in a timely manner, our competitive position, sales and gross margins could be materially and adversely affected. In the event that we fail to enhance our research and development capabilities to meet the ever-changing demand of customers, or if we fail to successfully adopt the latest technological developments, our capabilities may be surpassed by our competitors, which may adversely impact our results of operations and future prospects.

Our business development depends on the continuing service of our senior management and any failure to retain key senior management executives could have an adverse effect on our operations

Our business development is dependent on the continuing service of our senior management. Our success will, to a certain extent, depend on whether we can continue to retain our senior management

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executives and attract or retain other key personnel. If we lose the service of any key senior management executives, or if we fail to replace any loss of such persons with alternative personnel with similar expertise and experience, our business, results of operations, financial condition and future prospects could be adversely affected.

We face credit risks as trade receivables from our customers are subject to long collection cycles

Our sales are generally made on credit and we generally offer our customers credit periods ranging from 30 to 120 days. We record our trade receivables when our customers initially confirm receipt and acceptance of the goods. However, we only issue our invoice after our customers have conducted their internal control procedures and provided final confirmation that the delivery is in good order, which may take an extended period of time. Our credit period begins on the invoice date, resulting in a longer receivables turnover period. As such, our average trade receivables turnover days could exceed the 120 day credit period, being approximately 111 days, 128 days, 143 days and 194 days for the years ended 31 December 2013, 2014, 2015 and the five months ended 31 May 2016, respectively. For further details, please refer to the section headed “Financial Information — Certain Balance Sheet Items — Trade and notes receivables” in this prospectus.

There are credit risks associated with our business. As at 31 December 2013, 2014, 2015 and 31 May 2016, our trade receivables amounted to RMB82.6 million, RMB107.3 million, RMB143.7 million and RMB109.5 million, respectively. The amount of our trade and note receivables coupled with the long turnover time could have an adverse impact on our working capital needs. In general, we determine provisions for impairment of receivables based on assessing future cash flows, ageing analysis and the likelihood of collection. As at 31 December 2013, 2014, 2015 and 31 May 2016, the provision for impairment of trade receivables was RMB45,000, RMB45,000, RMB28,000 and nil, respectively. If we encounter significant delays or defaults in payment by our customers or are otherwise unable to recover our trade receivables, our cash flows from operations may be inadequate to meet our working capital requirements. Our financial condition and results of operations may be adversely affected.

We may face financial difficulties if we fail to maintain effective working capital and cash flow management

We recorded a loss of RMB1.2 million and net cash used in operating activities of RMB3.1 million for the five months ended 31 May 2016. This loss was mainly attributable to the increased administrative expenses incurred for the period, particularly the professional fees of RMB8.8 million incurred in connection with the Listing, and the negative cash flows from operating activities was mainly attributable to the lower profit before income tax and a decrease in cash related to changes in working capital, particularly for the settlement of trade and other payables during this period as we settled a large amount of trade payables from late 2015. In addition, we had significant fluctuations in the level of net current assets during the Track Record Period. As at 31 December 2013, 2014 and 2015 and 31 May 2016 and 30 September 2016, our net current assets amounted to RMB1.2 million, RMB15.7 million, RMB2.1 million, RMB10.8 million and RMB6.7 million, respectively. As at 30 September 2016, we had current borrowings of RMB27.0 million but we only had cash and cash equivalents of RMB1.2 million. We may face financial difficulties if we fail to maintain effective working capital and cash flow management.

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While we have in the past financed our working capital needs primarily with cash generated from operating activities and borrowings, we cannot assure you that we will always be able to generate net cash from operating activities or that banking facilities or other loans will always be available to us on commercially acceptable terms, or at all.

Even if we are able to obtain new borrowings, any increased level of indebtedness could have a negative impact on our business. For example, any increase in finance expenses could lower our profitability and the banking facilities that we may enter into may contain covenants limiting our flexibility in planning for, or reacting to, changes in our business. We cannot assure you that we will not suffer any decline in our future working capital or cash flow position or that we will not change to have net current liabilities in the future. If we fail to maintain effective working capital and cash flow management, we may face financial difficulties and our business and financial condition could be materially and adversely affected.

Any labour shortages, increased labour costs or other factors affecting our labour force may have a material adverse effect on our reputation, business, results of operations and financial condition

We require skilled labour of various levels of expertise and experience. We incurred staff costs of RMB11.4 million, RMB11.7 million, RMB13.4 million and RMB5.9 million, for the years ended 31 December 2013, 2014, 2015 and the five months ended 31 May 2016, respectively. To support the growth of our business, we will need to increase our workforce of experienced management, skilled labour and other employees to implement our expansion plans and enhance the operational efficiency of our existing facilities.

Driven by the past economic growth in China, competition for qualified personnel is substantial and labour costs have increased significantly in general in China. We cannot assure you that we will always be able to retain and attract sufficient qualified employees on commercially reasonable terms, or at all. In the event of labour shortages, we may face difficulties in recruiting or retaining employees or may be subject to increasing labour costs. Any failure to attract qualified personnel at reasonable costs and in a timely manner could reduce our competitive advantages, undermine our ability to expand and our growth in revenue and profits.

In addition, we cannot assure you that labour disputes, work stoppages or strikes will not arise in the future. Increase in our labour costs or any future disputes with our workers could adversely affect our business, results of operations and financial condition.

Any delay or cessation in the supply of raw materials from our suppliers without timely replacement may interrupt our operations

Our production of metallised cigarette packaging paper requires an adequate supply of white cardboard, metallised film and other raw materials such as glue and ink. As our supply contracts generally do not require our suppliers to make any binding commitment on the supply quantities and each of our purchase orders of raw materials is subject to the suppliers' acceptance and confirmation, there is no guarantee that we will not experience any shortages or delays in the supply of raw materials. Should any of our major suppliers delay or cease to supply raw materials to us and we are

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not able to procure necessary raw materials from alternative suppliers in a timely manner, our production may be interrupted. Any interruption in the supply of raw materials of the required quantities or quality may affect our production schedule, which may adversely affect our reputation and business relationships with our customers and consequently our financial condition and results of operations.

We rely on external logistics service providers to deliver our products to customers

According to the sales contracts we typically enter into with our customers, we are responsible, at our own costs and expenses, for delivering our products to locations specified by our customers. We generally engage external logistics service providers to provide transportation services to us which account for most of our transportation expenses included in distribution expenses. For the years ended 31 December 2013, 2014, 2015 and the five months ended 31 May 2016, our transportation expenses included in distribution expenses amounted to RMB6.7 million, RMB7.7 million, RMB11.6 million and RMB3.6 million, respectively, representing 2.5%, 2.8%, 3.6% and 3.6% of our total revenue for the respective periods. We may incur higher delivery expenses if our external logistics service providers raise their charges of transportation services. If we are unable to control our delivery expenses or pass on any increase in delivery expenses to our customers, our profitability and results of operations may be adversely affected.

Our sales are subject to seasonal fluctuations

Our products are principally used in the cigarette packaging industry in China and hence our production and sales largely correspond to the fluctuations in production and sales of the cigarette industry in China. The peak seasons for cigarette sales in China are around the first and third quarters of the year, as cigarettes are often used as gifts during Chinese New Year and Mid-Autumn Festival. Our peak seasons for production and sale of cigarette packaging paper therefore generally occur around the second half of the year.

During low seasons, we may not be able to obtain sufficient amount of purchase orders from our customers to fully utilise our production capacity, whereupon our labour, equipment and machinery may experience idle periods instead of generating revenue. On the other hand, during peak seasons, we may not have sufficient production capacity to meet all of our customers' purchase orders and demands, which in turn may limit our revenue or even adversely affect our business relationships with our customers. As a result, our business and results of operations may be adversely affected.

We may not be able to efficiently manage our inventory risks

We need to maintain sufficient inventory levels for our business operations as well as meet our customers' demands. Although our products are made to orders, we generally maintain certain inventory level of raw materials to ensure stable operations, and we cannot assure you that we can accurately predict sales and avoid over-stocking or under-stocking of raw materials in our inventory. In addition, when we purchase raw materials based on the customers' orders, we may not be able to consume all such inventory in sufficient quantities if a customer cancels or reduces its order. Changes

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in the product requirements of our customers may result in material increases or decreases in demands for certain raw materials, which may negatively impact our results of operations and inventory usage. As at 30 September 2016, approximately RMB21.4 million, or 50.2%, of our inventories as at 31 May 2016 were subsequently consumed or sold.

Inventory levels in excess of customer demand could result in inventory write-downs or increase in inventory holding costs. On the contrary, if we underestimate demand or if our suppliers fail to provide products in a timely manner, we may experience inventory shortages, which could in turn result in unfulfilled customer orders, loss of sales and a negative impact on customer relationships. We cannot assure you that we will be able to maintain an accurate inventory levels, and any such failure could have an adverse effect on our business, financial condition, and results of operations.

Failure to maintain an effective quality control system may have an adverse effect on our operations

The quality of our products is critical to the success of our business. We maintain strict and effective quality control and have a full set of system, procedures, processes and standards for quality management. However, we cannot assure you that all products produced by us are free of defects. Products defects may result in product returns and if our products are alleged to have caused any harm to end users, product liability claims may be brought against us for substantial damages. Such claims, even unsuccessful, will likely be time-consuming and costly to defend and could divert significant resources and management attention. Therefore, any material failure or deterioration of our quality control system could adversely affect our reputation, business, and financial condition and growth prospects.

We may cease to be entitled to a reduced PRC corporate income tax rate of 15%

Hubei Mengke, our sole PRC operating subsidiary, was recognised as a “High and New Technology Enterprise” by the relevant PRC government authorities. We received the “High and New Technology Enterprise” certificate in 2013, which will expire in November 2016. As a result of holding of such certificate, Hubei Mengke was entitled to pay PRC corporate income tax at a reduced rate of 15% for each of the years ended 31 December 2013, 2014, 2015 and the five months ended 31 May 2016. Our income tax expenses for the years ended 31 December 2013, 2014, 2015 and the five months ended 31 May 2016 amounted to RMB2.5 million, RMB2.2 million, RMB3.6 million and RMB1.4 million, respectively.

The relevant PRC government authorities will take into account various factors in determining whether to award or renew any “High and New Technology Enterprise” certificate, and there is no assurance that Hubei Mengke will be successful in renewing its “High and New Technology Enterprise” certificate. Please refer to the section headed “Financial Information — Components of Consolidated Statements of Comprehensive Income — Selected consolidated statement of comprehensive income information — Income tax expenses” for the current status of the renewal of this recognition. Should the relevant PRC government authorities refuse to renew Hubei Mengke’s

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status as a “High and New Technology Enterprise” for any reason, Hubei Mengke will cease to be entitled to such preferential tax treatment and will be required to pay PRC corporate income tax at the normal rate of 25%. Under such circumstances, our profitability and results of operation may be adversely affected.

We may incur additional costs for compliance with environmental protection laws

Our operations are subject to environmental protection laws and regulations in the PRC because our production involves the use and discharge of certain chemicals which could cause potential pollution to the environment. We are required to obtain and maintain certain environmental permits, licenses or approvals pursuant to applicable PRC laws and regulations. See the sections headed “Business — Environmental Protection” and “Regulatory Overview” for more information. Moreover, the PRC government may take additional steps towards more rigorous enforcement of applicable laws and adopt more stringent environmental standards. Violations of these laws and regulations may lead to, amongst others, fees for the discharge of waste substances and levy of fines and payments for causing serious environmental damages. If we fail to comply with any environmental protection laws or regulations, the PRC government may order us to close down our production facility and stop operations.

Any infringement of our intellectual property rights or any infringement by us of third party intellectual property rights may adversely affect our reputation and profitability

Our core production technology and critical production processes are crucial to our continued success and development. We were the registered owner of 13 patents and were applying for three patents as at the Latest Practicable Date. If our core production technology is infringed by way of unauthorised copying, use or imitation, our business and reputation may be seriously affected and we may need to expend substantial resources on litigation and other legal processes to protect our intellectual property, which may in turn adversely affect our operations and profitability.

Conversely, there is also a risk that third parties may bring a claim against us for infringing their intellectual property rights, thereby requiring us to defend or settle any related intellectual property infringement allegations or disputes. We may be required to incur substantial costs to develop non-infringing alternatives or to obtain the required licences. There is no assurance that we will succeed in developing such alternatives or in obtaining such licences on reasonable terms, or at all, and any failure to do so may disrupt our manufacturing processes, damage our reputation and adversely affect our results of operations.

Our non-compliance with social insurance and housing provident funds regulations in the PRC may lead to imposition of penalties or other liabilities

We are required under the relevant PRC laws and regulations to contribute to the social insurance (such as pension insurance, medical insurance, unemployment insurance, maternity insurance and work-related injury insurance) and housing provident funds for the benefit of our staff. During the Track Record Period, we had not made full contributions to the social insurance and housing provident funds. During the Track Record Period, our total unpaid contributions for the social insurance and housing provident funds amounted to RMB721,796 and RMB109,109, respectively, and the applicable

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late payment fee which we may be ordered by the relevant competent government authorities to pay amounted to RMB243,163. We did not make any provision in relation to these unpaid contributions. Please refer to the section headed “Business — Employees — Social Insurance and Housing Provident Funds Contributions” for further details.

In the event that the said penalty is imposed on us, or other administrative sanction is ordered by the relevant PRC authorities against us, for our previous failure to make contributions to social insurance scheme, such penalty or administrative sanction could adversely affect our financial condition and reputation.

We have limited insurance coverage for potential damages and liabilities in connection with our operations

Our business operations, particularly our production activities, involve inherent risks and occupational hazards, many of which are beyond our control. Industrial accidents, whether due to the malfunction of equipment and machinery or other reasons, may occur at our production facility from time to time. In such event, we may be fully or partially liable for loss of life and property, medical expenses, medical leave payments as well as fines and penalties for violation of applicable PRC laws and regulations. In addition, we may also experience interruptions in our operations and may be required to change the manner in which we operate our business as a result of government investigations or the implementation of safety measures as a result of such industrial accidents.

Our existing insurance may not be sufficient to cover all our potential damages and liabilities and any uninsured loss or damage to property, litigation or business disruption may cause us to incur substantial costs, which could materially and adversely affect our financial condition and operation results. The occurrence of certain events, including earthquake, fire, severe weather, war, floods, power shortages and the consequent damages and disruptions resulting from them may not be adequately covered, or at all, by our existing insurance policies. If we incur substantial liabilities not covered by our existing insurance policies, or if our business operations are interrupted for a substantial period of time, we may incur costs and losses that may materially and adversely affect our business, financial condition, results of operations and business prospects.

Natural disasters, public health and public security hazards in the PRC may severely disrupt our business and operations

Our suppliers, production facility and customers are all located in China. The outbreak of any severe diseases in China, if uncontrolled, could have an adverse effect on the overall business sentiment and environment in China, which in turn may have an adverse impact on domestic consumption and on our sales. In addition, if employees are affected by a severe communicable disease, we may be required to institute measures to prevent the spread of the disease. The spread of any severe communicable disease in China may also affect the operations of our general suppliers and other service providers.

Moreover, China has experienced natural disasters, including earthquakes, floods, landslides and droughts in the past, resulting in deaths of people, significant economic losses and significant and extensive damage to factories, power lines and other properties, as well as blackouts, transportation

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and communications disruptions and other losses in the affected areas. Any future natural disasters, public health and public security hazards may, among other things, materially and adversely affect or disrupt our operations. Furthermore, such natural disasters, public health and public security hazards may severely restrict the level of economic activity in affected areas, which may in turn materially and adversely affect our business, results of operations and prospects.

RISK FACTORS RELATING TO CONDUCTING BUSINESS IN THE PRC

Changes in the economic, political and social conditions and government policies in China may have an adverse effect on our business

During the Track Record Period, all of our operations were conducted in China and all of our revenue was derived from the PRC market. As a result, we are susceptible to changes in the economic, political and social conditions in China. The economy of China differs from the economies of most developed countries in many respects, including the degree of government involvement, degree of development, growth rate, control of foreign exchange and import and allocation of resources. In the past, the PRC government has implemented measures emphasising market forces for economic reform. However, the PRC government continues to play a significant role in regulating industrial development and the allocation, production, pricing and management of resources. We may not in all cases be able to capitalise on the economic reform measures adopted by the PRC government. In addition, the implementation of PRC laws and regulations involves a degree of uncertainty. We cannot predict the future development of the PRC legal system, including any promulgation of new laws, change to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws, and the effect it may have on us. Changes in the economic, political and social conditions or the relevant policies of the PRC government, such as changes in laws and regulations (or the interpretation thereof) and fiscal or financial measures, could have an adverse effect on the overall economic growth of China, which could subsequently hinder our business, growth strategies, financial condition and results of operations.

Failure to comply with SAFE regulations relating to the establishment of offshore special purpose companies by PRC residents, particularly SAFE Circular No. 37, may subject our PRC resident Shareholders or our PRC subsidiary to liabilities or penalties, limit our ability to inject capital into our PRC subsidiary or limit the ability of our PRC subsidiary to distribute profits to our Company

In July 2014, SAFE promulgated the SAFE Circular No. 37, pursuant to which a “special purpose vehicle” means an overseas enterprise directly established or indirectly controlled by a domestic resident (including domestic institutions and domestic individual residents) for the purpose of engaging in investment and financing with the domestic enterprise assets or interests he legally holds, or with the overseas assets or interests he legally holds. Domestic residents establishing or taking control of a special purpose vehicle abroad which engages in overseas investment and financing or makes round-trip investments in the PRC are required to effect foreign exchange registration.

According to the PRC Legal Adviser, Mr. Zhang, Mr. Fu and Mr. Chen are all subject to the requirements under SAFE Circular No. 37 and all necessary foreign exchange registrations with the local foreign exchange authority under SAFE Circular No. 37 were completed on 10 March 2016.

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However, there is no assurance that the PRC government will not have a different interpretation of the requirements of SAFE Circular No. 37 in the future. Moreover, we may not be fully informed of the identities of all the future Shareholders who are PRC residents. We do not have control over the Shareholders and cannot assure you that all of the PRC resident Shareholders will comply with SAFE Circular No. 37. Failure of the PRC resident Shareholders to register or amend their SAFE registrations in a timely manner pursuant to SAFE Circular No. 37 may subject such Shareholders and our PRC subsidiary to fines and legal sanctions. Failure to comply with SAFE Circular No. 37 may also limit our ability to contribute additional capital to our PRC subsidiary, limit the ability of the PRC subsidiary to distribute dividends to our Company or otherwise materially and adversely affect our business.

We may be subject to PRC corporate income tax on our worldwide income if we were considered a PRC “resident enterprise” under the CIT Law

Under the CIT Law and its implementation rules, enterprises established outside of the PRC with “de facto management bodies” within the PRC are considered a “resident enterprise” and will be subject to PRC corporate income tax at a rate of 25% on their worldwide income. The implementation rules under CIT define the term “de facto management bodies” as “establishments that carry out substantial and overall management and control over the production, operation, personnel, accounting, properties and other aspects of an enterprise.” The SAT promulgated the Notice Regarding the Determination of Chinese-controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (“**Circular 82**”) on 22 April 2009, which provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore incorporated enterprise is located in the PRC. On 27 July 2011, the SAT issued the Measures for Administration of Income Tax of Chinese-controlled Resident Enterprises Incorporated Overseas (Trial) (“**Circular 45**”) to supplement Circular 82 and other tax laws and regulations. Circular 45 clarifies certain issues relating to resident status determination.

Although Circular 82 and Circular 45 apply only to offshore enterprises controlled by PRC enterprises or PRC group companies and not those controlled by PRC individuals or foreigners, the determining criteria set forth in Circular 82 and Circular 45 may reflect the SAT’s general position on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises or individuals or foreign enterprises. Save as our company secretary, all of our senior management team members are located in PRC. If we were considered to be a PRC “resident enterprise”, we would be subject to PRC enterprise income tax at a rate of 25% on our worldwide income.

We may be deemed a PRC resident enterprise under the CIT Law and any gains on the sales of our Shares and dividends on our Shares may be subject to PRC income taxes

Under the CIT Law and its implementation rules, a PRC withholding tax at the rate of 10% is applicable to dividends payable to investors which are “non-resident enterprises” that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with such establishment or place of business to the extent such dividends have their source within the PRC unless there is an applicable tax treaty between the PRC and the jurisdiction in which an overseas holder resides which reduces or exempts

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the relevant tax. According to the Arrangements between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), the dividends derived by a foreign investor residing in Hong Kong from its PRC subsidiary is subject to a tax rate of 5% provided that the foreign investor directly holds not less than 25% of the equity interest of the PRC subsidiary. However, according to the Notice of the State Administration of Taxation on the Issues Concerning the Application of the Dividend Clauses of Tax Agreements (《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》) issued by the SAT on 20 February 2009, if the main purpose of a transaction or an arrangement is to obtain preferential tax treatment, the PRC tax authorities will have the discretion to adjust the preferential tax rate for which an offshore entity would otherwise be eligible. In addition, any gain realised on the transfer of shares by foreign investors is subject to a 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. Since it is uncertain whether our Company will be considered a PRC “resident enterprise”, dividends payable to the foreign investors of our Company with respect to the Shares, or the gain the foreign investors of our Company may realise from the transfer of the Shares, may be treated as income derived from sources within the PRC and be subject to the PRC tax.

Fluctuations in the value of the Renminbi could have an adverse effect on your investment

Our income and expenses have been and are expected to continue to be primarily denominated in Renminbi and we are exposed to the risks associated with the fluctuation in the currency exchange rate of Renminbi. Should Renminbi appreciate against other currencies, the value of the proceeds from the Share Offer and any future financings, which are to be converted from Hong Kong dollar or other currencies into Renminbi, would be reduced and might accordingly hinder our business development due to the lessened amount of funds raised. On the other hand, in the event of the devaluation of Renminbi, the dividend payments of our Company, which are to be paid in Hong Kong dollars after the conversion of the distributable profit denominated in Renminbi, would be reduced. Furthermore, the devaluation of Renminbi would also increase the costs of importing overseas equipment and machinery for the enhancement of our operations. Hence, substantial fluctuation in the currency exchange rate of Renminbi may have a material adverse effect on our business, operations and financial position and the value of your investment in the Shares.

Renminbi is not freely convertible and PRC government laws and regulations may impact the availability of funds to pay dividends

Renminbi is not a freely convertible currency and the conversion of Renminbi into any other currency is regulated by the PRC government. In general, foreign investment enterprises are permitted to convert Renminbi to foreign currencies for current account transactions (including, for example, distribution of profits and payment of dividends to foreign investors) through designated foreign exchange banks following prescribed procedural requirements. On the other hand, control over conversion of Renminbi to foreign currencies for capital account transactions (including, for example, direct investment, loan and investment in securities) is more stringent and such conversion is subject to a number of limitations.

Our Company is a holding company incorporated in the Cayman Islands and operates its core business through its PRC operating subsidiary. Therefore, the availability of funds for us to pay

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dividends to our Shareholders and to service any offshore indebtedness depends upon dividends received from the PRC operating subsidiary, which is subject to limitations with respect to dividend payments. Should the PRC subsidiary be unable to pay dividends due to government policies or regulations, our Company may not be able to pay dividends to the Shareholders and service any offshore indebtedness, which may have a material adverse effect on our business, results of operations and financial condition.

RISK FACTORS RELATING TO THE SHARE OFFER AND THE SHARES

We may experience a material adverse change in our financial results for the year ending 31 December 2016 which is mainly contributable to the expenses incurred in relation to the Listing

Assuming an Offer Price of HK\$0.60 per Share (being the mid-point of the indicative Offer Price range), the total underwriting commission and estimated expenses in relation to the Share Offer are estimated to be approximately HK\$38.2 million. A total of HK\$5.9 million and HK\$13.5 million was incurred for the year ended 31 December 2015 and the five months ended 31 May 2016, respectively. For the Track Record Period, HK\$14.7 million was charged to our profit or loss and HK\$4.7 million was directly attributable to the issue of new Shares in the Share Offer and will be deducted from equity upon the Listing. The remaining estimated listing expenses of HK\$18.8 million is expected to be incurred for the seven months ending 31 December 2016, of which HK\$12.1 million is expected to be charged to our profit or loss and HK\$6.7 million is expected to be deducted from equity upon listing. Prospective investors should note that our results of operations for the year ending 31 December 2016 would be materially and adversely affected by the charges for listing expenses which are non-recurring in nature.

There has been no prior public market for our Shares

Prior to the Share Offer, there was no public market for our Shares. While we have applied to list and deal in our Shares on the Stock Exchange, we cannot assure you that an active or liquid public market for our Shares will develop or be sustained if developed. If an active and liquid trading market does not develop, you may have difficulty in selling any of our Shares that you purchase. The Offer Price of our Shares will be determined through negotiations between our Company and the Joint Lead Managers (for themselves and on behalf of the Underwriters), and it may not necessarily be indicative of the market price of our Shares after Listing. An investor who purchases Shares in the Share Offer may not be able to resell such Shares at or above the Offer Price and, as a result, may lose all or part of the investment in such Shares.

The market price and trading volume of our Shares may be volatile

The market price and trading volume of our Shares may be volatile. Factors such as the following may significantly affect the trading volume and the price of our Shares:

- changes in global and local economic conditions;
- changes in foreign currency exchange rates;

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- fluctuations in our operating results;
- announcements of new investments, strategic alliances or acquisitions;
- modifications to our financial estimates or our competitors by securities analysts;
- addition or departure of our Directors and senior management;
- new policies in the cigarette industry or cigarette packaging industry in China; and
- general market conditions or other developments affecting us or our industry.

In addition, the Stock Exchange has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of companies listed on the Stock Exchange. As a result, investors in our Shares may experience volatility in the market price of their Shares and a decrease in the value of Shares regardless of our operating performance or prospects.

The interests of our Controlling Shareholders may differ from those of our other Shareholders, and such Shareholders may be disadvantaged by the actions of our Controlling Shareholders

Immediately following the completion of the Capitalisation Issue and the Share Offer, our Controlling Shareholders will beneficially own and control the exercise of approximately 56.25% of the voting rights in the general meeting of our Company. Our Controlling Shareholders could therefore exercise significant influence in determining the outcome of any corporate transaction or other matters submitted to our Shareholders for approval, including but not limited to mergers, consolidations and the sale of all, or substantially all, of our assets, election of Directors, and other significant corporate actions. The interests of our Controlling Shareholders may differ from the interests of our other Shareholders. If the interests of our Controlling Shareholders conflict with the interests of other Shareholders, or if our Controlling Shareholders choose to cause our business to pursue strategic objectives that conflict with the interests of our other Shareholders, those Shareholders could be disadvantaged by the actions of our Controlling Shareholders.

Future sales of our Shares or issuance of new Shares by us in the public market may materially and adversely affect the market price of our Shares and shareholding of the Shareholders

Future sales of a substantial number of our Shares could negatively impact the market price of our Shares and our ability to raise funds in the future at a time and price that we deem appropriate. The Shares held by our Controlling Shareholders are subject to certain lock-up undertakings, details of which are set out in the section headed “Underwriting” in this prospectus. There is no assurance that any of them will not dispose of any Shares they now own or may own in the future, following the expiration of the relevant lock-up periods or that any other substantial shareholders will not dispose of any Shares they now own or may own in the future following the Share Offer. Future sales of a substantial number of our Shares in the public market or any speculation that such sales may materially and adversely affect the market price of our Shares.

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In addition, we may raise additional funds by issuing new equity securities in the future to finance expansion of the existing business or develop new businesses. If the new equity securities are not issued to the existing Shareholders on a pro-rata basis, the ownership percentages of the existing Shareholders may be reduced, and in addition, the newly issued securities may confer rights, preferences or privileges superior to those of the Offer Shares.

Historical dividends are not indicative of future dividends

In 2015, we declared dividends of RMB11.2 million and RMB15.4 million for the years ended 31 December 2013 and 2014, respectively. Future dividends on our Shares will be declared by, and are subject to the sole and absolute discretion of, the Board. We do not have a fixed dividend policy. The payment and the amount of any dividends will depend on our earnings, financial condition, results of operations, cash flows, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that our Directors may consider relevant. There is no assurance that our Company will declare or pay dividends in the future, and the dividends declared and paid in the past should not be used as a reference or basis upon which future dividends will be determined. Therefore, historical dividends should not be treated as indicative of our future dividend payments or our future dividend policy.

The laws of the Cayman Islands relating to the protection of the interests of minority shareholders may differ from the laws of Hong Kong and other jurisdictions

Our corporate affairs are governed by, among other things, the Memorandum and Articles of the Company and the Companies Law and common law of the Cayman Islands. The rights of Shareholders to take action against our Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in other jurisdictions.

Investors should not unduly rely on facts and statistics in this prospectus

Certain facts and statistics in this prospectus that do not relate directly to our operations, including those relating to the cigarette and the cigarette packaging industries, have been derived or extracted from various publications of governmental agencies and Independent Third Parties. However, the facts and statistics in this document may not be reliable in terms of their completeness, accuracy and fairness given such information has not been independently verified by our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of their respective directors, officers, affiliates, advisers or representatives, or any other parties involved in the Share Offer, and such information may not be consistent with other publicly available information. Our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any of their respective directors, officers, affiliates, advisers or representatives, or any other parties involved in the Share Offer make no representation as to the completeness or accuracy of those

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information and there is no assurance that such information contained in this prospectus is prepared to the same standard or level of accuracy and comparable with similar kind of information available in other publications or jurisdictions. Therefore, the facts and statistics in this prospectus shall not be unduly relied upon.

Investors should not rely on any information in the press articles or other media regarding our Group or the Share Offer not contained in this prospectus

There may be certain press coverage in certain news publications regarding our Group and the Share Offer which include certain financial information, financial projections and other information about our Group that do not appear in this prospectus. We wish to emphasise to potential investors that we do not accept any responsibility for the accuracy or completeness of any information disseminated in the articles or media and that such information was not sourced from or authorised by our Group. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the information and underlying assumptions. To the extent that any of such information is inconsistent with, or conflicts with, the information contained in this prospectus, we disclaim it. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

Forward-looking statements contained in this prospectus are subject to risks and uncertainties

This document contains certain statements that are “forward-looking” and indicated by the use of forward-looking terms such as “aim”, “anticipate”, “believe”, “could”, “estimate”, “expect”, “going forward”, “intend”, “ought to”, “may”, “plan”, “potential”, “project”, “seek”, “should”, “will” or “would” or similar expressions. You are cautioned that any forward-looking statement involves risks and uncertainties and any or all of the assumptions relating to the forward-looking statements could prove to be inaccurate. As a result, the forward-looking statement could be incorrect. The inclusion of forward-looking statements in this prospectus should not be regarded as a representation by us that the plans and objectives will be achieved, and you should not place undue reliance on such statements.

WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, we have sought the following waiver from strict compliance with the relevant provisions of the Listing Rules:

WAIVER IN RELATION TO MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Listing Rules provides that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This will normally mean that at least two of its executive directors must be ordinarily resident in Hong Kong.

Since our business and operations are primarily based in the PRC, members of our senior management team are and will be expected to continue to be based in the PRC. In addition, it would be practically difficult and commercially unnecessary for us to relocate our executive Director to Hong Kong or appoint additional executive Directors who are ordinarily resident in Hong Kong.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.12 of the Listing Rules on the following conditions:

- (a) we have appointed and will continue to maintain two authorised representatives, namely Mr. Zhang and Mr. Lau Ka Ming, to be the principal communication channel at all times between the Stock Exchange and us pursuant to Rule 3.05 of the Listing Rules and ensure that they will comply with the Listing Rules at all times. Each of the authorised representatives will be readily contactable by the Stock Exchange by telephone, facsimile and/or email to deal promptly with enquiries from the Stock Exchange. Each of the authorised representatives is authorised to communicate on our behalf with the Stock Exchange;
- (b) both of our authorised representatives have means to contact all Directors (including independent non-executive Directors) and our senior management team promptly at all times as and when the Stock Exchange wishes to contact any of our Directors for any matters. We will implement a policy whereby our Directors (including independent non-executive Directors) will provide to the authorised representatives (i) their respective mobile phone numbers, residential phone numbers, fax numbers and email addresses; and (ii) valid phone numbers or other means of communication when they are travelling. Further, each Director will provide his mobile, office phone number, email address and facsimile number to the Stock Exchange;
- (c) all our Directors who are not ordinarily resident in Hong Kong have confirmed that they possess or will be able to apply for valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange within a reasonable period of time when required;

WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (d) we have appointed RaffAello Capital Limited to act as our compliance adviser (the “**Compliance Adviser**”) under Rule 3A.19 of the Listing Rules, who will, among others, act as our additional communication channel with the Stock Exchange for a period commencing from the Listing Date and ending on the date on which we distribute the annual report for the first full financial year after the Listing Date in accordance with Rule 13.46 of the Listing Rules. The Compliance Adviser will provide professional advice to us on continuous compliance with the Listing Rules. We will ensure that the Compliance Adviser has prompt access to our authorised representatives and our Directors who will provide the Compliance Adviser with such information and assistance as the Compliance Adviser may need or may reasonably request in connection with the performance of the Compliance Adviser’s duties; and

- (e) meetings between the Stock Exchange and our Directors could be arranged through the authorised representatives or the Compliance Adviser, or directly with our Directors within a reasonable time. We will inform the Stock Exchange as soon as practicable in respect of any change in the authorised representatives and/or the Compliance Adviser in accordance with the Listing Rules.

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 Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the 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.

INFORMATION ON THE PUBLIC OFFER

This prospectus is published solely in connection with the Public Offer. For applications 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 Public Offer or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers, employees, agents, affiliates or advisers or any other party involved in the Share Offer. Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in this prospectus is correct as at any subsequent time.

UNDERWRITING

The Share Offer comprises the Public Offer of initially 12,500,000 Offer Shares and the Placing of initially 112,500,000 Placing Shares.

The application for listing of our Shares is sponsored by the Sole Sponsor. The Share Offer is managed by the Joint Lead Managers. The Public Offer is fully underwritten by the Public Offer Underwriter(s) under the Public Offer Underwriting Agreement and is subject to our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) agreeing on the Offer Price.

If, for any reason, the Offer Price is not agreed between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and us by Wednesday, 23 November 2016, the Share Offer will not proceed and will lapse. Further information about the Public Offer Underwriters and the Underwriting Agreements is set out in the section headed "Underwriting" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

RESTRICTIONS ON OFFER AND SALE OF SHARES

Each person acquiring the Public Offer Shares under the Public Offer will be required to, or deemed by his acquisition of the Offer Shares to, confirm that he is aware of the restrictions on offer and sale of the Offer Shares described in this prospectus, where applicable.

No action has been taken to permit a public offer of the Offer Shares, other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstance in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering 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 any registration made with or authorisation by the relevant securities regulatory authorities or an exemption from applicable securities laws.

APPLICATION FOR LISTING OF THE SHARES ON THE STOCK EXCHANGE

We have applied to the Listing Committee of the Stock Exchange for the granting of, listing of, and permission to deal in, our Shares in issue prior to the Share Offer and to be issued pursuant to the Capitalisation Issue and the Share Offer and any Shares which may be issued upon the exercise of any options to be granted under the Share Option Scheme.

No part of our Shares is listed on or dealt in any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Share Offer are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposal of, and dealing in our Shares (or exercising rights attached to them). None of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers, employees, agents, affiliates or advisers or any other party involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, our Shares.

STAMP DUTY

Dealings in our Shares registered on our Hong Kong register of members will be subject to Hong Kong stamp duty. If you are unsure about the taxation implications of subscribing for the Offer Shares, or about purchasing, holding or disposing of or dealing in them, you should consult an expert.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

PROCEDURES FOR APPLICATION FOR THE OFFER SHARES

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

STRUCTURE OF THE SHARE OFFER

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

REGISTER OF MEMBERS

Our Company’s principal register of members will be maintained by its Principal Share Registrar, Estera Trust (Cayman) Limited, in the Cayman Islands and our Company’s branch register of members will be maintained by its Hong Kong Branch Share Registrar, Tricor Investor Services Limited, in Hong Kong. All Shares to be issued pursuant to the Share Offer and any Shares to be issued upon exercise of any options which may be granted under the Share Option Scheme will be registered on our Company’s branch register of members maintained in Hong Kong. Only Shares registered on our Company’s branch register of members maintained in Hong Kong may be traded on the Stock Exchange.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, our Shares on Exchange and compliance 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 date of commencement of dealings in our Shares on the Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests. All necessary arrangements have been made enabling our Shares to be admitted into CCASS.

EXCHANGE RATE CONVERSION

Unless otherwise specified, amounts denominated in Hong Kong dollars have been translated, for the purpose of illustration only, into Renminbi, and vice versa, in this prospectus at the following rate:

HK\$1.00 : RMB0.86

No representation is made that any amounts in Renminbi or Hong Kong dollars can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. If there is any inconsistency between the names of any of the entities mentioned in this prospectus which are not in the English language and their English translations, the names in their respective original languages shall prevail.

ROUNDING

In this prospectus, where information is presented in thousands or millions, amounts of less than one thousand or one million, as the case may be, have been rounded to the nearest hundred, or hundred thousand, respectively. Amounts presented as percentages have, in certain cases, been rounded to the nearest tenth of a percent. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding. Accordingly, the total of each column of figures as presented may not be equal to the sum of the individual items.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

Name	Residential address	Nationality
Chairman and non-executive Director		
Mr. ZHANG Weixiang (張偉翔)	Room 401, Unit 1 Building 2 Xiangzhou Leyuan Road No. 42 Xiangzhou District, Zhuhai City Guangdong Province PRC	Chinese
Executive Director		
Mr. FU Mingping (付明平)	Room 20-11-302 Shengli Fourth Road Wujiagang District Yichang City Hubei Province PRC	Chinese
Independent non-executive Directors		
Mr. CHENG Tai Kwan Sunny (鄭大鈞)	Flat A, 11/F, Tower 27 South Horizons Ap Li Chau Hong Kong	Chinese
Mr. TAN Yik Chung Wilson (陳奕聰)	Flat D, 28/F, Block 2B The Latitude 638 Prince Edward Road East San Po Kong Kowloon Hong Kong	Chinese
Mr. YICK Ting Fai Jeffrey (易庭暉)	Flat H, 2/F, Block 17 Laguna Verde Hunghom Kowloon Hong Kong	Chinese

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

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

PARTIES INVOLVED IN THE SHARE OFFER

Sole Sponsor

RaffAello Capital Limited
Room 2002, 20/F
Tower Two, Lippo Centre
89 Queensway
Hong Kong

**Joint Bookrunners and
Joint Lead Managers**

RaffAello Securities (HK) Limited
Rooms 2002 & 2002B, 20/F
Tower Two, Lippo Centre
89 Queensway
Hong Kong

First Shanghai Securities Limited
1903, Wing On House
71 Des Voeux Road Central
Hong Kong

Legal advisers to our Company

As to Hong Kong law:
ONC Lawyers
19th Floor, Three Exchange Square
8 Connaught Place
Central
Hong Kong

As to Cayman Islands law:
Appleby
2206-19 Jardine House
1 Connaught Place
Central
Hong Kong

As to PRC law:
Beijing Jingtian & Gongcheng Law Firm
34th Floor, Tower 3
China Central Place
77 Jianguo Road
Beijing 100025
PRC

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

As to Hong Kong law:
Norton Rose Fulbright Hong Kong
38th Floor, Jardine House
1 Connaught Place
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

As to PRC law:

Global Law Office
Units B/C, 26/F
Tower 5 Dachong International Center
No. 39 Tonggu Road
Nanshan District
Shenzhen 518055
PRC

Auditor and reporting accountant

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

Property valuer

DTZ Cushman & Wakefield Limited
16th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

Receiving bank

Wing Lung Bank Limited
45 Des Voeux Road Central
Central
Hong Kong

Compliance adviser

RaffAello Capital Limited
Room 2002, 20/F
Tower Two, Lippo Centre
89 Queensway, Admiralty
Hong Kong

CORPORATE INFORMATION

Registered office	P.O. Box 1350, Clifton House 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
Headquarters and principal place of business in the PRC	No. 15 Shantou Road Yichang High-Tech Zone Hubei Province PRC
Place of business in Hong Kong registered under Part 16 of the Companies Ordinance	Room A, 17th Floor Capitol Centre Tower II 28 Jardine's Crescent Causeway Bay Hong Kong
Company's website	<u>www.mengkeholdings.com</u> <i>(Note: the information contained in this website does not form part of this prospectus)</i>
Company secretary	Mr. Lau Ka Ming (<i>HKICPA, CPA (Australia)</i>) Suite 1106, Tower E, Galaxia Diamond Hill, Kowloon Hong Kong
Authorised representatives (for the purpose of the Listing Rules)	Mr. Zhang Weixiang Room 401, Unit 1, Building 2 Xiangzhou Leyuan Road No. 42 Xiangzhou District Zhuhai City Guangdong Province PRC Mr. Lau Ka Ming Suite 1106, Tower E, Galaxia Diamond Hill, Kowloon Hong Kong
Audit committee	Mr. Tan Yik Chung Wilson (<i>Chairman</i>) Mr. Cheng Tai Kwan Sunny Mr. Yick Ting Fai Jeffrey
Remuneration committee	Mr. Yick Ting Fai Jeffrey (<i>Chairman</i>) Mr. Cheng Tai Kwan Sunny Mr. Fu Mingping

CORPORATE INFORMATION

Nomination committee	Mr. Cheng Tai Kwan Sunny (<i>Chairman</i>) Mr. Tan Yik Chung Wilson Mr. Fu Mingping
Principal share registrar	Estera Trust (Cayman) Limited P.O. Box 1350, Clifton House 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
Hong Kong Branch Share Registrar	Tricor Investor Services Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
Principal bankers	China Merchants Bank, Yichang Branch No. 18-3 Xiling First Road Yichang City Hubei Province PRC Bank of China Limited Yichang Dongshan Branch No.1 Dalian Road Dongshan Development Zone Yichang City Hubei Province PRC

INDUSTRY OVERVIEW

Certain information contained in this section and elsewhere in this prospectus has been derived from various public sources or extracted from a commissioned market research report prepared by Ipsos for the purposes of this prospectus. We believe that the sources of the information in this section are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or that any fact has been omitted that would render such information misleading. In addition, we believe there is no adverse change in market information since the date of the Ipsos report which may qualify, contradict or have an impact on such information. However, such information has not been independently verified by us or any of our Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers or the Underwriters and no representation is given as to its accuracy. Such information may not be consistent with the information compiled by other sources.

INTRODUCTION

We have commissioned Ipsos, an independent market research company, to analyse and report on the industry development, trends and competitive landscape of the cigarette packaging paper manufacturing industry in China and the Hubei Province for the period from 2010 to 2020 (the “**Ipsos Report**”) for a fee of HK\$618,000.

Ipsos is an independent market research company and 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, analysis on market size, share and segmentation, distribution and value analysis, competitor tracking and corporate intelligence.

In compiling the Ipsos Report, Ipsos obtained and gathered data and intelligence by: (a) conducting desk research covering government and regulatory statistics, industry reports and analyst reports, industry associations, industry journals and other online sources and data from the research database of Ipsos; (b) performing client consultation to obtain background information of the Company; and (c) conducting primary research by interviewing key stakeholders and industry experts. The information and statistics set forth in this section have been extracted from the Ipsos Report.

The information and data gathered by Ipsos have been analysed, assessed and validated using Ipsos’ in-house analysis models and techniques. The methodology used by Ipsos is based on information sourced from multiple levels, which allows such information to be cross-referenced for accuracy.

ASSUMPTIONS AND PARAMETERS USED IN THE IPSOS REPORT

The following assumptions are used in the Ipsos Report:

- The supply and demand of products and services in the cigarette packaging paper manufacturing industry in China are assumed to be stable during the forecast period;

INDUSTRY OVERVIEW

- There will be no external shocks such as financial crises or natural disasters in the global market and China market which could affect the demand and supply for the products and services of the cigarette packaging paper manufacturing industry during the forecast period; and
- The economic, social and political environment in China is likely to remain stable during the forecast period, which provides a conducive environment for the development of the cigarette packaging paper manufacturing industry in China.

The following parameters are used in the market sizing and forecast model in the Ipsos Report:

- Total sales value and sales volume of cigarettes in China from 2010 to 2015;
- Total sales value and sales volume of cigarettes in the Hubei Province from 2010 to 2015; and
- Total sales value of the packaging paper manufacturing industry in China from 2010 to 2015.

Based on the above, our Directors and the Sole Sponsor are satisfied that the disclosure of future projection and industry data included in this section is not misleading.

Our Directors confirmed that, as at the Latest Practicable Date, after taking reasonable care, there is no material adverse change in the market information since the date of the Ipsos Report which may qualify, contradict or have an impact on the information in this section.

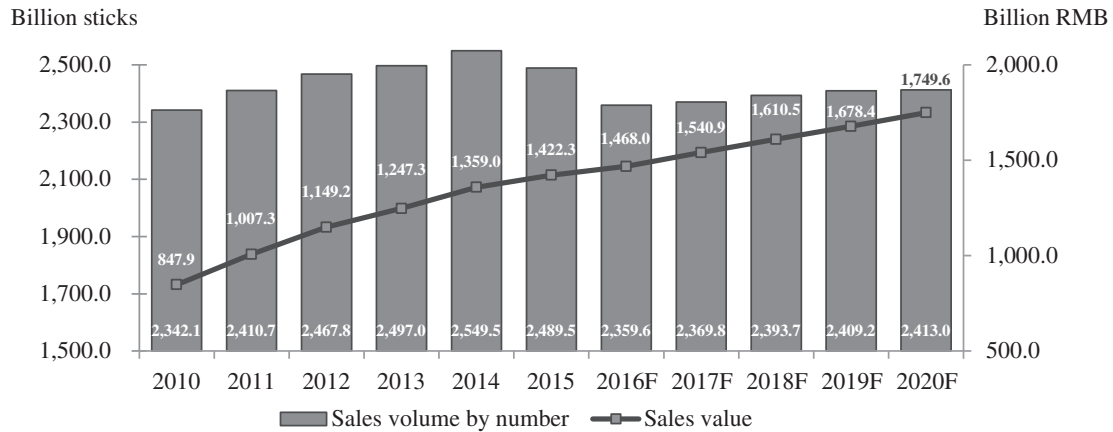
Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Ipsos Report.

CIGARETTE MARKET IN MAINLAND CHINA AND HUBEI PROVINCE

The cigarette industry in China is regulated by the STMA and monopolised by the CNTC. The STMA's main role includes setting tobacco-related standards and circulars and supervising the enforcement of the relevant regulations. The CNTC controls all the tobacco planting, cigarette manufacturing, transportation and sales in China. From 2010 to 2015, the production volume of cigarettes in China continued to grow at a stable pace at a CAGR of approximately 1.7%, reaching approximately 2,589.1 billion sticks in 2015, compared to 2,375.3 billion sticks in 2010.

INDUSTRY OVERVIEW

The chart below sets forth the total sales value and sales volume of cigarettes in China from 2010 to 2015 and the forecast from 2016 to 2020:



Note:

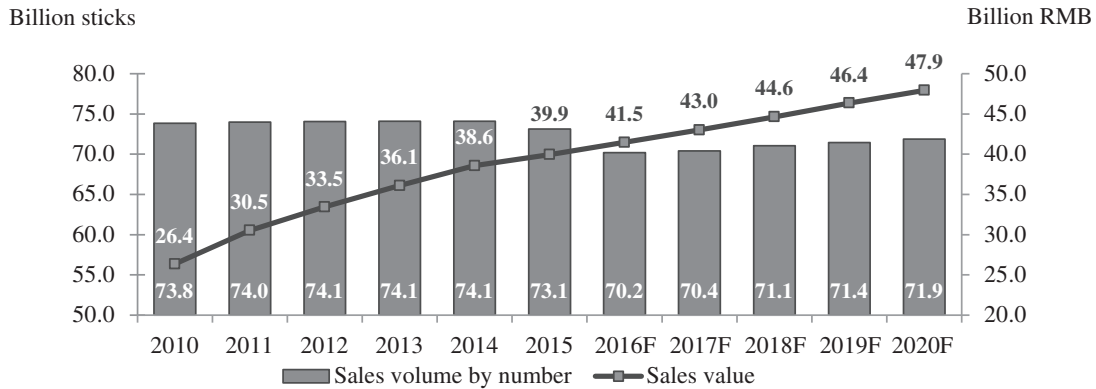
(1) F refers to forecasted figures.

Sources: STMA; Ipsos research and analysis

The total sales volume of cigarettes in China grew steadily from approximately 2,342.1 billion sticks in 2010 to approximately 2,489.5 billion sticks in 2015 at a CAGR of 1.2%. The sales volume is forecasted to further grow from approximately 2,359.6 billion sticks in 2016 to approximately 2,413.0 billion sticks in 2020, at a CAGR of 0.6%. The total sales value of cigarettes in China steadily grew from RMB847.9 billion in 2010 to RMB1,422.3 billion in 2015 at a CAGR of 10.9%. The sales value is forecasted to further grow from RMB1,468.0 billion in 2016 to RMB1,749.6 billion in 2020, at a CAGR of 4.5%.

INDUSTRY OVERVIEW

The chart below sets forth the total sales value and sales volume of cigarettes in Hubei Province from 2010 to 2015 and the forecast from 2016 to 2020:



Note:

(1) F refers to forecasted figures.

Sources: STMA; Ipsos research and analysis

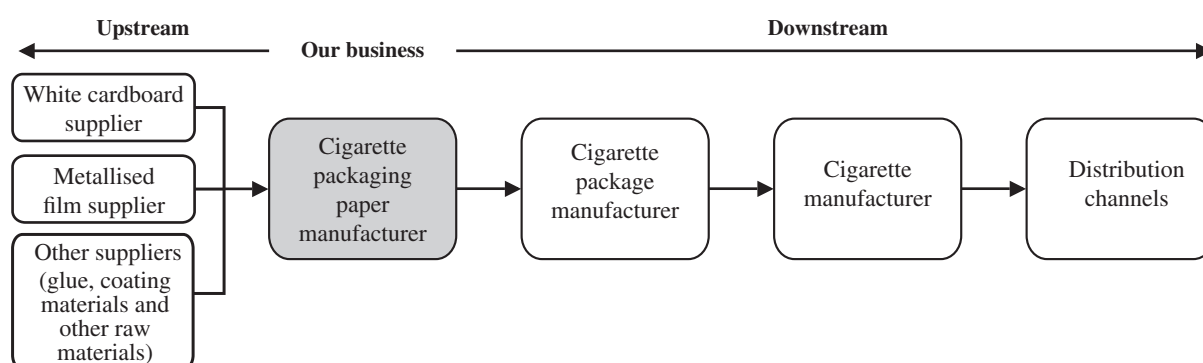
From 2010 to 2015, the sales volume of cigarettes in Hubei Province decreased slightly from approximately 73.8 billion sticks in 2010 to approximately 73.1 billion sticks in 2015 at a CAGR of -0.2%. The total sales value of cigarettes experienced growth from RMB26.4 billion in 2010 to RMB39.9 billion in 2015 at a CAGR of 8.6%. Both sales volume and sales value of cigarettes in Hubei Province are expected to increase over the forecast period. The sales volume is expected to increase to approximately 71.9 billion sticks in 2020 from 70.2 billion sticks in 2016 with a CAGR of 0.6%, while the sales value is expected to reach RMB47.9 billion in 2020 from RMB41.5 billion in 2016 at a CAGR of 3.7%. The increase in sales value can be attributed to the STMA's promotion of mid to high-end cigarettes and consumers' increasing preference for mid to high-end cigarettes driven by the increasing income level and higher purchasing power of consumers. Despite the decrease in sales volume of cigarettes in 2015 and 2016 due to the slowdown of the Chinese GDP growth and the rise in specific tax from 5% to 11% in 2015 imposed by the government, the sales volume and value of cigarettes are expected to have a stable growth from 2016 to 2020. At the provincial level, Yunnan and Hunan Provinces were the top two in terms of cigarette production volume in 2015, with approximately 390.4 billion sticks and 175.7 billion sticks, respectively. Additionally, the sales of cigarettes are subject to seasonal variations. In general, the first and third quarters are the peak seasons for cigarettes during the year, partly driven by festivals such as the Lunar New Year and the Mid-Autumn Festival.

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CIGARETTE PACKAGING PAPER MANUFACTURING INDUSTRY IN CHINA AND HUBEI PROVINCE

Cigarette packaging paper products generally include inner frame paper, cigarette box frame paper, tipping paper, cigarette trademark labels, cigarette external packaging paper and others such as glass paper and plug wrap papers. Medium and large manufacturers generally produce various types of cigarette packaging paper products and have extensive sales channels, while small manufacturers with limited product portfolios generally focus on clients within the same province.

The diagram below highlights the value chain of the cigarette packaging paper manufacturing industry in China:



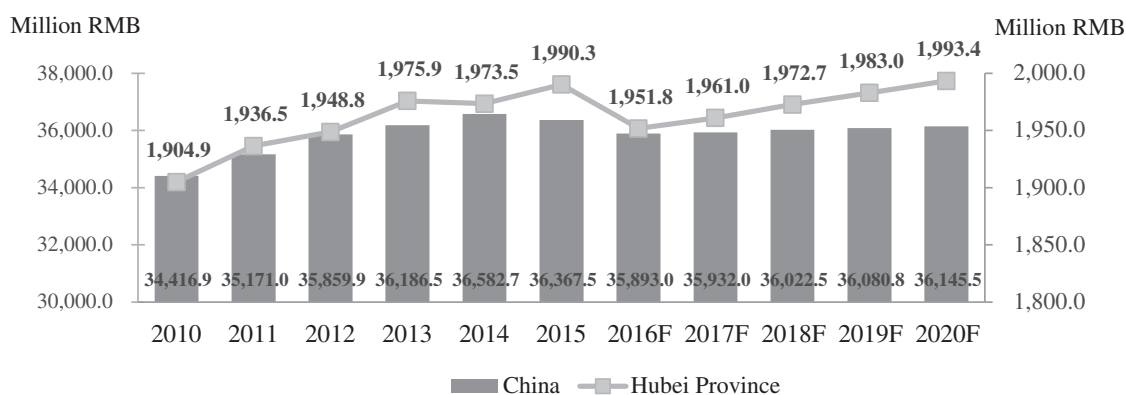
Source: Ipsos research and analysis

The value chain includes the following:

- **Raw materials suppliers:** Major raw materials of cigarette packaging paper include white cardboard and metallised film which are composed of aluminum foil, PET and BOPP. Key suppliers are commonly large paper and metallised film manufacturers.
- **Cigarette packaging paper manufacturers:** Cigarette packaging paper manufacturers source raw materials and focus on producing inner frame paper, box frame paper, tipping paper and external packaging paper which are used for cigarette packaging.
- **Clients:** Downstream clients include cigarette package manufacturers and cigarette manufacturers. Cigarette package printers source the cigarette packaging paper from cigarette packaging paper manufacturers, and then engage in the printing process using the cigarette packaging paper. After the printing process, the printed packaging paper will be further delivered to cigarette manufacturers for final packaging use.

INDUSTRY OVERVIEW

The chart below sets forth the total sales value of the cigarette packaging paper manufacturing industry in China and Hubei Province from 2010 to 2015 and the forecast from 2016 to 2020:



Notes:

- (1) Cigarette packaging paper includes (1) inner frame paper, (2) cigarette box frame paper and (3) cigarette external packaging paper (not printed).
- (2) F refers to forecasted figures.

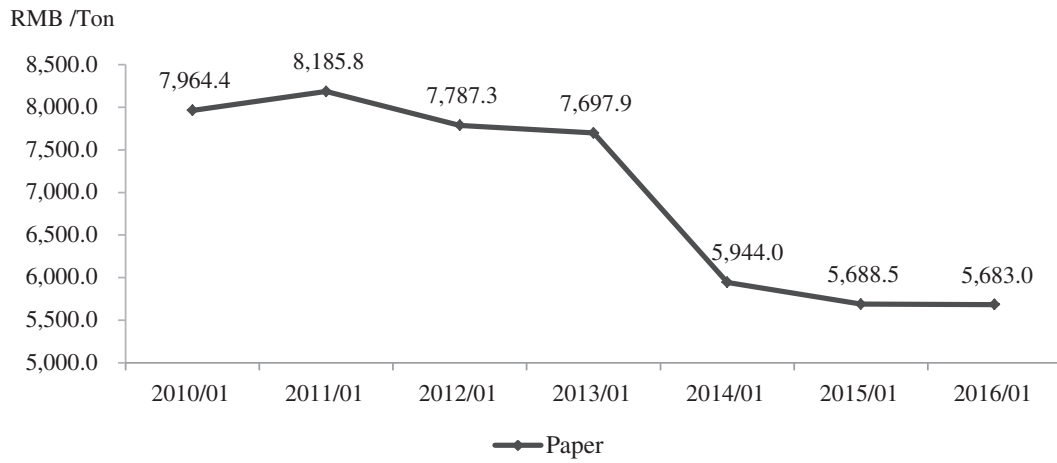
Source: Ipsos research and analysis

The total sales value of the cigarette packaging paper manufacturing industry in China grew from RMB34,416.9 million in 2010 to RMB36,367.5 million in 2015, at a CAGR of 1.1%. In Hubei Province, the total sales value of the cigarette packaging paper manufacturing industry increased from RMB1,904.9 million in 2010 to RMB1,990.3 million in 2015, at a CAGR of 0.9%. The increasing sales value of cigarette packaging paper in both China and Hubei Province is mainly driven by the growing cigarette production volume in China from 2010 and 2015. However, it is likely that there will be a drop in 2016 due to the expected decrease in sales volume of cigarettes in both China and Hubei Province.

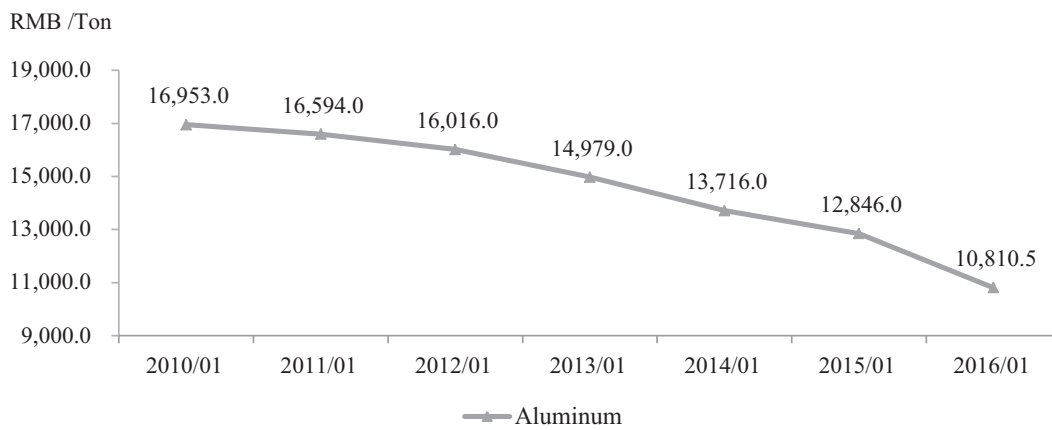
The total estimated sales value of the cigarette packaging paper manufacturing industry in China is expected to grow from RMB35,893.0 million in 2016 to RMB36,145.5 million in 2020, representing a CAGR of 0.2%. The total estimated sales value of the industry in Hubei Province is also expected to regain its growth momentum, increasing from RMB1,951.8 million in 2016 to RMB1,993.4 million in 2020, at a CAGR of 0.5%. The increase in industry sales value is likely to be caused by the expected rising production volume of cigarettes during the forecast period.

INDUSTRY OVERVIEW

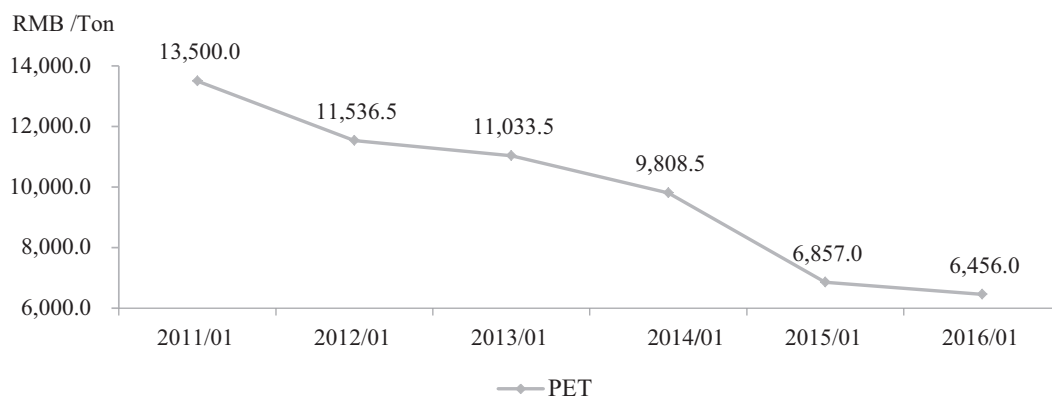
The charts below set forth the price trend of key raw materials of cigarette packaging paper from 2010 to 2016:



Sources: STMA; Ipsos research and analysis

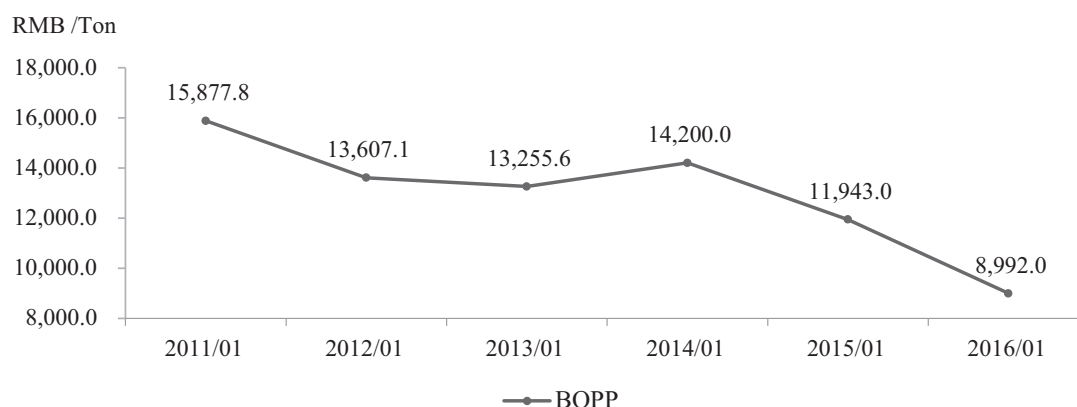


Sources: STMA; Ipsos research and analysis



Sources: STMA; Ipsos research and analysis

INDUSTRY OVERVIEW



Sources: STMA; Ipsos research and analysis

Note:

- (1) Aluminum, PET and BOPP are the key raw materials for metallised film and thus are the closest proxies to illustrate the price trend of metallised film.
- (2) Price trend of white cardboard is not public available information and thus the closest proxy of white cardboard is the price trend of paper. The price trend of white cardboard may not rely on the price trend of paper and is not the same as the price trend of white paper.

Overall, raw material prices have generally decreased over the historical period. The price of paper decreased from RMB7,964.4 per ton in 2010 to RMB5,683.0 per ton in 2016. Price of aluminum followed an overall downward trend from 2010 to 2016, driven by the European debt crisis in 2011 and China's economic slowdown since 2012, which decreased the demand for aluminum. The prices of PET film and BOPP film are positively correlated to the prices of crude oil because crude oil is a key raw material in the production of PET and BOPP. Thus, the decrease of crude oil prices from approximately US\$125 per barrel in 2011 to US\$50 per barrel in the first half of 2016 led to the overall decline in prices of PET film and BOPP film from 2011 to 2016.

It is expected that the future trends of the cigarette packaging paper manufacturing industry in China are as follows:

- **Increasing popularity of hard-pack packaging:** Hard-pack packaging is currently the mainstream packaging type in both China's and Hubei Province's cigarette markets compared to soft packs and it is expected to increase in popularity because the packaging efficiency of inserting the cigarettes into hard packs is higher than soft packs. Moreover, hard packs allow greater design flexibility. Furthermore, hard packs are also considered to be more popular among consumers as hard packs can protect cigarettes from being crushed and generally have a more trendy design.

INDUSTRY OVERVIEW

- **Use of environmentally friendly packaging materials:** The PRC government has issued policies and regulations, such as the Requirements for Design of Cigarette Package (《卷煙包裝設計要求》) in 2014 to encourage the use of environmentally friendly materials in cigarette packaging. In order to meet the government requirements and to build a positive corporate image, cigarette packaging paper manufacturers are expected to improve technology to meet environmental standards.
- **Consolidation of cigarette manufacturers:** The cigarette manufacturing industry in China has experienced consolidation and restructuring since 2000. As a result, the number of cigarette manufacturers in China decreased from nearly 200 in 2000 to 26 in 2010. Since 2012, the number of cigarette brands has also reduced due to the consolidation of brands and product lines within the cigarette manufacturing industry. The decreases in the number of cigarette manufacturers and cigarette brands may result in more intense competition among cigarette package manufacturers. Since large-scale cigarette package manufacturers typically only choose cigarette packaging paper manufacturers that have a good customer relationship with them as their suppliers, competition among cigarette packaging paper manufacturers may also be intensified. However, as cigarette manufacturers in the market become larger in size, this presents opportunities to those cigarette package manufacturers and cigarette packaging paper manufacturers which are able to meet their customers' requirements and compete effectively in the market.
- **Potential trend of the cigarette market:** With the increase in specific tax on cigarette products in 2015, the upcoming Regulations on Smoking Control in Public Areas (《公共場所控制吸煙條例》), the restrictions on cigarette purchases by PRC government officials and the decline in revenue for some listed cigarette-related companies in 2015, the cigarette industry is likely to witness slow growth in sales volume of cigarettes in the future but the sales value of cigarettes is anticipated to grow moderately given the increasing consumer preference on mid to high-end cigarettes.

In addition, the “Regulations Related to Cigarette Box Packaging and Labelling in People’s Republic of China” 《中華人民共和國境內卷煙包裝標識的規定》 published by the STMA and General Administration of Quality Supervision, Inspection and Quarantine of the People’s Republic of China, which came into effect in October 2016, has tightened the requirement for warning statements printed on cigarette package boxes. It was expected that cigarette manufacturers in each provinces would replace their cigarette packages gradually and consume their existing inventories before switching to the new cigarette packaging and therefore our customers might change the specifications of the cigarette packaging paper that they order.

COMPETITIVE ANALYSIS OF THE CIGARETTE PACKAGING PAPER MANUFACTURING INDUSTRY IN CHINA AND HUBEI PROVINCE

The cigarette packaging paper manufacturing industry in China is fragmented with approximately 180 cigarette packaging paper manufacturers competing in the market, among which the top ten manufacturers accounted for approximately 21.1% of the total market share in 2015 in terms of sales value.

INDUSTRY OVERVIEW

In 2015, there were six major cigarette packaging paper manufacturers in Hubei Province. Approximately 43.4% of Hubei Province’s sales revenue is concentrated in the top six key companies in Hubei Province. In general, due to the tendering process for sales orders and intense competition, cigarette packaging paper manufacturers have to compete on production capacity, product quality, advanced technology, customer relationship and financial conditions in order to maintain its competitiveness in the industry.

The table below details the top six cigarette packaging paper manufacturers in Hubei Province in 2015, ranked by sales revenue and market share:

Ranking	Company Name	Headquarters	Sales Revenue ⁽¹⁾ in 2015 (million RMB)	Market Share in 2015	Key Cigarette Packaging Paper Products ⁽²⁾
1	Our Company	Yichang, Hubei	319.3	16.0%	Cigarette external packaging paper
2	Company A	Wuhan, Hubei	182.5	9.2%	Cigarette external packaging paper, BOPP, PET and other related films
3	Company B	Xiaogan, Hubei	112.3	5.6%	Cigarette external packaging paper
4	Company C	Wuhan, Hubei	93.5	4.7%	Cigarette external packaging paper
5	Company D	Huanggang, Hubei	84.9	4.3%	Cigarette external packaging paper
6	Company E	Wuhan, Hubei	72.0	3.6%	Cigarette external packaging paper and related films
	Others		<u>1,125.8</u>	<u>56.6%</u>	
	Total		<u>1,990.3</u>	<u>100.0%</u>	

Notes:

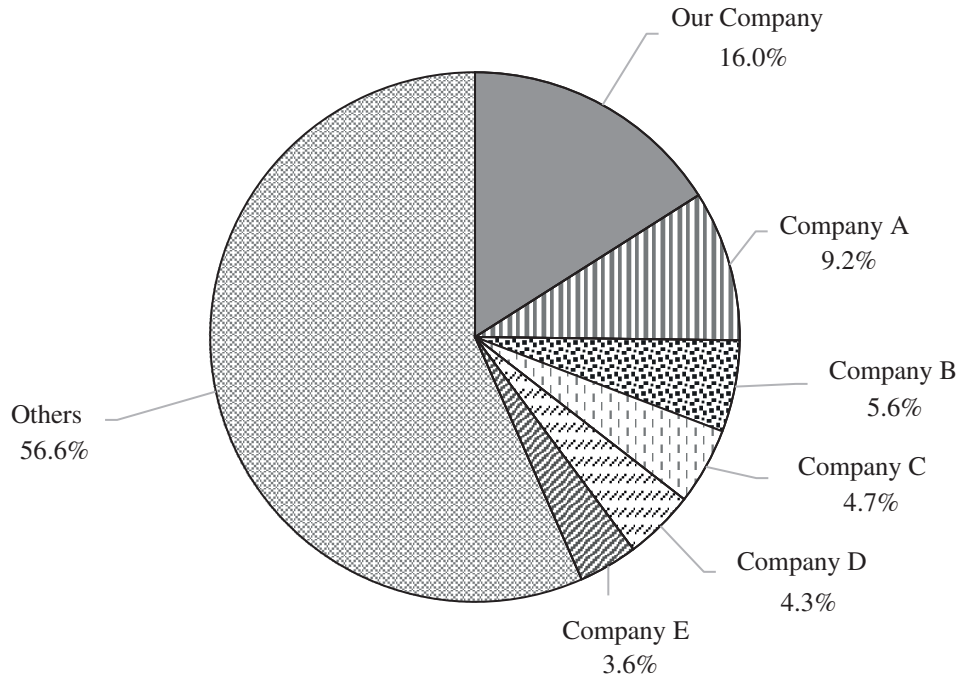
(1) Sales revenue refers to revenue from cigarette packaging paper manufacturing.

(2) Key cigarette packaging paper products refer to major products for cigarette packaging produced by the companies.

Source: Ipsos research and analysis

INDUSTRY OVERVIEW

The pie chart below details the market share of the cigarette packaging paper manufacturers in Hubei Province in 2015:



Entry barriers

- **High capital requirement:** There are many cigarette brands available in China market and each brand requires different packaging requirements. Therefore, to fulfil requirements specified by the cigarette brands, cigarette packaging paper manufacturers have to possess sufficient manufacturing equipment and capability. Packaging paper manufacturers are therefore required to invest a large amount of capital in production technology to ensure the product quality, posing an entry barrier for new entrants to the cigarette packaging paper manufacturing industry.
- **High requirement for industrial experience:** Open tender is the preferred competitive procurement method used for acquiring raw materials and other related services in the cigarette packaging industry. In the bidding evaluation, the supplier's track record is considered to be one key evaluating criterion. Furthermore, after successful bidding, clients will not place mass purchase orders until the supplier has successfully gone through multiple testing processes. It will take a long time for new entrants whose industry experience is limited to pass all testing processes, making it difficult for them to fulfil the production goal and ensure product quality within the contracted period.

INDUSTRY OVERVIEW

Opportunities

- **PRC government's initiative on promoting mid and high-end cigarettes:** In China, the mid and high-end cigarettes manufacturers generally put more focus on product packaging as a strategy of their product differentiation. In order to offer high quality cigarette packaging, these cigarette manufacturers generally have higher requirements with regard to packaging materials. CNTC aims to foster industry growth in the Chinese cigarette market by encouraging mid to high-end cigarette brands to enter and to sell in overseas countries, such as the Southeast Asian countries. And at the same time, the government will be able to receive higher tax income from mid to high-end cigarettes as they generally have a higher profit margin. As such, STMA encourages cigarette manufacturers to create higher values for their cigarette brands by focusing on cigarettes' brand development and product quality improvement. Such brand development and cigarette quality improvement includes (i) the quality and design of the cigarette packaging; (ii) the quality of tobacco components (such as producing cigarettes with less impurities); (iii) the quality of cigarette filter; and (iv) the taste and texture of the cigarettes. By making such improvement, these cigarettes manufacturers will be able to increase the price of their cigarettes and more low-end tiers cigarettes will gradually shift to mid to high-end tiers, increasing the competitiveness of these cigarette brands and the market size of cigarette market. Therefore, such policy initiatives promoted by CNTC and STMA are expected to have a positive impact on the cigarette market, especially for mid to high-end tiers cigarettes. According to CNTC, the sales volume of high-end cigarettes experienced a considerable increase in 2014, reaching 2.88 million boxes, which was 390,000 boxes more than that of 2013. It is anticipated that this is a positive influence on the cigarette packaging paper manufacturing industry in China. As the packaging paper produced by us can be used in mid and high-end cigarettes packaging, the rising demand for mid and high-end cigarettes is likely to have a positive impact on our business.
- **Increasing popularity of hard-pack cigarettes:** Hard-pack cigarettes have become increasingly popular in China. Since hard-pack requires more packaging materials compared to soft-pack, the increase in demand for hard-pack cigarettes would therefore drive the growth of the cigarette packaging paper manufacturing industry in China.

Threats

- **New regulation on the cost of cigarette packaging:** According to the new Requirements for Design Cigarette Package (《卷煙包裝設計要求》) published by the STMA in 2014, the cost of cigarette packaging is regulated in order to avoid excessive packaging. To control the cost of cigarette packaging, the ratio of the packaging cost to the cigarette selling price (excluding value-added tax) must be no more than certain limits set for each tier of cigarettes as follows:

tier 1 cigarettes (ex-factory price above RMB1 per stick) . . .	no more than 8%
tier 1 (others) and tier 2 cigarettes	no more than 9%
tier 3 cigarettes	no more than 11%
tier 4 to tier 5 cigarettes	no more than 12%

INDUSTRY OVERVIEW

Under this new requirement, the expenditures on cigarette packaging could be negatively affected, thus hindering the growth of the cigarette packaging paper manufacturing industry in China.

- **Increasing cigarette control by the PRC government:** The PRC government has increased cigarette control in China as a response to public concerns. The PRC government has sought to control and reduce public consumption on cigarettes by issuing different regulations and policies. For instance, the proposed Regulations on Smoking Control in Public Areas (《公共場所控制吸煙條例》) is already included in the 2016 legislation plan of the State Council of the PRC, which provides for proposed tightening control in the cigarette industry. These include prohibiting smoking in certain public areas, as well as imposing rules on certain types of tobacco advertising and cigarette packages labelling requirements. In the past, the Eight-Point Guidelines (《中央政治局會議關於改進工作作風、密切聯繫群眾的八項規定》) issued by the CPC Central Committee (中共中央政治局) in 2012 has discouraged government officers' purchasing of cigarettes in China. Also, the Regulations on the Administration of Sanitation at Public Places (《公共場所衛生管理條例》) and the Detailed Rules for the Implementation of the Regulations on the Administration of Sanitation at Public Places (《公共場所衛生管理條例實施細則》) has prohibited smoking in indoor public areas. Hence, it is expected that the demand for cigarettes would be adversely affected by these regulations and policies, which poses a threat to the cigarette industry in China and affects the cigarette packaging paper manufacturing industry as a result.
- **Decreasing consumer desire for cigarettes:** The demand for cigarettes in China may decrease due to the slowdown of economic growth in China and higher cigarette prices. The recent sluggish economic growth in China may influence the purchasing power of consumers and lead to a decline in their spending on cigarettes. On the other hand, in May 2015, the PRC government increased the specific tax on cigarette wholesale prices from 5% to 11%. The retail prices of cigarettes therefore have increased in order to meet the minimum 10% profit margin requirement. Hence, consumers' desire for cigarettes is likely to be influenced by both the increase in cigarette prices and the slowdown in growth of the economy. These factors may have a negative impact on the cigarette packaging paper manufacturing industry.

REGULATORY OVERVIEW

All of our business operations are based in China and are subject to regulations by the PRC government. This section summarizes the main laws and regulations which impact the key aspects of our business.

LAWS AND REGULATIONS RELATING TO OUR OPERATIONS

Industry standards for cigarette packaging paper manufacturing

Pursuant to the Tobacco Industry Standard for Printed Cigarette Carton and Packet Packaging Papers of the PRC (《中華人民共和國煙草行業標準卷煙條與盒包裝紙印刷品》) (YC/T 330-2014 Standard) which took effect on 15 January 2015, the Tobacco Industry Standard for Inner Liner for Cigarette of the PRC (《中華人民共和國煙草行業標準煙用內襯紙》) (YC 264-2014 Standard) which took effect on 15 April 2015, and the Tobacco Industry Standard for Tipping Paper for Cigarette of the PRC (《中華人民共和國煙草行業標準煙用接裝紙》) (YC 171-2014 Standard) which took effect on 15 April 2015, the manufacturing of printed cigarette packet packaging paper, cigarette inner liner and cigarette tipping paper is subject to a series of industrial standards, compulsory or voluntary, regarding the technical requirements, sampling, inspection rules, packaging, labelling, transportation and the storage. Pursuant to the Requirements for Design of Cigarette Package (《卷煙包裝設計要求》) (YC/T 273-2014 Standard) published by the STMA for the PRC Tobacco Industry Standard which took effect on 15 August 2014, the design of cigarette package shall comply with a series of industrial standards, compulsory or voluntary, regarding the packaging texture, packaging structure and packaging cost. Specifically, the ratio of packaging cost to cigarette selling price (excluding value-added tax) must be no more than certain limits set for each tier of cigarettes as follows:

tier 1 cigarettes (ex-factory price above RMB1 per stick)	no more than 8%
tier 1 (others) and tier 2 cigarettes	no more than 9%
tier 3 cigarettes	no more than 11%
tier 4 to tier 5 cigarettes	no more than 12%

In accordance with the Regulations Related to Cigarette Box Packaging and Labelling in People's Republic of China (《中華人民共和國境內卷煙包裝標識的規定》) which came into effect on 1 October 2016, the regulator imposes stricter requirements for warning statements printed on cigarette package boxes which includes the wordings, the positions, and the area of the warning statements. In terms of wordings, the new regulation requires cigarette manufacturers to print three groups of wordings on the cigarette package, namely “smoking harms, please do not smoke in non-smoking premises”, “quit smoking reduces health risk” and “discourage teenagers to smoke, smoking is prohibited for middle and primary school students”. In terms of positioning, the cigarette manufacturers should print all three groups of wordings interchangeably on the cigarette package. In terms of the area of warning statements, it should cover no less than 35% of the cigarette package and the wordings should not be smaller than 0.7mm on a cigarette pack or 4.5mm on a cigarette box.

REGULATORY OVERVIEW

According to Ipsos, it is likely that cigarette manufacturers in each province will replace their cigarette packages gradually and consume their existing inventories before switching to the new cigarette packaging. In view of this, although this new regulation has no material impact on the requirement of our products, we seek to take a cautious approach in inventory management and have made greater efforts since early 2016 to reduce any excess inventory of finished goods. Since we are in the upstream sector within the cigarette packaging paper manufacturing value chain, as advised by our PRC Legal Advisor, we are not subject to this regulation. Our Directors are of the view that this new regulation does not have any material impact on overall customer demand, the production volume of the cigarette packages, or on our Group's operations or financial position as this regulation only affects the printing requirements of the cigarette packages but not the cigarette packaging paper that we produce for our customers.

Cigarette control

Pursuant to the Regulations on the Administration of Sanitation at Public Places (《公共場所衛生管理條例》) which took effect on 1 April 1987 and was last amended on 6 February 2016, and the Detailed Rules for the Implementation of the Regulations on the Administration of Sanitation at Public Places (《公共場所衛生管理條例實施細則》) which took effect on 1 May 2011 and was subsequently amended on 19 January 2016, smoking in indoors public areas is prohibited.

Based on the Regulations on the Administration of Sanitation at Public Places, various provincial and municipal government authorities such as Beijing, Shanghai, Guangzhou and Shenzhen, had issued their detailed rules on smoking control in public areas in recent years, which provides legal basis for imposing penalty against those who violate the rules.

Pursuant to the Notice of the General Office of the State Council on Issuing the 2016 Legislative Work Plan for the State Council (《國務院辦公廳關於印發國務院2016年立法工作計劃的通知》) which was released on 13 April 2016, in order to further mitigate and eliminate the influence of smoking, the State Council had included the formulation of the nationwide Regulations on Smoking Control in Public Areas (《公共場所控制吸煙條例》) into the legislative work plan for 2016, which provides rules, among others, for the prohibition of smoking in certain public areas, prohibition on certain types of tobacco advertising and labelling requirements for cigarette packages.

Quality and safety of products

Production quality

Pursuant to the Product Quality Law of the People's Republic of China (《中華人民共和國產品質量法》) (the “**Product Quality Law**”) which took effect on 1 September 1993 and last amended on 27 August 2009, the Product Quality Law is applicable to all production and marketing activities in China, and it was formulated to strengthen the administration of rules pertaining to product quality, as well as to clarify the rules on product liability, protect consumers and maintain social and economic order.

REGULATORY OVERVIEW

The State Council established a supervising department for conducting nationwide supervision over product quality, with local authorities performing this duty at the local level. Products offered for sale must meet the relevant quality and safety standards. Enterprises must not produce or market counterfeit products in any fashion, including forging brand labels or giving false information about the manufacturer of a product.

Violations of state or industrial standards for health safety and any other related violations may result in civil liabilities and penalties, such as compensation for damages, fines, suspension or shutdown of business, as well as confiscation of products illegally produced for sale and the sales proceeds of such products. The responsible individual or enterprise will be subject to criminal liabilities for serious violation. Manufacturers whose products cause personal or property damages due to their latent defects are liable for such damages.

Production safety

In accordance with the Production Safety Law of the People's Republic of China (《中華人民共和國安全生產法》), which took effect on 1 November 2002, subsequently amended on 31 August 2014 and came into effect on 1 December 2014, and other laws and regulations relating to production safety, production enterprises shall strengthen the management of production safety, establish and develop production safety accountability system and maintain safe production facilities to ensure production safety. Education and training for production safety shall be provided for employees to ensure that they are equipped with the necessary knowledge of production safety, sufficient understanding of the relevant rules and regulations and the skills for safe operations according to their respective positions.

Pursuant to Regulations on Safety Supervision of Special Equipment (《特種設備安全監察條例》) which took effect on 1 June 2003, subsequently amended on 24 January 2009 and came into effect on 1 May 2009, "special equipment" in the regulations refers to boilers, pressure vessels (including gas cylinders), pressure pipelines, elevators, lifting appliances, yard (factory) special motor vehicles, passenger ropeways, and large amusement devices, which relate to safety of human lives or having high risks. As required by the Regulations on Safety Supervision of Special Equipment, prior to the putting-into-service of any special equipment or within 30 days after such putting-into-service, units using special equipment shall register with competent departments for safety supervision and administration of special equipment. The registration mark shall be placed or attached to a prominent position on the special equipment. Furthermore, operators and the relevant managerial staff of boilers, pressure vessels, elevators and other devices shall not engage in corresponding operation or management until they have passed the examination organized by the departments for safety supervision and administration of special equipment as required by the State and acquired certificates for operators of special equipment.

Labour protection

In accordance with the Labour Law of the People's Republic of China (《中華人民共和國勞動法》), which took effect on 1 January 1995 and subsequently amended on 27 August 2009, and the Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), which took effect on 1 January 2008, subsequently amended on 28 December 2012 and came into effect on 1 July 2013, and the Implementation Rule of the Labour Contract Law of the People's Republic of China

REGULATORY OVERVIEW

(《中華人民共和國勞動合同法實施條例》) which took effect on 18 September 2008, labour contracts in written form shall be executed to establish labour relationship between employers and employees. Employers shall establish and develop labour rules, regulations and systems according to PRC laws to protect the rights and ensure the performance of duties of employees, and career development and training systems shall be formed. Employers shall also set up and develop the labour safety and health system in strict compliance with the regulations and standards of labour safety and sanitation of the PRC and provide education on labour safety and sanitation for the employees to prevent work-related accidents and occupational harm. Necessary articles for labour protection in compliance with the labour safety and health requirements shall be provided to employees and regular health examination for employees engaged in work with occupational hazards shall be conducted.

In accordance with the Law of Social Insurance of the People's Republic of China (《中華人民共和國社會保險法》) which took effect on 1 July 2011, the Interim Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》) which took effect on 22 January 1999, the Decision of the State Council on the Establishment of Basic Medical Insurance System for Urban Workers (《國務院關於建立城鎮職工基本醫療保險制度的決定》) which took effect on 14 December 1998, the Decisions of the State Council on the Establishment of Unified System of Basic Retirement Insurance Fund for the Employees of Enterprises (《國務院關於建立統一的企業職工基本養老保險制度的決定》) which took effect on 16 July 1997, the Regulations of Insurance for Work-Related Injury (《工傷保險條例》) which took effect on 1 January 2004, subsequently amended on 20 December 2010 and came into effect on 1 January 2011, the Regulations of Insurance for Unemployment (《失業保險條例》) which took effect on 22 January 1999, the Provisional Insurance Measures for Maternity of Employees (《企業職工生育保險試行辦法》) which took effect on 1 January 1995 and the Regulations on Management of Housing Provident Fund (《住房公積金管理條例》) which took effect on 3 April 1999 and subsequently amended on 24 March 2002, employers shall make payments of the basic medical insurance, basic retirement insurance, insurance for work-related injury, unemployment insurance, maternity insurance and housing provident fund for the employees.

If the employer fails to go through the formalities for social insurance registration, the social insurance administration department shall order it to make rectification within the stipulated period. If rectification is not made within the stipulated period, the employer shall be imposed a fine. If the employer does not pay the full amount of the Social Insurance premiums as scheduled, the social insurance premium collection institution shall order it to pay within the stipulated period together with an overdue fine. If the payment is not settled by the prescribed time limit, the employer shall be imposed a fine. If the employer fails to go through the formalities for housing provident fund, the housing provident fund management centre shall order it to make rectification within a period; where failing to do so as scheduled, a fine shall be imposed. If the employer is overdue in the payment or underpays, the fund administration centre shall order the employer to pay up in the prescribed time limit, if the employer still fails to pay up as scheduled, the fund administration centre may apply to the court for enforcement of the unpaid amount.

Environmental protection

In accordance with the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》) which took effect on 26 December 1989 and subsequently amended on 24 April 2014 and came into effect on 1 January 2015, the Law on the Prevention and Control of Water

REGULATORY OVERVIEW

Pollution of the People's Republic of China (《中華人民共和國水污染防治法》) (the “**PRC Water Pollution Prevention Law**”) which took effect on 1 November 1984 and last amended on 28 February 2008 and came into effect on 1 June 2008, the Law on the Prevention and Control of Air Pollution of the People's Republic of China (《中華人民共和國大氣污染防治法》) (the “**PRC Air Pollution Prevention Law**”) which took effect on 1 June 1988, and last amended on 29 August 2015 and came into effect on 1 January 2016, the Law on the Prevention and Control of Solid Waste Pollution of the People's Republic of China (《中華人民共和國固體廢物污染環境防治法》) (the “**PRC Solid Waste Pollution Prevention Law**”) which took effect on 1 April 2005 and last amended on 7 November 2016, and the Law on the Prevention and Control of Noise Pollution of the People's Republic of China (《中華人民共和國環境噪聲污染防治法》) (the “**PRC Noise Pollution Prevention Law**”) which took effect on 1 March 1997, enterprises which may cause environmental pollution and other public hazards shall adopt effective measures to prevent and control the pollution and damage to the environment caused by waste gas, sewage, waste residues, dust, malodorous gases, radiation, noise, vibration and electromagnetic radiation generated during the production, construction and other activities. The environmental protection authorities shall impose different penalties on persons or enterprises in violation of the Environmental Protection Law depending on the different circumstances. Such penalties include warnings, fines, orders to rectify and make treatment within the prescribed period, orders to cease production, orders to re-install contamination prevention and treatment facilities which have been removed or left unused, imposition of administrative action against relevant responsible persons, or orders to shut down those enterprises.

Environmental impact appraisal and acceptance checks for construction of environmental protection facilities

In accordance with the provisions of the Environmental Protection Law of the People's Republic of China, the Environmental Impact Assessment Law of the People's Republic of China (《中華人民共和國環境影響評價法》) which took effect on 1 September 2003 and subsequently amended on 2 July 2016, and the Regulations Governing Environmental Protection in Construction Projects (《建設項目環境保護管理條例》) which took effect on 29 November 1998, new construction, renovation, expansion and technology innovation projects which may have significant impact on the environment shall prepare an environmental impact report with full assessment of their impact on the environment; projects which may have a light impact on the environment shall prepare an environmental impact report form with analysis or assessment on specific environmental impact; projects which have little environmental impact are not required to undergo environmental impact assessment but need to complete the environmental impact registration form. The environmental impact assessment documents of the above construction projects shall be submitted by the project construction entity to the relevant environmental protection authority for approval. For projects which have failed to submit the above environmental impact assessment documents in accordance with the laws and regulations of the PRC or which are disapproved by the relevant administrative authority after reviewing such documents, the entity will be prohibited to commence construction. If any material change has occurred in an approved construction project, re-submission of the environmental impact report, environmental impact report form or environmental impact registration form for re-approval is necessary. Environmental protection facilities must be designed, constructed and put into operation simultaneously with the major construction works of the construction project. The constructing entity must not remove environmental protection facilities or leave them in idle use without approval.

REGULATORY OVERVIEW

In addition to the environmental appraisal before the commencement of the construction project, pursuant to Regulations on Environmental Protection Management for the Construction Project and the Administrative Measures on Environmental Protection Inspection and Acceptance for Completion of Construction Projects (《建設項目竣工環境保護驗收管理辦法》) which took effect on 1 February 2002 and subsequently revised on 22 December 2010, the construction unit shall, upon completion of a construction project, file an application with the competent department of environmental protection administration that examined and approved the said construction project environmental impact report, environmental impact report form or environmental impact registration form for acceptance checks on completion of construction of environmental protection facilities that are required for the said construction project. Besides, acceptance checks for completion of construction of environmental protection facilities shall be conducted simultaneously with the acceptance checks for completion of construction of the main body project. For construction projects that are built in phases, have commenced production or are delivered for use in phases, acceptance checks for their corresponding environmental protection facilities shall be conducted in phases.

Discharge of sewage

In accordance with the Environmental Protection Law of the PRC, enterprises discharging any pollutants in their daily operation and manufacturing shall observe the national discharge standards which are regulated by the former State Environmental Protection Administration. In accordance with the aforesaid law, the Ministry of Environmental Protection has established various discharge standards, as amended and revised from time to time, with regards to each of the discharge of water pollutants, solid pollutants, gas exhaust and noises.

In accordance with the PRC Water Pollution Prevention Law and Regulations on the Implementation of the Law on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法實施細則》) which took effect on 1 September 1989 and subsequently amended on 20 March 2000, enterprises which directly or indirectly discharge industrial waste water or medical sewage into water are required to obtain a Pollutants Discharge Permit. The Pollutants Discharge Permit is issued to enterprises which discharge pollutants within the regulated discharge amount, and the Provisional Pollutants Discharge Permit is issued to enterprises which discharge pollutants in excess of the regulated discharge amount but will decrease the discharge amount within a certain time limit.

Air pollution

Pursuant to the PRC Air Pollution Prevention Law, the environment protection department of State Council issued the national air environmental quality standards. Each of the local environmental protection bureaus is authorised to regulate air pollution within their respective jurisdictions by formulating more specific local standards, and may impose penalties for infringement. Enterprises which emit pollutant into the air must comply with the national and relevant local air environmental quality standards. If the smoke emitted exceeds the national or local air environmental quality standards, the relevant enterprises must rectify their actions within a limited timeframe, and the environmental protection authority at the county level or above can impose a penalty upon such enterprises.

REGULATORY OVERVIEW

The PRC Air Pollution Prevention Law is last amended on 29 August 2015 and came into effect on 1 January 2016. According to the aforesaid amendment, stricter regulatory requirements were imposed on the air pollution prevention.

Noise pollution

The PRC Noise Pollution Prevention Law stipulates the supervision and management of the prevention and control of environmental noise pollution and industrial noise pollution, construction noise pollution, traffic noise pollution, social activities noise pollution and the relevant legal liability.

Solid waste pollution

Pursuant to the PRC Solid Waste Pollution Prevention Law, entities and individuals that collect, store, transport, utilise or dispose of solid waste must take precautions against the spread, loss, and leakage of such solid waste or adopt such other measures to prevent such solid waste from polluting the environment.

Standards of collecting fees for discharge of pollutants

According to the Administrative Measures for the Pollutant Emission Charge Collection Standards (《排污費徵收標準管理辦法》), which took effect on 1 July 2003, environmental protection authorities under the local people's government at or above the county level shall collect the fee for pollutant emission according to the following matters: enterprises, institutions and individually-owned industrial and/or commercial businesses that directly discharge pollutants into a water body shall pay the fee for pollutant discharge according to the kind and quantity of the water pollutants discharged and the standards for collecting the fee for pollutant emission. Enterprises that pay fees to facilities for centralized treatment of urban sewage according to the kind and quantity of the water pollutants discharged shall not pay the fee for discharge of pollutants. Enterprises, institutions and individually-owned industrial and/or commercial businesses that discharge atmospheric pollutants shall pay the fee for pollutant discharge on the basis of the categories and quantities of the atmospheric pollutants discharged. If construction of facilities and sites for storing and treating industrial solid wastes have not been built or have not complied with state standards on environmental protection, enterprises, institutions and individually-owned industrial and/or commercial businesses shall pay fees for solid wastes discharge according to the kind and quantity of the solid wastes pollutants discharged. Enterprises, institutions and individually-owned industrial and/or commercial businesses that produce environmental noise pollution that impairs the living environment of the neighbourhood shall pay fees for excessive emission of such pollution.

Intellectual property

Trademark law

Pursuant to the Trademark Law of the PRC (《中華人民共和國商標法》) which was promulgated on 23 August 1982, last amended on 30 August 2013 and came into effect on 1 May 2014, and the Implementation Rules of the PRC Patent Law (《中華人民共和國商標法實施條例》) which was promulgated on 3 August 2002, subsequently amended on 29 April 2014 and came into effect on 1 May

REGULATORY OVERVIEW

2014, a registered trademark means a trademark that has been approved by and registered with the trademark office, including goods marks, service marks, collective marks and certification marks. A registered trademark is valid for 10 years commencing on the date of registration approval, the following acts shall constitute an infringement of the exclusive right to use a registered trademark: (1) using a trademark that is identical or similar to a registered trademark of the same type of commodities or similar commodities without a license from the registrant of that trademark; (2) selling commodities that infringe upon the exclusive right to use a registered trademark; (3) forging or manufacturing without authorization the marks of a registered trademark, or selling marks of a registered trademark that are forged or manufactured without authorization; (4) changing another party's registered trademark and putting the commodities with the changed trademark into the market without the consent of the registrant of that trademark; or (5) other conduct that would hinder another party's exclusive right to use its registered trademark.

In the event that disputes arise from any of the above acts, the parties shall negotiate toward a resolution. If any party refuses to negotiate or if the negotiation proves futile, the registrant of that trademark or the interested persons may file a lawsuit before a People's Court or refer the case to the administrative department of industry and commerce. If the administrative department of industry and commerce concludes that an infringement is constituted, it may order an immediate end to the infringement, and may confiscate or destroy the infringing commodities and the tools used especially for the manufacturing of those commodities and the forging of marks of the registered trademark, and may impose a fine.

Patent law

Pursuant to the Patent Law of the PRC (《中華人民共和國專利法》) which took effect on 1 April 1985, last amended on 27 December 2008 and came into effect on 1 October 2009, and the Implementation Regulations of the PRC Patent Law (《中華人民共和國專利法實施細則》) which took effect on 1 April 1985, last amended on 9 January 2010 and came into effect on 1 February 2010, there are three types of patents, namely, invention patents, design patents and utility model patents. Invention patents are valid for 20 years, while design patents and utility model patents are valid for 10 years, in each case commencing on their respective application dates. Persons or entities who use patents without the consent of the patent owners, make counterfeits of patented products or engage in activities that infringe upon patent rights are held liable to the patent owner for compensation and may be subject to fines and even criminal punishment.

LAWS AND REGULATIONS RELATING TO TAXATION

Corporate income tax

In accordance with the Corporate Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), and the Implementation Rules for the Corporate Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) both of which took effect on 1 January 2008 (collectively, the “**CIT Law**”), taxpayers consist of resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or *de facto* control entity is within the PRC. Non-resident enterprises are defined as enterprises that are set up in accordance

REGULATORY OVERVIEW

with the laws of foreign countries and whose actual administration is conducted outside the PRC, but (i) have entities or premises in China, or (ii) have no entities or premises but have income generated from China. According to the CIT Law, foreign invested enterprises in the PRC are subject to corporate income tax at a uniform rate of 25%. A non-resident enterprise that has an establishment or premises within the PRC shall pay corporate income tax at a rate of 25% on its income that is derived from such establishment or premises inside the PRC and that is sourced outside the PRC but is actually connected with the said establishment or premises. A non-resident enterprise that has no establishment or premises within the PRC but has income from the PRC, and a non-resident enterprise that has establishment or premises in the PRC but its income has no actual connection to such establishment or premises in the PRC, shall be subject to PRC withholding tax at the rate of 10% on its income sourced from the PRC.

Pursuant to the PRC CIT Law, income from equity investment between qualified resident enterprises such as dividends and bonuses, which refers to investment income derived by a resident enterprise from direct investment in another resident enterprise, is tax-exempt income.

Pursuant to the PRC CIT Law, certain high and new technology enterprises which have independent intellectual property rights and simultaneously meet the prescribed requirements as stipulated in the CIT Rules and other relevant regulations is permitted to enjoy a reduced 15% corporate income tax rate. The Administrative Measure for the Determination of High and New Technology Enterprises (《高新技術企業認定管理辦法》) which was jointly issued by the Ministry of Science and Technology, the Ministry of Finance and State Administration of Taxation on 14 April 2008 and took effect retrospectively on 1 January 2008 and was subsequently amended on 29 January 2016 and took effect retrospectively on 1 January 2016, provides for the specific criteria and procedures for the high and new technology enterprises certification.

In addition, pursuant to the Arrangement between Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on 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》) which took effect in mainland PRC on 1 January 2007, a PRC resident enterprise which distributes dividends to its Hong Kong shareholders should pay income tax according to PRC law, however, if the beneficiary of the dividends is a Hong Kong resident enterprise, which directly holds no less than 25% equity interests of the aforesaid enterprise (i.e. the dividend distributor), the tax levied shall be 5% of the distributed dividends. If the beneficiary is a Hong Kong resident enterprise, which directly holds less than 25% equity interests of the aforesaid enterprise, the tax levied shall be 10% of the distributed dividends. Meanwhile, Circular of the State Administration of Taxation on the Interpretation and the Determination of the “Beneficial Owners” in the Tax Treaties (《國家稅務總局關於如何理解和認定稅收協定中“受益所有人”的通知》) has stipulated some factors that are unfavourable to the determination of “beneficial owner”.

Dividend tax

Pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Agreements (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》) which took effect on 20 February 2009, all of the following requirements shall be satisfied in order to enjoy the preferential tax rates provided under the tax agreements: (i) the tax

REGULATORY OVERVIEW

resident that receives dividends should be a company as provided in the tax agreement; (ii) the equity interests and voting shares of the PRC resident company directly owned by the tax resident reaches the percentages specified in the tax agreement; and (iii) the equity interests of the Chinese resident company directly owned by such tax resident at any time during the twelve months prior to receiving the dividends reach a percentage specified in the tax agreement.

Pursuant to the Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (《非居民納稅人享受稅收協定待遇管理辦法》) which took effect on 1 November 2015, a non-resident taxpayer qualified to enjoy the treatment under the tax treaties could enjoy the treatment automatically when filing tax return or making withholding declaration by withholding agents, and will be subject to the follow up administration of the tax authorities thereafter.

Value-added tax

According to the Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例》) which took effect on 1 January 1994, and last amended on 6 February 2016, and the Detailed Rules for the Implementation of the Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值稅暫行條例實施細則》) which took effect on 1 January 2009 and subsequently amended on 1 November 2011, all enterprises and individuals that engage in the sale of goods, the provision of processing, repair and replacement services, and the importation of goods within the territory of the PRC must pay value-added tax.

Urban maintenance and construction tax as well as education surtax

The foreign-invested enterprises, foreign enterprises and individual foreigners are governed by the Circular of the State Council on Unifying the System of Urban Maintenance and Construction Tax and Education Surtax Paid by Domestic and Foreign-invested Enterprises and Individuals (《國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》), which took effect on 1 December 2010, the Tentative Regulations on Urban Maintenance and Construction Tax of the PRC (《中華人民共和國城市維護建設稅暫行條例》) which took effect on 1 January 1985 and subsequently amended on 8 January 2011 and the Tentative Provisions on the Collection of Educational Surtax (《徵收教育費附加的暫行規定》) which took effect on 1 July 1986 and last amended on 8 January 2011.

Pursuant to Tentative Provisions on the Collection of Educational Surtax, all units and individuals who pay consumption tax, value-added tax and business tax shall also be required to pay educational surtax in accordance with these Provisions. The educational surtax rate is 3% of the amount of value-added tax, business tax and consumption tax actually paid by each unit or individual, and the educational surtax shall be paid simultaneously with value-added tax, business tax and consumption tax.

Pursuant to Tentative Regulations of the PRC on Urban Maintenance and Construction Tax and Circular of the State Administration of Taxation on Issues Concerning the Collection of the Urban Maintenance and Construction Tax (《國家稅務總局關於城市維護建設稅徵收問題的通知》), which took effect on 12 March 1994, any unit or individual liable to consumption tax, value-added tax and business tax shall also be required to pay urban maintenance and construction tax. Payment of urban

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maintenance and construction tax shall be based on the consumption tax, value-added tax and business tax which a taxpayer actually pays and shall be made simultaneously when the latter are paid. Furthermore, the rates of urban maintenance and construction tax shall be 7%, 5% and 1% for a taxpayer in a city, in a county town or town and in a place other than a city, county town or town respectively.

Cigarette Consumption Tax

In accordance with the Circular Regarding the Adjustment of Cigarette Consumption Tax (《關於調整捲煙消費稅的通知》) which took effect on May 10, 2015, the cigarette consumption tax on cigarette wholesale prices has increased from 5% to 11%.

LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE

Foreign exchange administration

In accordance with the Foreign Exchange Administrative Regulations of the PRC (《中華人民共和國外匯管理條例》) (the “**Foreign Exchange Administrative Regulations**”) which took effect on 1 April 1996 and subsequently amended on 5 August 2008, Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loans unless prior approval of the State Administration of Foreign Exchange is obtained.

Pursuant to the Regulation of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》), promulgated by the People’s Bank of China and took effect on 1 July 1996, the Foreign-Invested Enterprises, may only buy, sell or remit foreign currencies at those banks authorized to conduct foreign exchange business after providing valid commercial supporting documents and, in the case of capital account item transactions, obtaining approvals from SAFE.

According to the Circular on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (《關於改革外商投資企業外匯資本金結匯管理方式的通知》), which took effect on 1 June 2015 and Circular on Reforming and Regulating the Management Policy Regarding the Settlement of Capital Account (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) which took effect on 9 June 2016, equity investments within China by a foreign-invested enterprise, whose main business is investment, of any Renminbi funds converted from its registered capital are allowed. Meanwhile, the use of such Renminbi cannot be:-

- directly or indirectly used for the payment beyond the business scope of the enterprises or the payment prohibited by national laws and regulations;
- unless otherwise explicitly provided by laws and regulations, directly or indirectly used for investment in securities or other financial products investment, except the bank capital-protection products;

REGULATORY OVERVIEW

- granting loans to non-related enterprises unless explicitly permitted under the scope of business; or
- for construction or purchase of real estate not for self-use, save for real estate enterprises.

Furthermore, foreign-invested enterprises are allowed to settle foreign exchange capitals on a discretionary basis; the foreign-invested enterprises may, according to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange bureau has confirmed monetary contribution rights and interests (or for which the bank has registered the account-crediting of monetary contribution). For the time being, foreign-invested enterprises are allowed to settle 100% of their foreign exchange capitals on a discretionary basis. SAFE may adjust the foregoing percentage as appropriate based on prevailing international balance of payments.

In accordance with SAFE Circular No. 37 which took effect on 4 July 2014, a “special purpose vehicle” means an overseas enterprise directly established or indirectly controlled by a domestic resident (including domestic institutions and domestic individual residents) for the purpose of engaging in investment and financing with the domestic enterprise assets or interests he legally holds, or with the overseas assets or interests he legally holds. Domestic residents establishing or taking control of a special purpose vehicle abroad which engages in overseas investment and financing or makes round-trip investments in China are required to effect foreign exchange registration with the local foreign exchange bureau. Pursuant to SAFE Circular No. 13, which took effect on 1 June 2015, the initial foreign exchange registration for establishing or taking control of a special purpose company by domestic residents can be filed with a qualified bank, instead of the local foreign exchange bureau.

Dividend distribution

The principal laws governing dividend distributions by our PRC Subsidiaries include the PRC Company Law (《中華人民共和國公司法》), the dividend distribution by wholly foreign-owned enterprises (“WFOE”) and Sino-foreign equity joint ventures (“EJV”) are further governed by the PRC Law on Wholly Foreign-owned Enterprises and its Implementation Regulations, the PRC Law on Sino-foreign Equity Joint Ventures and its Implementation Regulations.

Under these laws and regulations, PRC companies, including WFOEs and EJVs, may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting principles. In addition, PRC companies, including domestic companies, WFOEs and EJVs are required to set aside each year at least 10% of their after-tax profit based on PRC accounting principles to their statutory general reserves funds until the cumulative amount of such reserve fund reaches 50% of their registered capital. These reserves are not distributable as cash dividends. Furthermore, EJVs and WFOEs in the PRC may also be required to set aside individual funds for employee welfare, bonuses and development, at the discretion of such PRC companies and as stipulated in their articles of association. These reserves or funds are not distributable as dividends.

HISTORY, DEVELOPMENT AND REORGANISATION

OVERVIEW

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 8 January 2016. Pursuant to the Reorganisation as more particularly described in the paragraph headed “Reorganisation” in this section below, our Company has become the holding company of our Group for the purpose of Listing and holds the entire interests of three subsidiaries, namely, Lucky Glorious, Mengke (Hong Kong) and Hubei Mengke.

OUR BUSINESS DEVELOPMENT

The history of our Group can be traced back to 2005 when Hubei Golden and Medicon founded Hubei Mengke as a sino-foreign joint venture in the PRC. Hubei Mengke has engaged in the manufacture of metallised packaging paper for cigarette package manufacturers in the PRC with a focus on transfer metallised paper and laminated metallised paper.

At the time of the establishment of Hubei Mengke, the ultimate beneficial owner of the controlling interest in Hubei Golden was Mr. Yang Yoong An, whereas the ultimate beneficial owner of the entire equity interest in Medicon was the spouse of Mr. Yang Yoong An. Mr. Yang Yoong An has been a businessman in the PRC since 1980s and he commenced to develop business relationships with a number of tobacco manufacturers in the PRC in around 1989. Hubei Golden and Medicon financed the establishment of Hubei Mengke by earnings generated from business operations and investment income, respectively.

In late 2012, Mr. Zhang, being one of our Controlling Shareholders, and Mr. Chen decided to invest in Hubei Mengke through Hengqin Jiachuang with their own funds and borrowings, which was subsequently repaid out of their own fund. For more details regarding the biography of Mr. Zhang, please refer to the section headed “Directors and Senior Management” in this prospectus. Mr. Chen is a businessman with over 15 years of experience in the tobacco material industry. He graduated from a secondary school in 1998. Mr. Chen has engaged in the sale of tobacco flavour essence to tobacco manufacturers in the PRC since April 2000 when he joined Zhuhai Huashi Fragrance Company Limited (珠海市華仕香料有限公司) established by Mr. Zhang in 1995. Mr. Zhang and Mr. Chen are acquaintances of Mr. Fu, our chief executive officer and executive Director. Eyeing the development potential of the tobacco material industry and the growth potential of Hubei Mengke, they decided to invest in Hubei Mengke. Mr. Chen has been appointed as a director of Hubei Mengke since February 2014, in the capacity as a shareholder representative. As at the Latest Practicable Date, the board of directors of Hubei Mengke comprised seven directors, including Mr. Zhang, Mr. Fu, Mr. Chen, Mr. Gong Longjie, Mr. Yang Tao and two other shareholder representatives, namely Mr. Yang Junwen and Mr. Wu Shangqing. Being a director nominated by the relevant shareholder as a shareholder representative and the holder of a minority stake in the Company, Mr. Chen has remained and currently remains as a non-executive director of Hubei Mengke. During the Track Record period, Mr. Chen, together with other directors, participated in board meetings to (i) monitor the performance of business of Hubei Mengke by reviewing the annual work report of Hubei Mengke; (ii) approve the transfer of equity interest in Hubei Mengke; (iii) approve the change of directorship and key personnel

HISTORY, DEVELOPMENT AND REORGANISATION

of Hubei Mengke; (iv) approve the Reorganisation for the purpose of the proposed Listing; (v) approve the amendments to constitutional documents; and (vi) resolve on selected matters requiring formal board approval. Save for the aforesaid, he has not been involved in the day-to-day management and operations of our Group and was not an authorised signatory of Hubei Mengke.

Our corporate motto is “leading in innovation, striving for excellence”. Over the years, our Group strived to increase our competitiveness and expand our market share in the industry. Under the leadership of Mr. Zhang and our chief executive officer, Mr. Fu, we ranked the first among the cigarette packaging paper manufacturers in Hubei Province in 2015 in terms of sales revenue and we had a market share of 16.0% in Hubei Province, according to Ipsos. We have been focusing on research and development of our proprietary technology in the manufacture of our products. Since the establishment of our Group in 2005 and up to the Latest Practicable Date, we have registered 13 patents and are applying for registration of three patents in respect of, among others, the production method of our products. We will continue to strengthen our advantages and endeavour to achieve a leading position in the industry.

We set out below the key milestones in our Group’s development to date:

Year	Events
2005	We established Hubei Mengke as our principal operating entity, engaging in the manufacture of metallised packaging paper for cigarette package manufacturers in the PRC.
2006	We commenced our production at our self-owned production base in Yichang City, Hubei Province, engaging in the manufacture of laminated metallised papers. Our comprehensive quality control system obtained the first ISO 9001 certification.
2007	We expanded our market to Henan Province through entering into our first sales contract with a printing company in Henan Province.
2008	We further expanded our market through entering into our first sales contracts with printing companies in Chongqing, Shaanxi and Beijing. Through enhancing our existing production facilities and acquiring new machinery, we successfully developed our transfer metallised paper products and launched the same to the market.
2009	We further expanded our market through entering into our first sales contract with a printing company in Shenzhen, the holding company of which is listed on the Main Board.
2010	We commenced our business relationship with Beijing Leigh-mardon Pacific Packaging Co., Ltd. (北京黎馬敦太平洋包裝有限公司), which is one of our five largest customers during the Track Record Period and the equity holders of which include CNTC.
2011	We expanded our market through entering into our first sales contract with a printing company in Hunan Province.
2012	We won the procurement tender from Wuhan Hongzhicai Packaging and Printing Company Limited (武漢虹之彩包裝印刷有限公司) and Wuhan Hongjinlong Printing Company Limited (武漢紅金龍印務股份有限公司), both of which are among our five largest customers during the Track Record Period.

HISTORY, DEVELOPMENT AND REORGANISATION

Year	Events
2013	<p>We were accredited as a “High and New Technology Enterprise” (高新技術企業), by which we are entitled to pay the enterprise income tax at a reduced rate of 15%.</p> <p>We obtained the following patents, two of which were recognised by the Science and Technology Bureau of Yichang City (宜昌市科技局) as leading technologies in the PRC with significant economic and environmental benefits:</p> <ul style="list-style-type: none">(i) patent in respect of the method for producing UV (ultraviolet) cold transfer laser printing paper by utilising gravure steel plate, which shortens the production process.(ii) patent in respect of a nano-level film material for producing laser paper, which simplifies the production process and saves equipment and manpower.(iii) patent in respect of medium-free metallised paper production device, which improves the production efficiency and product quality.(iv) patent in respect of the device reducing and treating VOCs (volatile organic compounds) in metallised papers, which reduces the content of VOC in the metallised paper.
2014	<p>We were recognised as a “Pilot Enterprise for Technological SME Innovation and Growth Projects in Yichang City” (宜昌市科技型中小企業創新成長工程試點企業).</p> <p>We further expanded our market through entering into our first sales contract with Huzhou Tianwai Green Packaging and Printing Company Limited (湖州天外綠色包裝印刷有限公司), a package manufacturer in Zhejiang Province.</p>
2015	<p>We ranked the first among the cigarette packaging paper manufacturers in Hubei Province in terms of sales revenue and achieved a market share of 16.0% in Hubei Province, according to Ipsos.</p> <p>We further expanded our market through entering into our first sales contract with Xuzhou Huayi Colour Printing Company Limited (徐州華藝彩色印刷有限公司), a package manufacturer in Jiangsu Province.</p>
2016	<p>We completed a research and development project in respect of the production technology on imitated structural colour laser papers. The Science and Technology Bureau of Yichang City (宜昌市科技局) recognised it as a leading technology with environmental and cost efficiency.</p>

OUR CORPORATE DEVELOPMENT

We set out below a brief corporate history of the establishment and major changes in the shareholdings of our Company’s major subsidiaries:

Lucky Glorious

Lucky Glorious was incorporated in the BVI on 9 November 2015 with limited liability. It is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1. On 19 January 2016, Lucky Glorious allotted and issued one share with a par value of US\$1 as fully paid to our Company at par. Lucky Glorious then became a wholly owned subsidiary of our Company.

HISTORY, DEVELOPMENT AND REORGANISATION

Lucky Glorious is an investment holding company of our Group and does not carry on any business.

Mengke (Hong Kong)

Mengke (Hong Kong) was incorporated in Hong Kong on 25 January 2016 with limited liability. As at the date of its incorporation, Mengke (Hong Kong) allotted and issued one share as fully paid to Lucky Glorious. Mengke (Hong Kong) then became a wholly owned subsidiary of Lucky Glorious.

Mengke (Hong Kong) is an investment holding company of our Group and does not carry on any business.

Hubei Mengke

Hubei Mengke, the operating subsidiary of our Group, is principally engaged in the manufacture of metallised packaging paper for cigarette package manufacturers in the PRC. It was established as a sino-foreign joint venture in the PRC on 13 June 2005 with an initial registered capital of RMB5,000,000. At the time of its establishment, Hubei Golden and Medicon contributed RMB3,750,000 and RMB1,250,000 to the registered capital of Hubei Mengke, respectively. Hubei Golden and Medicon then owned 75% and 25% of the equity interest in Hubei Mengke, respectively. At the time of establishment of Hubei Mengke, the ultimate beneficial owner of the controlling interest in Hubei Golden was Mr. Yang Yoong An, whereas the ultimate beneficial owner of the entire equity interest in Medicon was the spouse of Mr. Yang Yoong An.

On 27 December 2007, Hubei Mengke increased its registered capital from RMB5,000,000 to RMB12,000,000. The additional registered capital was contributed as to RMB5,250,000 by way of a parcel of land in Yichang City and a property erected thereon by Hubei Golden and RMB1,750,000 in cash by Medicon. The shareholding of Hubei Mengke remained unchanged immediately after the aforesaid increase in registered capital.

On 15 December 2008, Hubei Mengke further increased its registered capital from RMB12,000,000 to RMB24,000,000. The additional registered capital was contributed as to RMB9,000,000 by way of the said parcel of land in Yichang City and the property erected thereon by Hubei Golden and RMB3,000,000 in cash by Medicon. The shareholding of Hubei Mengke remained unchanged immediately after the aforesaid increase in the registered capital.

The value of the said parcel of land in Yichang City and the property erected thereon appraised by an independent valuer in August 2008 was approximately RMB16.4 million, of which approximately RMB14.3 million was used to pay up the above additional registered capital of Hubei Mengke.

In February 2012, as Hubei Golden intended to concentrate on its own business, the board of directors of Hubei Golden passed a resolution for the proposed disposal of the interest in Hubei Mengke held by Hubei Golden.

HISTORY, DEVELOPMENT AND REORGANISATION

On 12 November 2012, Hengqin Jiachuang and Hubei Golden entered into an equity transfer agreement, pursuant to which Hubei Golden agreed to sell and transfer to Hengqin Jiachuang, and Hengqin Jiachuang agreed to acquire from Hubei Golden, 70% of the equity interest in Hubei Mengke at a consideration of RMB22,000,000 (the “70% Transfer”). The consideration was determined by an auction held on 12 November 2012. At the time of the 70% Transfer, Mr. Zhang and Mr. Chen held 60% and 40% of the equity interest in Hengqin Jiachuang, respectively. Upon completion of the 70% Transfer on 1 February 2013, Hengqin Jiachuang, Medicon and Hubei Golden owned the equity interest in Hubei Mengke as to 70%, 25% and 5%, respectively.

Hengqin Jiachuang, Medicon and Hubei Golden entered into an equity transfer agreement on 27 April 2013 and a supplemental agreement on 20 May 2013, pursuant to which Hubei Golden agreed to sell and transfer to Hengqin Jiachuang, and Hengqin Jiachuang agreed to acquire from Hubei Golden, 5% of the equity interest in Hubei Mengke at a consideration of RMB1,658,429.03. The parties determined the consideration with reference to (i) the consideration for the 70% Transfer, which was in turn determined by an auction held on 12 November 2012; and (ii) 5% of the net profit of Hubei Mengke generated from November 2012 to May 2013. Upon completion of the aforesaid transfer on 18 July 2013, Hengqin Jiachuang and Medicon owned the equity interest in Hubei Mengke as to 75% and 25%, respectively.

As Mr. Yang Yoong An would like to focus on his other business, he decided to dispose of his 25% interest in Hubei Mengke through Medicon. On 8 June 2013, Medicon and Prime Vantage entered into an equity transfer agreement, pursuant to which Medicon agreed to sell and transfer to Prime Vantage, and Prime Vantage agreed to acquire from Medicon, 25% of the equity interest in Hubei Mengke at a consideration of RMB6,570,000. The parties determined the consideration with reference to the consideration for the 70% Transfer, which was in turn determined by an auction held on 12 November 2012. At the time of the aforesaid transfer, Mr. Tam held the entire issued share capital of Prime Vantage. Upon completion of the aforesaid transfer on 21 August 2013, Hengqin Jiachuang and Prime Vantage owned the equity interest in Hubei Mengke as to 75% and 25%, respectively.

On 17 December 2014, Hengqin Jiachuang and Yichang Kunxiang entered into an equity transfer agreement, pursuant to which Hengqin Jiachuang agreed to sell and transfer to Yichang Kunxiang, and Yichang Kunxiang agreed to acquire from Hengqin Jiachuang, 75% of the equity interest in Hubei Mengke at a consideration of RMB24,615,610.13. The parties determined the consideration with reference to the fair value of the equity interest in Hubei Mengke as at 30 November 2014 advised by an independent valuer. At the time of the aforesaid transfer, Mr. Zhang, Mr. Fu and Mr. Chen owned the equity interest in Yichang Kunxiang as to 76%, 18% and 6%, respectively. Given that the principal place of business of Hubei Mengke is located at Yichang City, the PRC, and for the sake of managing the general administrative matters, for example annual inspection and tax filings, more easily, Mr. Zhang, Mr. Fu and Mr. Chen decided to invest in Hubei Mengke through Yichang Kunxiang, being a company set up in Yichang City, the PRC, instead of Hengqin Jiachuang. Upon completion of the aforesaid transfer on 25 December 2014, Yichang Kunxiang and Prime Vantage owned the equity interest in Hubei Mengke as to 75% and 25%, respectively.

HISTORY, DEVELOPMENT AND REORGANISATION

We set out below particulars of all our subsidiaries as at the Latest Practicable Date:

Name of subsidiary	Principal business activities	Date and place of incorporation	Interest attributable to our Group	Date of becoming a member of our Group
Lucky Glorious	Investment holding	9 November 2015, BVI	100%	19 January 2016
Mengke (Hong Kong) . .	Investment holding	25 January 2016, Hong Kong	100%	25 January 2016
Hubei Mengke	Manufacture of metallised packaging paper for cigarette package manufacturers in the PRC	13 June 2005, PRC	100%	13 June 2005

PRE-IPO INVESTMENT

Overview

In November 2015, in light of the emigration plan of Mr. Tam's family and having considered (i) the time and effort that he may need to spend in attending to matters in relation to the proposed listing of the Company in his capacity as a shareholder, including, among other things, participating in discussions among the shareholders and/or the management of Hubei Mengke for the purpose of the proposed listing, attending interview(s) and/or arranging for signing of documents; and (ii) the practical difficulty and inconvenience in attending to those matters due to geographical restriction, Mr. Tam decided to relinquish his interest in Hubei Mengke held through Prime Vantage. On 26 November 2015, Mr. Shiu entered into a sale and purchase agreement with Mr. Tam, pursuant to which Mr. Tam agreed to sell and transfer to Mr. Shiu, and Mr. Shiu agreed to acquire from Mr. Tam, the entire issued share capital of Prime Vantage at a consideration of RMB11,435,098.84. Such consideration was paid by Mr. Shiu with his financial resources generated from his own business in the past. Mr. Shiu and Mr. Tam reached the consideration after arm's length negotiation with reference to 25% of the unaudited net asset value of Hubei Mengke as at 30 September 2015. The said transfer had been properly and legally completed and settled on 29 December 2015. Upon completion, Mr. Shiu held the entire issued share capital of Prime Vantage, which in turn held 25% of the equity interest in Hubei Mengke. Mr. Tam confirmed that he had no disagreement or dispute with the management of Hubei Mengke and he had no claim or litigation against Hubei Mengke.

HISTORY, DEVELOPMENT AND REORGANISATION

Background of the pre-IPO investor

Mr. Shiu has over 20 years of experience in the tobacco material industry. He was the chairman of Shenzhen Yuanda Industry Co., Ltd. (深圳市遠大實業有限公司) from 1993 to 1997, which engages in the business of the sale of tobacco materials, and has been its deputy general manager since 1997. He has also been a director of Yuan Da International (Holdings) Limited (遠大國際(集團)有限公司) since 1997.

Mr. Shiu had been a member of the 5th session of Maoming City Committee of Guangdong Province of the Chinese People's Political Consultative Conference (第五屆中國人民政治協商會議廣東省茂名市委員會) and was elected as a member of the 10th and 11th sessions of the National People's Congress of Maoming City (茂名市人民代表大會). He has also been appointed as vice president of Shenzhen Municipal Maoming Association (深圳市茂名商會) since 2003, vice president of Shenzhen Enterprise Confederation (深圳市企業聯合會) and Shenzhen Entrepreneur Association (深圳市企業家協會) in 2005 and a member of the Federation of Hong Kong Guangdong Community Organisations (香港廣東社團總會) since 2014.

Save for the pre-IPO investment, Mr. Shiu does not have any other relationship with our Group or any connected persons (as defined under the Listing Rules) of our Company.

Terms of the pre-IPO investment

The following table sets out the summary of the pre-IPO investment by Mr. Shiu:

Amount of consideration:	RMB11,435,098.84
Date of full settlement of the consideration:	14 December 2015
Cost per Share paid by Mr. Shiu ⁽¹⁾ :	Approximately HK\$0.15
Discount to the Offer Price ⁽¹⁾ :	Approximately 75.1%
Approximate shareholding upon Listing ^(1,2) :	18.75%

Notes:

- (1) The calculation is based on mid-point of our indicative price range for the Share Offer and taking into account the Capitalisation Issue but without taking into account any Shares to be issued upon the exercise of the options which may be granted under the Share Option Scheme.
- (2) Immediately following the Listing, Mr. Shiu will hold the Shares through Liberal Rite.

No guaranteed discount to the Share Offer is provided and no special rights were granted to Mr. Shiu in connection with his pre-IPO investment. Immediately following the completion of the Capitalisation Issue and the Share Offer, the Shares to be indirectly held by Mr. Shiu will not be subject to any lock-up arrangement. As Mr. Shiu will be a substantial shareholder of our Company immediately following the completion of the Capitalisation Issue and the Share Offer, the Shares to be held by him indirectly would not be considered as part of the public float for the purposes of Rule 8.08 of the Listing Rules.

HISTORY, DEVELOPMENT AND REORGANISATION

Sole Sponsor's confirmation

Given that (i) no special rights were granted to Mr. Shiu in respect of his pre-IPO investment; (ii) our Directors confirmed that the terms of the investment by Mr. Shiu was determined on an arm's length basis taking into account of 25% of the unaudited net asset value of Hubei Mengke as at 30 September 2015; and (iii) the consideration under the pre-IPO investment was fully settled by 14 December 2015 and the pre-IPO investment was completed on 29 December 2015, which was more than 28 clear days before the date of submission of the Listing application, the Sole Sponsor is of the view that the pre-IPO investment by Mr. Shiu is in compliance with the "Interim Guidance on pre-IPO Investments" (HKEx-GL29-12) and the "Guidance on pre-IPO Investments" (HKEx-GL-43-12) issued by the Stock Exchange. The "Guidance on Pre-IPO Investment in Convertible Instruments" (HKEx-GL44-12) was not applicable to Mr. Shiu's pre-IPO investment as no convertible instrument was issued.

REORGANISATION

Our Group underwent the Reorganisation in preparation for the Listing, which involved the following steps:

Incorporation of Happily Soar and Liberal Rite

On 1 September 2015, Happily Soar was incorporated in the BVI with limited liability. It is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1. On 22 December 2015, Happily Soar allotted and issued 76 shares, 18 shares and 6 shares to Mr. Zhang, Mr. Fu and Mr. Chen, respectively, at par.

On 11 November 2015, Liberal Rite was incorporated in the BVI with limited liability. It is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1. On 22 December 2015, Liberal Rite allotted and issued one share to Mr. Shiu at par.

Incorporation of our Company

On 8 January 2016, our Company was incorporated in the Cayman Islands as an exempted company with limited liability. At the time of our incorporation, our Company had an authorised share capital of HK\$380,000 divided into 38,000,000 Shares with a par value of HK\$0.01 each. Upon the incorporation of our Company, one subscriber Share was transferred to Liberal Rite and our Company allotted and issued 75 and 24 Shares to Happily Soar and Liberal Rite, respectively. Happily Soar and Liberal Rite then legally and beneficially owned 75% and 25% of the issued share capital of our Company.

HISTORY, DEVELOPMENT AND REORGANISATION

Incorporation of Lucky Glorious

On 9 November 2015, Lucky Glorious was incorporated in the BVI with limited liability. It is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1. On 19 January 2016, Lucky Glorious allotted and issued one share to our Company at par. Lucky Glorious then became a wholly owned subsidiary of our Company.

Incorporation of Mengke (Hong Kong)

On 25 January 2016, Mengke (Hong Kong) was incorporated in Hong Kong with limited liability. As at the date of its incorporation, Mengke (Hong Kong) allotted and issued one share as fully paid to Lucky Glorious. Mengke (Hong Kong) then became a wholly owned subsidiary of Lucky Glorious.

Acquisition of the entire issued share capital of Hubei Mengke from Prime Vantage and Yichang Kunxiang, respectively, by Mengke (Hong Kong)

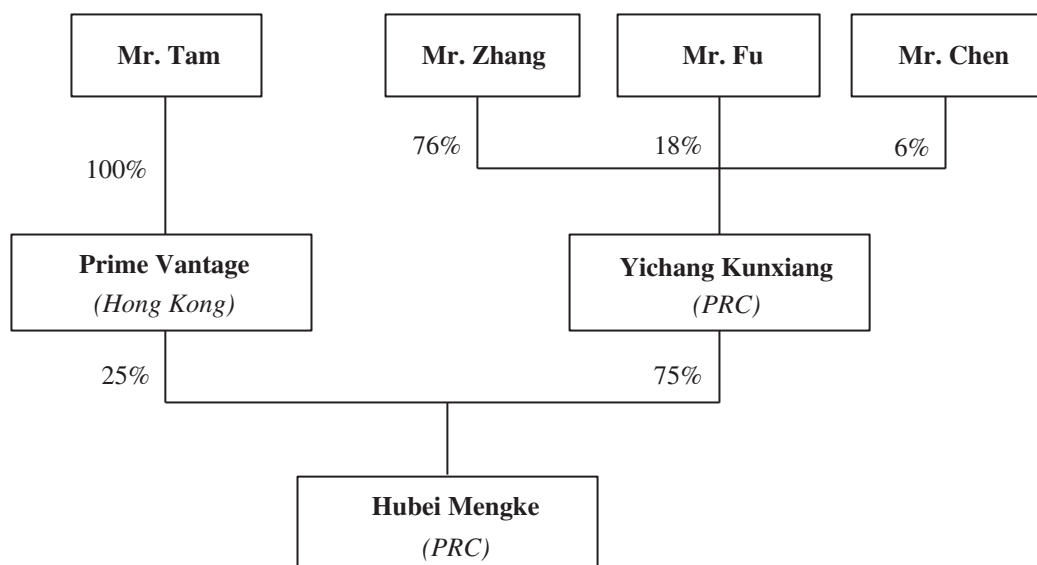
On 24 February 2016, Prime Vantage and Mengke (Hong Kong) entered into an equity transfer agreement, pursuant to which Mengke (Hong Kong) agreed to acquire from Prime Vantage, and Prime Vantage agreed to sell and transfer to Mengke (Hong Kong), 25% of the equity interest of Hubei Mengke at a consideration of RMB15.75 million. The consideration was determined by taking into account the valuation of Hubei Mengke as at 31 December 2015 of approximately RMB62.8 million prepared by an independent valuer.

On 24 February 2016, Yichang Kunxiang and Mengke (Hong Kong) entered into an equity transfer agreement, pursuant to which Mengke (Hong Kong) agreed to acquire from Yichang Kunxiang, and Yichang Kunxiang agreed to sell and transfer to Mengke (Hong Kong), 75% of the equity interest of Hubei Mengke at a consideration of RMB47.25 million. The consideration was determined by taking into account the valuation of Hubei Mengke as at 31 December 2015 of approximately RMB62.8 million prepared by an independent valuer.

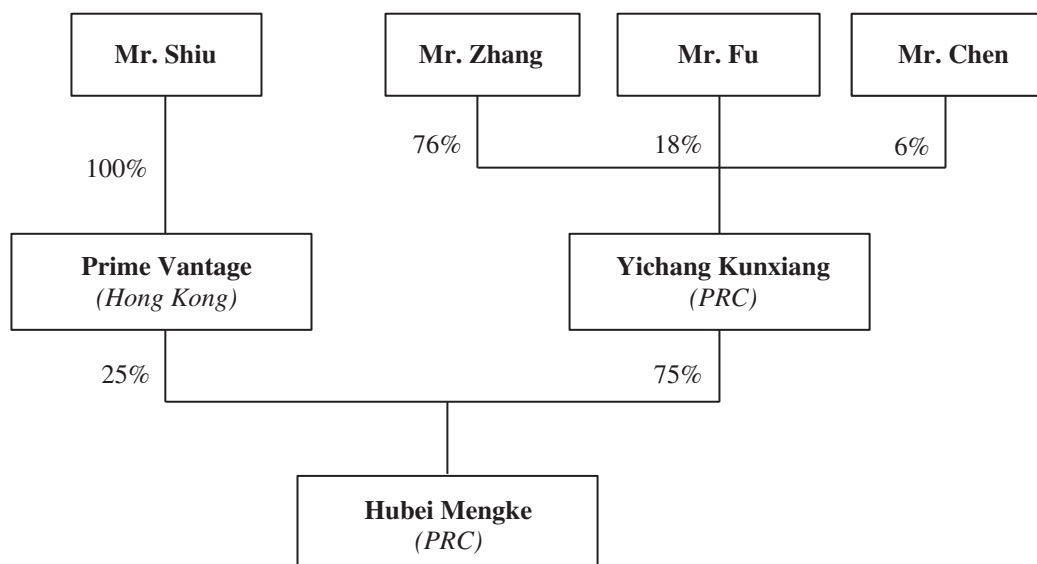
The aforesaid transfers were properly and legally completed on 8 March 2016, and Hubei Mengke became a wholly owned subsidiary of Mengke (Hong Kong). The aggregate consideration of the said acquisition by Mengke (Hong Kong) totalling RMB63.0 million was fully settled by 27 June 2016.

HISTORY, DEVELOPMENT AND REORGANISATION

The following chart sets forth our Group's shareholding and corporate structure immediately before the Reorganisation and prior to the pre-IPO investment by Mr. Shiu:

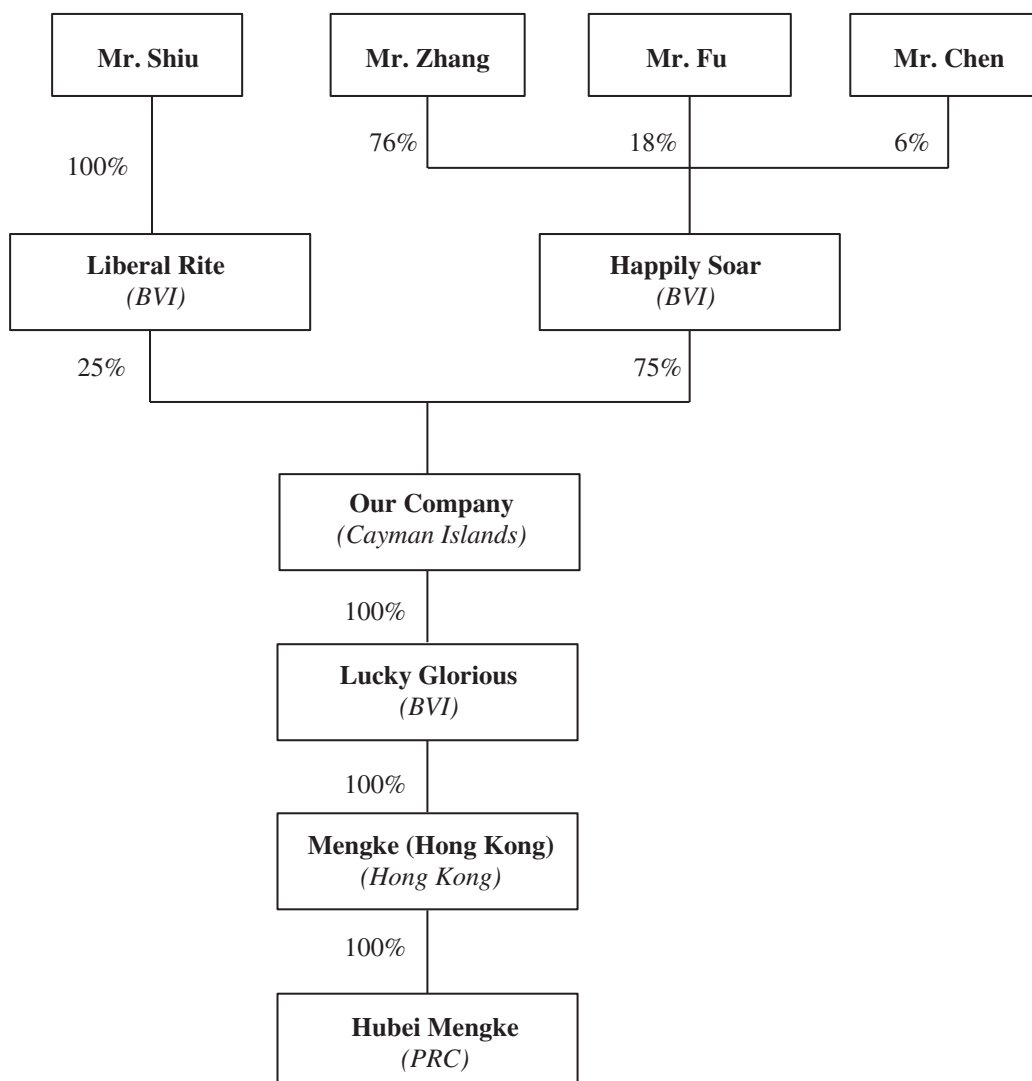


The following chart sets forth our shareholding and corporate structure immediately after the completion of the pre-IPO investment by Mr. Shiu:



HISTORY, DEVELOPMENT AND REORGANISATION

The following chart sets forth our shareholding and corporate structure of immediately after the Reorganisation but before the Capitalisation Issue and the Share Offer:

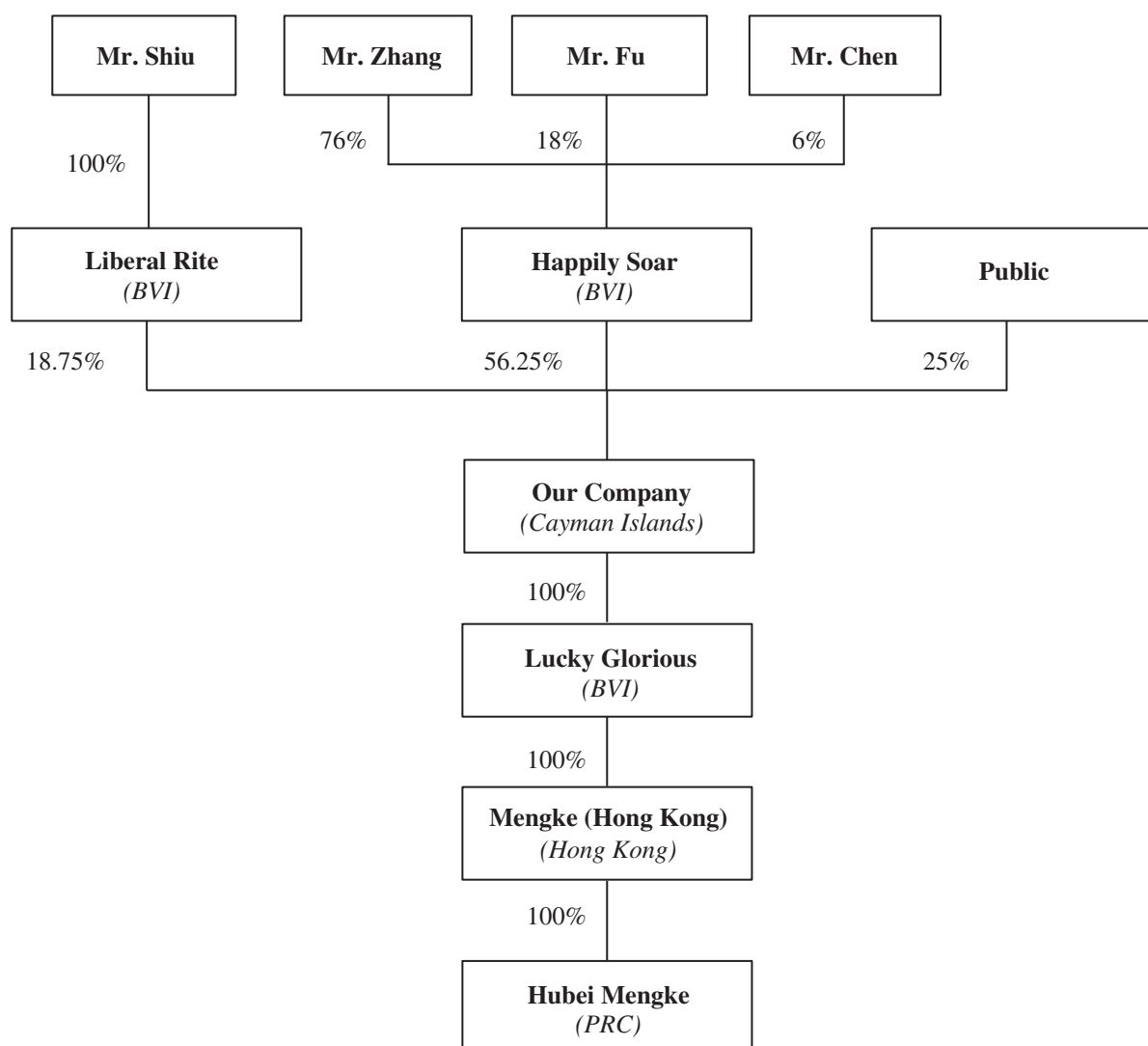


HISTORY, DEVELOPMENT AND REORGANISATION

Capitalisation Issue

Conditional upon the crediting of our Company's share premium account as a result of the issue of the Offer Shares pursuant to the Share Offer, our Directors are authorised to capitalise an amount of HK\$3,749,999 standing to the credit of the share premium account of our Company by applying such sum towards to pay up in full at par a total of 374,999,900 Shares for the allotment and issue, immediately prior to the Listing, to the Shareholders whose names appear on the register of members of our Company as of 3 November 2016, on a pro rata basis.

The following chart sets forth our approximate shareholding and corporate structure immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme):



HISTORY, DEVELOPMENT AND REORGANISATION

PRC REGULATORY ISSUES RELATING TO THE REORGANISATION

The PRC Legal Adviser has advised that Hubei Mengke was established before the effective date of the Provisions 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”) and has been a sino-foreign joint venture enterprise since then. Accordingly, the M&A Rules are not applicable to the Reorganisation and the Listing is not subject to the approval from the China Securities Regulatory Commission (中國證券監督管理委員會).

According to the SAFE Circular No. 37 and SAFE Circular No.13, before a domestic resident contributes its legally owned onshore or offshore assets and equity into an overseas special purpose vehicle, the domestic resident shall conduct foreign exchange registration for offshore investment with a qualified bank. Mr. Zhang, Mr. Fu and Mr. Chen are subject to the requirements under the SAFE Circular No. 37. The PRC Legal Adviser confirmed that all the necessary foreign exchange registration with local foreign exchange authority under the SAFE Circular 37 was completed on 10 March 2016. Mr. Shiu is a Hong Kong resident. Based on Mr. Shiu’s confirmation that:

1. he does not currently hold any identity card or passport of the PRC; and
2. he does not constitute one of the individuals who do not have domestic legal status in the PRC but reside in the PRC habitually for the purpose of economic interests, which mainly include the following:
 - a. individuals who have domestic permanent residence and leave this domestic permanent residence temporarily for reasons including overseas travel, study, medical treatment, work, or the requirements of overseas residence, etc., but return to the permanent residence after the cessation of the aforesaid events;
 - b. individuals who hold domestic-funded rights and interests in domestic enterprises; and
 - c. individuals who hold domestic-funded rights and interests in domestic enterprises which though were converted into foreign-funded rights and the interests are still held by such individuals,

the PRC Legal Adviser advised that Mr. Shiu is not subject to the requirements under the SAFE Circular No. 37.

The PRC Legal Adviser further confirmed that all necessary approvals, permits and licenses required under the PRC laws and regulations in connection with the Reorganisation have been obtained, and the Reorganisation has complied with all applicable laws and regulations of the PRC.

BUSINESS

OVERVIEW

We are a leading cigarette packaging paper manufacturer in Hubei Province, China. In 2015, we had the largest market share of 16.0% in Hubei Province in terms of sales of cigarette packaging paper and were also one of the top 10 cigarette packaging paper manufacturers in China by sales, with a market share of 0.9% in terms of sales of cigarette packaging paper in China, according to Ipsos. We have an operating history of more than 10 years and produce metallised packaging paper for cigarette package manufacturers in China. During the Track Record Period, our products were used by our major customers as packaging materials for eight of the “30 Key Cigarette Brands” identified by the STMA.

Our two main lines of products are transfer metallised paper and laminated metallised paper, which accounted for 83.9% and 14.8% of our revenue in 2015, respectively. We manufacture all of our products at our self-owned production facility in Yichang, Hubei Province, which is strategically located in Central China within a relatively short distance to large regional cigarette manufacturing markets, such as Hunan Province, in which many cigarette package manufacturers operate. In addition, we place great emphasis on the areas of product research and development and quality control, which we believe are critical for differentiating our product offerings and maintaining a competitive market position.

During the Track Record Period, we generated revenue in the amounts of RMB268.7 million in 2013, RMB269.9 million in 2014, RMB319.3 million in 2015 and RMB99.0 million for the five months ended 31 May 2016. Our profit for the year was RMB17.0 million in 2013, RMB14.6 million in 2014 and RMB21.9 million in 2015 and we recorded a loss of RMB1.2 million for the five months ended 31 May 2016. Our revenue and profit for the year grew from 2013 to 2015 at a CAGR of 9.0% and 13.4%, respectively.

COMPETITIVE STRENGTHS

Our products are used as packaging materials for key cigarette brands in China

We have been in the PRC cigarette packaging paper industry for more than 10 years and we manufacture metallised packaging paper for sale to cigarette package manufacturers in China. For each of the years during the Track Record Period, we had approximately 20 customers. Our customers include some of the “Top 100 Enterprises” in the printing industry awarded by the 2016 China Printing Manager Annual Conference, such as Hubei Golden, and other leading cigarette package manufacturers in China, such as Beijing Leigh-mardon Pacific Packaging Co., Ltd., Wuhan Hongzhicai Packaging Company Limited and Wuhan Hongjinlong Printing Company Limited.

During the Track Record Period, our products were used by our major customers as packaging materials for eight of the “30 Key Cigarette Brands” identified by the STMA, including certain mid to high-end cigarettes brands. For details on the major cigarette brands served by our major customers using our products and the relevant tiers of those cigarette brands, please refer to the section headed “Business — Sales and Marketing — Our customers”. We believe being a metallised packaging paper supplier for key cigarette brands can enhance our positioning and recognition among our customers.

BUSINESS

With the effort of our sales team and senior management, we have established strong business relationship with our existing customer base and have maintained a generally stable customer base during the Track Record Period, most of which have been our customers for more than three years. Our customer base spans across 10 provinces in China, including mainly Hubei Province, as well as Beijing and Shaanxi Province, which well positions us to further expand our potential customer base and explore new business opportunities.

We have a strong market position as a leading cigarette packaging paper manufacturer in Hubei Province and our production facility is strategically based in Central China

We are a leading cigarette packaging paper manufacturer in Hubei Province, China with the largest sales of cigarette packaging paper from Hubei Province. According to Ipsos, we had a market share of 16.0% in terms of sales of cigarette packaging paper in Hubei Province in 2015. We believe our leading position in Hubei Province market stems from our high quality standard and effort in product differentiation. With the recognition from our customers, we believe we are able to maintain stable and long term relationship with our customers.

Our production facility in Yichang, Hubei Province is strategically located in Central China as it is within a relatively short distance to our major customers and provinces which have large cigarette manufacturing markets, such as Hunan Province, in which many cigarette package manufacturers operate. Since metallised packaging paper is bulky and heavy, we believe our strategic location allows us to have better access to a broad geographic market and minimise logistics and transportation costs.

We have strong research and development capabilities in the area of high-end environmentally friendly metallised packaging paper

We place significant emphasis on our corporate value to pursue product enhancement and excellence. We believe having strong research and development capabilities allows us to respond to rapid changes in the market. Our research and development team focuses on building technologies and know-how in relation to enhancing productivity, product stability and environmental standards. Our product research and development team comprises 12 core members from the production department who have extensive experience in metallised packaging paper production, particularly in the area of high-end environmentally friendly metallised packaging paper. For example, we have developed proprietary technologies for producing high-end environmentally friendly metallised cigarette packaging paper with enhanced anti-counterfeiting features primarily for the external packaging needs for mid to high-end cigarette brands. Moreover, we own more than 20 sets of equipment to carry out testing in our dedicated research and development centre.

Through periodical visits and collecting feedbacks from our customers, we work closely with our customers to understand their needs and develop products that can satisfy their needs. In order to further advance our research achievement, we have entered into strategic cooperation with the Wuhan Institute of Technology in 2014 for innovation and technology information exchange, talents training and product development. During the Track Record Period, we made significant investments in

BUSINESS

research and development and incurred RMB11.3 million, RMB10.8 million, RMB10.6 million and RMB1.9 million in the area of research and development for the years ended 31 December 2013, 2014, 2015 and the five months ended 31 May 2016, which accounted for 4.2%, 4.0%, 3.3% and 2.0% of our revenue and 22.1%, 21.8%, 15.9% and 8.9% of our gross profit, for the respective periods.

Moreover, our research and development team has developed new technologies and know-how in relation to enhancing productivity, stability, and environmental standards. As at the Latest Practicable Date, we had registered 13 patents and had three pending invention patent registrations. For details of our intellectual property rights, please refer to the section headed “Statutory and General Information — B. Further Information about the Business of Our Group — 2. Intellectual property rights” set out in Appendix V to this prospectus. In addition, we have been recognised by the relevant provincial and local government authorities as a “High and New Technology Enterprise” since 2013 and a “Pilot Enterprise for Technological SME Innovation and Growth Projects in Yichang City” in 2014, respectively. Our research results have also been recognised as “technological achievements” in Hubei Province by the Science and Technology Department of Hubei Province. Our production technology and know-how have been successfully adopted in our production lines and have strengthened our leading position in the industry.

We believe our research and development focus and outcome will allow us to differentiate our products and maintain our competitiveness.

We implement stringent quality control management to ensure a high quality standard

We place strong emphasis on implementing a consistently high product quality control system. We have implemented and maintained a sophisticated quality control system comprising a set of comprehensive internal guidelines and standards. Our quality standard has won high recognition among our customers.

We aim at providing high quality products by maintaining good standards of quality control. We regularly review and revise our quality control system and upgrade our inspection equipment. We also update the professional knowledge of our quality control team to ensure the quality of our products are up to standard before delivering them to our customers. Led by our general manager, Mr. Fu, the quality control system was implemented and managed across our business among different departments.

Our quality control system covers processes from procurement to production and delivery and it has obtained the ISO 9001:2008 certification. We require employees to stringently conform to the standards set out in our internal quality control manual. As at the Latest Practicable Date, we had not received any complaints, nor did we have any sales return from our customers after final confirmation of acceptance. Please refer to the paragraph headed “Sales and Marketing — Sales return” in this section.

BUSINESS

Moreover, we have dedicated a quality control department responsible for inspecting and testing our products at every stage of production. We have a team of 12 quality control staff members led by Mr. Zhu Jizhong, our deputy general manager of the production department who has extensive experience in production technology and quality. Through hiring and external training, we possess a dedicated quality control department with high industry standards. In addition, in order to control our quality standard, we have purchased specialty equipment imported from various countries to test our raw materials and products against industry standards. All of our products are required to reach certain standards before they are delivered to our customers and those products which failed to pass the tests will not be delivered to our customers. For details, please refer to the paragraph headed “Quality Control” in this section.

We have a team of experienced management and technical staff with a proven track record

We have an experienced management team and technical staff with in-depth knowledge of the cigarette paper packaging and cigarette manufacturing industries in China. Mr. Fu, the general manager of Hubei Mengke, Mr. Gong Longjie, the deputy general manager of Hubei Mengke, and Mr. Zhu Jizhong, the deputy general manager of Hubei Mengke, have been engaged in these industries for more than 28 years, 25 years and 33 years, respectively. The majority of our senior management have been with us for more than four years and the team has a proven track record of contributing to our rapid growth. They all possess extensive work experience in their respective professional areas.

We believe our experienced senior management enable us to develop effective business strategies and will be a key factor to our success. For more information on the experience and background of our senior management, please refer to the section headed “Directors and Senior Management” in this prospectus.

BUSINESS STRATEGIES

We aim to be one of the most competitive paper products manufacturers in China. We will continue to embrace our corporate value of pursuing product enhancement and excellence. To achieve our goals, we plan to implement the following strategies:

We will seek to increase our marketing efforts to strengthen our leading market position in Hubei Province and to expand the geographic coverage of our sales network

We intend to strengthen our leading market position in Hubei Province and increase our market share. We also intend to continue to strengthen our relationship with large customers by enhancing our customised services, including frequent customer visits to collect feedback, and thus improving customers’ satisfaction.

BUSINESS

As our headquarters are located in Hubei Province, we intend to leverage our existing market leadership position and experience to further expand our sales network in key provinces which have large cigarette manufacturing markets, such as Yunnan Province and Hunan Province. We also seek to strategically build and strengthen our business relationship with selected large customers and focus on high-value products.

In addition, we plan to expand the scale of our sales department and upgrade the knowledge and quality of our sales team in order to expand the geographic coverage of our sales network.

We will continue to make significant investments in enhancing our product research and development capabilities

We believe having the ability to readily adapt to market changes and respond to customers' needs is important to grow our business. We therefore plan to continue to implement research and development in the areas of product quality enhancement and cost reduction. We also seek to allocate more resources to strategic cooperation with provincial-level research centres. In order to expand our research platforms, we seek to collaborate with tertiary institutions to jointly undertake product research and development projects. We intend to continue to invest in research and development efforts that are designed to raise production efficiency and improve our quality control system.

As many of our product development efforts are customer-driven, we will continue to work closely with and deepen our understanding of our customers in order to meet their technological requirements on new product developments and their expectations of other product needs. By deploying more resources to research and development, we also seek to further enhance the effectiveness of our research and development efforts.

We will seek to further increase our operational efficiency by enhancing our operational management and its effectiveness

We believe increasing our operational efficiency to satisfy customers' needs and enhancing the effectiveness of our operational management are key to maintaining our product quality and cost competitiveness. Therefore, we will seek to implement the following plans:

- We plan to conduct a micromanagement approach in enhancing the management standard of our production process. We intend to raise the quality control awareness of the production staff so that the level of quality standard, delivery schedule and product adaptability can reach the industry's leading standard.
- We will seek to improve our quality control management in order to ensure all our delivered products are of high quality. We intend to maintain more frequent communications with major customers and major suppliers to ensure all our delivered products and purchases achieve high standard of quality.

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- We intend to increase our operational efficiency in order to improve profitability. We will seek to carry out more management activities to improve our production department's skills and know-how and to improve our production efficiency to lower our overall operating costs.
- We plan to deploy more resources to training and development in order to improve our staff's quality standard and skills level.

We plan to increase our production capacity and expand into new markets to meet future demand

The utilisation rate of our metallised packaging paper production facility for the year ended 31 December 2015 was 79.8%. It was over 100% during the periods between September 2015 and December 2015, which had already exceeded the maximum capacity for our normal operations. We believe that in order to keep up with the growing business, we will need to increase our production capacity. We intend to build a new production facility in Yichang, Hubei Province and currently plan to add two production lines within the next 12 months to cope with the growing demand in the metallised packaging paper manufacturing industry in China.

We will seek to expand our scale by considering and pursuing potential opportunities to acquire suitable metallised packaging paper manufacturing business or production facilities outside Hubei Province within the next three years and therefore expand our production facility into one or more of other provinces. As at the Latest Practicable Date, we had not identified any acquisition target. We believe such acquisition will enable us to expand to a broader production network and thus lower our operation costs. In addition, by pursuing suitable acquisition opportunities, we intend to seize significant growth potential and increase our market share in the metallised packaging paper manufacturing market in China.

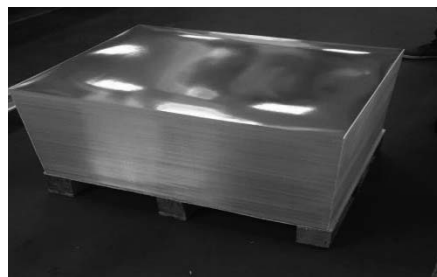
OUR PRODUCTS AND BUSINESS MODEL

We manufacture metallised packaging paper as our principal products. Our metallised packaging paper is used as cigarette external packaging paper to produce cigarette packs and boxes. We have two main lines of products, namely transfer metallised paper and laminated metallised paper.

Metallised packaging paper



**Metallised packaging paper
(in rollers)**



**Metallised packaging paper
(in flat sheets)**

BUSINESS

Metallised paper is paper bonded with laminating materials, such as aluminium film. The metallised paper produced by us is glossy, shiny, smooth and contains a laser effect. It can be used for printing and manufacturing various packaging materials such as cigarette packages, bottle labels, food packaging and cosmetics packaging. The surface of our metallised packaging paper is waterproof and non-absorbent. We mainly supply metallised packaging paper to cigarette package manufacturers in China.

Both transfer metallised paper and laminated metallised paper are produced in accordance with the specifications prescribed by our customers, which may display brand names and logos.

Our metallised packaging paper can be categorised into two types, namely transfer metallised paper and laminated metallised paper.

Transfer metallised paper

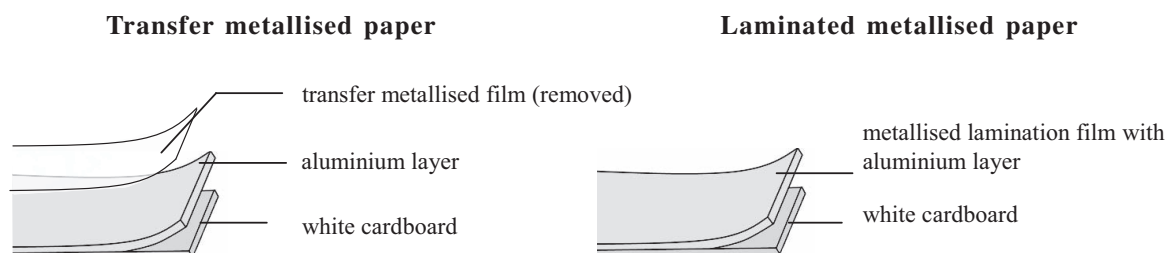
Transfer metallised paper is metallised paper which is glossy and shiny and has a laser effect. By using various processing techniques including curing, a transfer metallised film is first laminated onto a white cardboard. Upon lamination, the plastic transparent layer of the transfer metallised film is then stripped from the laminated sheet, leaving only the metallic layer on the white cardboard. Therefore, the metallic layer is transferred from the transfer metallised film onto the white cardboard to form transfer metallised paper.

Transfer metallised paper is more environmental friendly compared to laminated metallised paper as the plastic transparent layer of the metallised film is removed after lamination. Transfer metallised paper is therefore recyclable.

Laminated metallised paper

Laminated metallised paper possesses similar appearance as transfer metallised paper. It also uses similar processing techniques to laminate a metallised lamination film onto a white cardboard. However, unlike transfer metallised paper, the entire metallised lamination film stays on the laminated sheet to form laminated metallised paper without removing any layer of the metallised lamination film. Laminated metallised paper therefore consists of a plastic film layer in its final product.

The compositions of transfer metallised paper and laminated metallised paper are set out as follows:



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The following table sets out our revenue from the sale of transfer metallised paper and laminated metallised paper and their percentage of our total revenue for the periods indicated:

	Year ended 31 December						Five months ended 31 May	
	2013		2014		2015		2016	
	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>	<i>RMB'000</i>	<i>% of revenue</i>
Transfer metallised paper . .	190,087	70.8	212,262	78.6	267,769	83.9	84,242	85.1
Laminated metallised paper .	78,513	29.2	55,528	20.6	47,269	14.8	12,968	13.1
Processing service income .	55	0.0	2,113	0.8	4,235	1.3	1,787	1.8
Total revenue	<u>268,655</u>	<u>100.0</u>	<u>269,903</u>	<u>100.0</u>	<u>319,273</u>	<u>100.0</u>	<u>98,997</u>	<u>100.0</u>

OUR PRODUCTION

Production process

All our products are made to orders and produced in accordance with customers' product specifications.

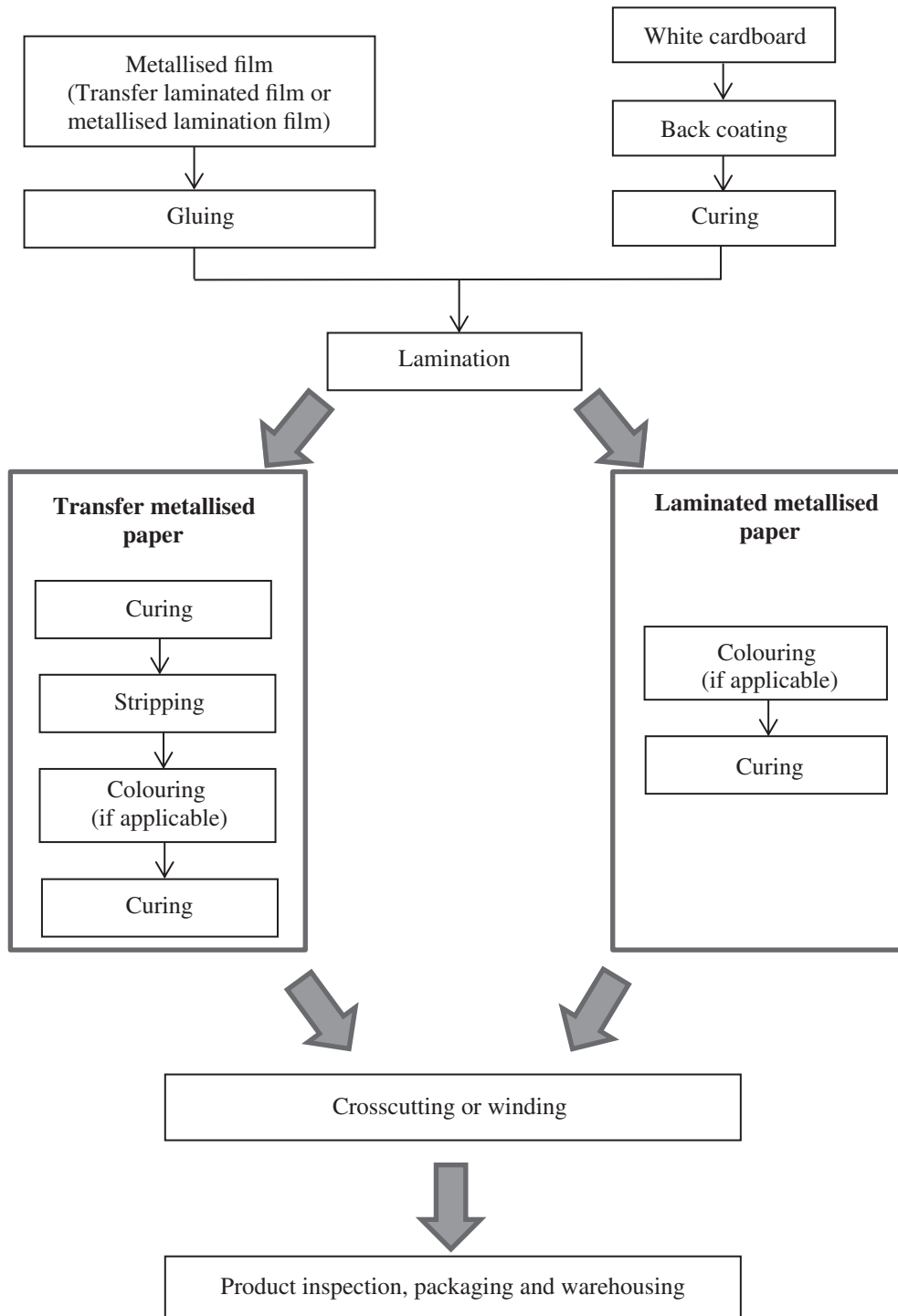
Once we receive a purchase order from a customer, the details of the purchase order are passed to an assessment panel comprising staff members from the following teams for making various assessments:

- the production department to assess the production requirements, production capacity and delivery time;
- the quality control department to assess the quality standard of the purchase order;
- the procurement department to determine the raw materials requirements and delivery date; and
- the sales department to consolidate the overall assessments and confirm the purchase order with the customer.

After all the raw materials have been procured, our production team will commence production.

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The following chart illustrates the major production process of transfer metallised paper and laminated metallised paper:



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Before lamination, a white cardboard is first back coated, hardened and stabilised during the curing process. At the lamination stage, the white cardboard and metallised film are bonded together by pressing between the rollers under pressure conditions to form a laminated sheet.

For transfer metallised paper, the plastic transparent layer of the transfer metallised film is then separated and removed from the laminated sheet. This stripping process results in leaving only the metallic layer of the transfer metallised film attached to the white cardboard. For laminated metallised paper, the entire metallised lamination film stays on the laminated sheet. Depending on the product specifications, colours may be added to the laminated sheet after the lamination stage.

Depending on the requirements of the customer, our transfer metallised paper or laminated metallised paper is crosscut into flat sheets or wound into rollers. After inspection by various departments including the production department and quality control department, the final product is packaged and stored in the warehouse for delivery.

Quality inspection will be carried out at various stages during the production process to ensure that our products meet the product requirements of our customers and our quality standard. For details of our quality control system, please refer to the paragraph headed “Quality Control” in this section.

Production facility

We operate and own one production facility located in Yichang, Hubei Province, with an aggregate gross floor area of approximately 10,800 sq.m.

We place great emphasis on the use of advanced equipment to enhance our production efficiency and ensure a high quality of products. Our principal equipment includes laminating machines, crosscutting machines and winding machines. We currently operate and own seven laminating machines, six crosscutting machines and five winding machines for the production of metallised paper. All of these machines are equipped to produce both transfer metallised paper and laminated metallised paper. Our equipment is routinely checked and maintained to ensure its smooth operation. Although some of our principal machines have reached or will soon reach the end of their estimated useful life for depreciation purposes, our Directors consider that, with regular repair and maintenance, these

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machines will likely continue to function properly without the need to immediately replace them upon the end of their estimated useful life. As such, there is no imminent plan for replacement. The following table sets out certain information regarding our principal equipment:

Principal Equipment	No. of machines installed	Years operated as at the Latest Practicable Date	Years of remaining useful life as at the Latest Practicable Date ⁽¹⁾
Laminating machines	7	1-10 years	0-3 years: 3 machines 3-6 years: 2 machines 6-9 years: 2 machines
Crosscutting machines	6	3-10 years	0-3 years: 4 machines 3-6 years: 0 machine 6-9 years: 2 machines
Winding machines	5	1-10 years	0-3 years: 2 machine 3-6 years: 1 machines 6-9 years: 2 machines

Note:

(1) As determined by management's estimates, the estimated useful life for our major machines is 10 years.

Set out in the table below are the details of the production capacity, actual production volume and utilisation rate for our metallised packaging paper production for the periods indicated:

	Year ended 31 December			Five months ended 31 May	
	2013	2014	2015	2015	2016
Production capacity ⁽¹⁾⁽²⁾ (m.) ('000)	169,344	190,512	191,646	79,853	80,968
Actual production volume ⁽³⁾ (m.) ('000) . . .	142,615	139,330	152,840	43,940	44,509
Utilisation rate	84.2%	73.1%	79.8%	55.0%	55.0%

Notes:

- (1) Production capacity is determined and calculated by multiplying the daily capacity of the laminating machines with the applicable number of days of operation and the number of laminating machines during the period.
- (2) We assume the daily operating hours for our laminating machines to be 18 hours, operating 280 days per year or 102 days for the five-month period from January to May, taking into account staff holidays, public holidays and seasonal factors. Our production capacity is based on 70% of the maximum speed at which the laminating machines are operated for quality optimisation purpose.
- (3) Utilisation rate is calculated by dividing actual production volume by production capacity for the relevant periods.

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For the year ended 31 December 2014, the utilisation rate dropped from 84.2% to 73.1% due to an increase in production capacity of one additional laminating machine in the last quarter of 2013. For the year ended 31 December 2015, the utilisation rate increased to 79.8% due to an increase in purchase orders in 2015. For the five months ended 31 May 2016, which was typically our low season, the utilisation rate was 55.0% which is similar to the same period in 2015 despite our increase in production capacity in 2016.

Our utilisation rate typically peaked during the second half of the year due to the higher demand for cigarette packaging before Chinese New Year and Mid-Autumn Festival as cigarettes are often used as gifts in China during these periods. For example, the utilisation rate for the periods between September 2015 and December 2015 exceeded 100%. In December 2015, we installed a new laminating machine. Following such installation, our estimated annual production capacity for the year ending 31 December 2016 has further increased to 222.3 million m.

The average lead time from the receipt of sales orders from customers to the delivery of goods varies, typically ranges from five days to 10 days as it will depend on the volume of the order, our available production capacity and customers' request on the delivery date.

We currently plan to add two production lines within the next 12 months. Our Directors have taken into consideration the current operation performance and are of the view that our current expansion plan is justified because:

- While the utilisation rate of our production facility for the year ended 31 December 2015 and the five months ended 31 May 2016 was 79.8% and 55.0%, respectively, it was over 90% in January 2015 and over 100% between September 2015 and December 2015 during the peak season in the second half of the year. As we have already exceeded our maximum production capacity during the above periods, our current production capacity is insufficient to satisfy the customers' demand during our peak seasons.

Our Directors believe that after the implementation of our expansion plan, we would be able to meet the potential increase in sales during peak seasons.

In addition, although we had not experienced any major breakdown of production equipment during the Track Record Period, we consider that it will be desirable and prudent to purchase new production equipment which can serve the secondary purpose of being the substitute contingency machines in any unanticipated event that any of the existing production equipment fails to operate properly. The new machines could therefore help avoid major business disruption and severe impact on production caused by any unanticipated breakdown of principal equipment.

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- According to Ipsos, the total estimated sales value of the cigarette packaging paper manufacturing industry in China and Hubei Province is expected to grow during 2016 to 2020 at a CAGR of 0.2% and 0.5%, respectively. In view of the stable market trend, our Directors believe there will be a growing demand for our products. Please refer to the section headed “Industry Overview — Cigarette Packaging Paper Manufacturing Industry in China and Hubei Province” for details of the cigarette packaging paper manufacturing industry in China and Hubei Province. For the five months ended 31 May 2016, we recorded a slight increase in revenue due to a larger quantity of purchase orders received as compared with the first quarter of 2015.

In addition, according to Ipsos, the PRC government’s initiative on promoting mid to high-end cigarettes may lead to higher demand for mid to high-end cigarettes and may have a positive impact on us. As our products are primarily used for mid to high-end cigarettes, our Directors believe the above presents opportunities to us to further increase our sales. For details, please refer to the section headed “Industry Overview — Competitive Analysis of The Cigarette Packaging Paper Manufacturing Industry in China and Hubei Province”.

- Our Directors intend to further expand our sales network in key provinces which have large cigarette manufacturing markets such as Yunnan Province and Hunan Province. As at 31 May 2016, we have developed potential new customers located in Yunnan Province and Shenzhen and have started receiving sampling orders from them. In addition, we have started discussions with other potential new customers on possible purchase orders.

We have also received sampling orders from our existing customers to develop products with new specifications. In order to obtain more customer orders and meet with the potential increases in customers’ orders, we would have to ensure sufficient capacity.

Production team

We devote significant resources to improve the management of our production department. As at the Latest Practicable Date, we employed a total of 91 production staff members. We provide induction training and on-going technical training to the production staff on, amongst other areas, safe operation and maintenance of equipment and machinery. Moreover, we provide training to our production staff from time to time in order to update them on production techniques and the latest technology. We also regularly update our production staff on any quality issues arising from our inspection during the production process and from feedback of our customers.

BUSINESS

PROCUREMENT

Raw materials

We source all our raw materials in China. The principal raw materials used by us are white cardboard and metallised film. We also use other raw materials including glue and ink. The following table sets forth a breakdown of our cost of raw materials during the Track Record Period.

	Year ended 31 December						Five months ended 31 May	
	2013		2014		2015		2016	
	<i>RMB'000</i>	<i>% of total cost of raw materials</i>	<i>RMB'000</i>	<i>% of total cost of raw materials</i>	<i>RMB'000</i>	<i>% of total cost of raw materials</i>	<i>RMB'000</i>	<i>% of total cost of raw materials</i>
White cardboard	109,019	53.5	107,987	53.0	120,869	51.6	40,158	56.1
Metallised film	80,234	39.3	83,129	40.8	91,730	39.2	26,322	36.8
Others	<u>14,683</u>	<u>7.2</u>	<u>12,505</u>	<u>6.2</u>	<u>21,566</u>	<u>9.2</u>	<u>5,124</u>	<u>7.1</u>
Total	<u><u>203,936</u></u>	<u><u>100.0</u></u>	<u><u>203,621</u></u>	<u><u>100.0</u></u>	<u><u>234,165</u></u>	<u><u>100.0</u></u>	<u><u>71,604</u></u>	<u><u>100.0</u></u>

Selection of suppliers

Our procurement department generally selects multiple suppliers from which we source each type of our raw materials. This enables us to procure raw materials from alternative suppliers when an existing supplier sets prices above our acceptable level, or there is a shortage or delay in the supply, or in the event that a supplier fails to deliver raw materials according to our procurement plan or fails to meet our quality. This also allows us to reduce our reliance on any single supplier.

We periodically invite suppliers to provide us samples for pre-assessment and our procurement department maintains a list of qualified suppliers which passed our internal assessment as potential suppliers for future purchases. Our procurement department generally conducts assessments on each potential supplier's product quality, price, after-sales service and transportation, amongst other criteria. We have maintained a set of internal manual on the procedures and standards for procurement of raw materials.

For the purposes of selecting a supplier for procurement of a raw material, we typically invite tenders from our pre-assessed suppliers and we assess the tenders based on their quality, price and our purchasing history. Once a supplier is selected after the close of tenders, we typically enter into a supply contract with the supplier before placing orders to procure the raw materials we require.

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Major terms of supply contracts

The term of each of our supply contracts is generally one year and may be renewed upon the expiry of the term. The supply contract typically provides for the agreed unit price of the raw material and does not set forth any requirement or binding commitment on the supply quantities. It also provides for various requirements on the quality, technology, environmental aspects and packaging of our raw materials. Our suppliers generally grant us credit terms from 30 to 90 days and the price payable to our suppliers are generally settled by bank remittances or acceptance notes. In addition, we require a testing report and environmental inspection report to ensure the product quality of the raw materials.

Since our contracts with suppliers have a fixed unit price, the fluctuation of raw material prices does not affect our cost of raw materials within the contract period. We typically begin to negotiate the price and other key terms with multiple suppliers prior to the expiry of the existing contracts to secure favourable terms for the procurement of raw materials. Since the typical term of both our contracts with suppliers and sales contracts is one year, we periodically review any changes in the purchasing price of our raw materials and seek to promptly adjust our tender price or selling price for new contracts.

Our suppliers

While we have not entered into any long-term supply contracts with our suppliers, we believe that we will be able to continue to maintain stable relationship with our major suppliers due to our long-established business relationship. During the Track Record Period, we did not encounter any difficulty in procurement nor experienced any production disruption due to shortage of raw materials.

For the years ended 31 December 2013, 2014, 2015 and the five months ended 31 May 2016, our purchases from our five largest suppliers accounted for 46.2%, 55.4%, 56.8% and 56.2% of our total purchases, respectively, and our purchases from our single largest supplier accounted for 14.8%, 18.0%, 18.5% and 28.1% of our total purchases, respectively. All of our five largest suppliers during the Track Record Period are Independent Third Parties and have obtained the relevant licences and permits for the production of their products. None of our Directors, their respective associates, nor Shareholders who own more than 5% of the issued share capital of our Company, has any interest in any of our five largest suppliers during the Track Record Period.

One of our major suppliers, Yunmeng County Jinye Packaging Material Limited (“**Jinye**”) (雲夢縣金葉包裝材料有限公司), also purchased metallised paper from us during the Track Record Period. Jinye is a supplier of metallised film. For the years ended 31 December 2013, 2014, 2015 and the five months ended 31 May 2016, our purchases of metallised film from Jinye amounted to RMB11.0 million, RMB5.0 million, RMB2.6 million and RMB2.1 million, which accounted for 4.9%, 2.3%, 1.1% and 3.2% of our total purchases for the respective periods. In addition to supplying metallised film, Jinye is also engaged in the sale and trading of cigarette packaging paper. Jinye supplies metallised packaging paper to cigarette package manufacturers by sourcing metallised packaging paper from other manufacturers including us. Our sales to Jinye for the years ended 31 December 2013, 2014, 2015 and the five months ended 31 May 2016 amounted to RMB1.6 million, RMB14.1 million, RMB7.1 million and 1.8 million, which accounted for 0.6%, 5.2%, 2.2% and 1.8% of our total

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revenue for the respective periods. Our Directors confirmed that the unit cost of metallised film purchased from JinYE during the Track Record Period was in line with the prices of comparable products from our other metallised film suppliers and the unit price of our metallised packaging paper sold to JinYE during the Track Record Period was in line with the overall average selling price of comparable products to our other customers.

Our Directors confirmed that, during the Track Record Period, the metallised film we purchased from JinYE was not used in the products we sold to JinYE. Our Directors confirmed that, apart from JinYE, there was no other supplier to which we sold any significant amount of products during the Track Record Period.

Utilities

The major utilities used in our production process are water and electricity, which accounted for only a small percentage of our total cost of sales. During the Track Record Period, we did not experience any material disruption to our utilities supply.

SALES AND MARKETING

Sales and marketing strategy

Our sales and marketing strategy is market-driven and requires the participation of all our teams at different levels. At the sales level, our sales department is responsible for communicating with the customers and take orders from them. At the support level, we have formed a dedicated working group which comprises the sales department and the quality control department and the working group is led by the production department. At the after-sales level, our customer service team will track the customer orders, collect and follow up on customers' feedback.

As at the Latest Practicable Date, we employed a total of 13 staff members in our sales department. Our sales staff make regular visit to our customers across China in order to be able to attend to customers' queries as soon as possible. As purchase orders are produced in accordance with customers' product specifications, we seek to maintain close contacts with our customers to understand their business and production needs. Moreover, through regular visits to our customers and obtaining feedback from them, we can understand more of the customers' needs and to ensure that our products meet their production schedule and expectations.

We believe our strategy enables us to promptly respond to market developments and provides solutions to our customers. When customers require new product development, our sales department and production department will strive to ascertain their needs promptly.

Our sales department reports customers' feedback to our management team and also holds internal market analysis meetings from time to time to discuss latest industry trends and sales and marketing strategies.

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Tenders for sales

In general, cigarette package manufacturers invite suppliers, including us, to participate in tenders for sales of metallised packaging paper. We are required to submit tender documents according to the instructions in the invitation. The cigarette package manufacturers usually select suppliers based on a number of factors, including product quality, unit price, reputation and brand profile, in accordance with a scoring system by which these factors are considered. During the Track Record Period, our success rates for tenders were 50.0%, 33.3%, 50.0% and 100% for the years ended 31 December 2013, 2014, 2015 and the five months ended 31 May 2016, respectively. We recorded a lower success rate in 2014 because for the tenders that we participated during that year, we did not bid at very aggressive prices to compete for new contracts as we did not wish to lower the bidding price at the cost of product quality.

If we win the tender, the cigarette package manufacturer will then enter into a sales contract with us. The term of a sales contract is generally one year, and if the cigarette package manufacturer does not conduct a new tender before or upon the expiry of the contract term, the sales contract will generally be renewed under the similar terms and conditions.

During the Track Record Period, we generally maintained a high contract renewal rate with our 10 largest customers, from which derived more than 95% of our total revenue. In particular, of the 10 largest customers for the year ended 31 December 2013, nine renewed contracts with us in 2014 and the remaining one did not renew its contract with us since its initial contract had a two-years term. Eight of the 10 largest customers for the year ended 31 December 2014 remained among our 10 largest customers and renewed contracts with us in 2015, while the other two ceased to be among our top 10 customers for the year ended 31 December 2015 although they have renewed their contracts with us.

Major terms of sales contracts

Our sales contracts typically contain terms specifying the types and specifications of the metallised paper sold by us, as well as the unit price which is agreed at a fixed price per tonne, and they generally have a one year term. The unit price is determined based on the cost analysis by various departments, and our sales contracts generally do not set forth any requirement or binding commitment on the sale quantities. The typical credit periods range from 30 to 120 days and the sales amounts are generally settled by bank remittances or acceptance notes.

Pricing policy

Our sales contracts were generally obtained under a tendering system and the prices in our sales contracts were set depending on the product specifications and technological requirements listed in the tender invitations. The efficiency management department will analyse and set the tender prices for our products primarily based on various factors including costs of the raw materials, direct labour costs, the gross profit margin, production capacity, delivery arrangements and other production and administrative costs.

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Our customers

All of our sales of metallised packaging paper during the Track Record Period were made to customers for cigarette package manufacturing in China. For each of the periods during the Track Record Period, we had approximately 20 customers and we derived more than 95% of our total revenue from our 10 largest customers. All of our customers during the Track Record Period were Independent Third Parties, except for Hubei Golden which was a former shareholder of Hubei Mengke, our sole PRC operating subsidiary. The Sponsor is of the view that the transactions between the Group and Hubei Golden were conducted on normal commercial terms during the Track Record Period since (i) the unit price of metallised paper sold during the Track Record Period was in line with the prices of comparable products to the other customers; and (ii) the customer contracts were obtained through a tender process. For more information on Hubei Golden, see the section headed “History, Development and Reorganisation”.

We derived a large percentage of our revenue from our major customers. For the years ended 31 December 2013, 2014, 2015 and the five months ended 31 May 2016, our five largest customers together accounted for 87.5%, 89.8%, 87.1% and 89.7% of our total revenue, respectively, and our largest customer accounted for 35.8%, 32.1%, 33.0% and 33.4% of our total revenue, respectively. Please see the risk factor headed “Risk Factors — Risk Factors Relating to Our Business and Industry — We derived a large percentage of revenue from our major customers and we do not enter into long-term sales contracts with our major customers”. None of our Directors, their respective associates, nor Shareholders who own more than 5% of the issued share capital of our Company, has any interest in our five largest customers during the Track Record Period.

Further information on our five largest customers for each of the periods during the Track Record Period is set out as follows:

Name of customer	Headquarters location	Principal business	Credit period granted during the Track Record Period	Year commencing relationship	Major cigarette brands served using our products and their relevant tiers ⁽¹⁾	Period in which the customer was one of our five largest customers and the approximate percentage of sales
Hubei Golden	Hubei Province	Cigarette package manufacturing	60	2005	Tier 1: Honghedao (紅河道), Yuxi (玉溪), Yuye (玉液), Shuangxi Haorizi Jinzun (雙喜好日子金樽) Tier 2: Huanghelou (Yingjinsha) (黃鶴樓(硬金砂)) Tier 3: Jingpin (精品), Yunyan Yingzhi (雲烟硬紫), Jinmantang (金滿堂), Haomao Houwang Moshu (好貓猴王磨砂) Tier 4 ⁽²⁾ : Yinhe Zhiguang (銀河之光), Houwang (猴王)	2013: 35.8% 2014: 32.1% 2015: 31.0% January to May 2016: 23.8%
Beijing Leigh-mardon Pacific Packaging Co., Ltd (北京黎馬敦太平洋包裝有限公司)	Beijing	Cigarette package manufacturing	120	2010	Tier 1: Zhongnanhai (Lingyue) (中南海 (領越)) Tier 3: Jingpin (精品), Baisha (Yidai) (白沙 (一代)), Hongtashan (Classic 100) (紅塔山(經典100)), Hongjinlong (Jingpin) (紅金龍 (精品))	2013: 19.4% 2014: 9.8% 2015: 10.1% January to May 2016: 33.4%

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Name of customer	Headquarters location	Principal business	Credit period granted during the	Year commencing relationship	Major cigarette brands served using our products and their relevant tiers ⁽¹⁾	Period in which the customer was one of our five largest customers and the approximate percentage of sales
			Track Record Period			
			<i>Days</i>			
Wuhan Hongzhicai Packaging Company Limited (武漢虹之彩包裝印刷有限公司)	Hubei Province	Cigarette package manufacturing	60	2011	Tier 1: Huanghelou (Ruanlan) (黃鶴樓(軟藍)), Huanghelou (1916) (黃鶴樓(1916))	2013: 13.6% 2014: 24.5% 2015: 33.0% January to May 2016: 24.2%
Shaanxi Yuanfeng Packaging Materials Company Limited (陝西源豐包裝材料有限公司)	Shaanxi Province	Cigarette package manufacturing	60	2012	Lanxuelian (藍雪蓮) ⁽³⁾	2013: 9.5% ⁽⁵⁾
Wuhan Hongjinlong Printing Company Limited (武漢紅金龍印務股份有限公司)	Hubei Province	Cigarette package manufacturing	60	2012	Tier 1: Huanghelou (Yaxiang) (黃鶴樓(雅香)) Tier 2: Huanghelou (Jinsha) (黃鶴樓(金沙))	2013: 9.2% 2014: 18.2% 2015: 8.1% January to May 2016: 5.5%
Jinye	Hubei Province	Supply of metallised film and sale and trading of cigarette packaging paper	60	2012	Tier 1: Huanghelou (Yingzhenpin) (黃鶴樓(硬珍品))	2014: 5.2% ⁽⁶⁾
Customer A	Hunan Province	Cigarette package manufacturing	60	2009	N/A ⁽⁴⁾	2015: 5.0% ⁽⁷⁾
Hubei Guangcai Printing Company Limited (湖北廣彩印刷有限公司)	Hubei Province	Cigarette package manufacturing	60	2009	Tier1: Huangjiyue (Laodao) (黃金葉(老·道)) Linhailingzhi (Ruyi) (林海靈芝(如意)) ⁽³⁾	January to May 2016: 2.7% ⁽⁸⁾

Notes:

- (1) Our products are primarily used for cigarette brands in tiers 1 to 3, which are generally regarded as mid to high-end cigarette brands according to Ipsos. Although our sales contracts generally do not contain information on the specific cigarette brands that our products will be used for, through our regular communications and further confirmations from our five largest customers for each of the periods during the Track Record Period (except for Customer A), we have identified the major cigarette brands that they served using our products and the relevant tiers of those cigarette brands. The relevant tiers of the cigarette brands were confirmed by Ipsos based on ex-factory prices.
- (2) As confirmed by Hubei Golden, only an insignificant amount of our products was used for tier 4 cigarette brands.
- (3) Tier information is not available.

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- (4) Brand information is not available.
- (5) Shaanxi Yuanfeng Packaging Materials Company Limited was not among our five largest customers in 2014, 2015 and for the five months ended 31 May 2016. Its approximate percentage of sales for the respective periods was 0.9%, 0.1% and 0.8%, respectively.
- (6) Jinye was not among our five largest customers in 2013 and 2015. Its approximate percentage of sales was 0.6% in 2013 and 2.2% in 2015. It did not purchase from us for the five months ended 31 May 2016 but we have provided processing service to them which accounted for 1.8% of our sales revenue for such period.
- (7) We first established business relationship with Customer A prior to the Track Record Period in 2009. To the best of our knowledge, purchases by Customer A are mainly driven by its demand and output requirement. During the Track Record Period, Customer A purchased from us only in 2015 due to its demand for a specific product in which we possess the required technology. Customer A is changing its product specifications in 2016 and has not made new purchase orders from us during the five months ended 31 May 2016.
- (8) Hubei Guangcai Printing Company Limited was not among our five largest customers in 2013, 2014 and 2015. Its approximate percentage of sales was 2.5% in 2013, 0.5% in 2014 and 1.3 % in 2015.

As shown above, our major customers are located in Hubei Province, as well as Beijing and Shaanxi Province. Our other customers are located in Guangdong Province, Hunan Province, Jiangsu Province, Sichuan Province, Shandong Province, Shanghai and Zhejiang Province.

Hubei Golden was our largest customer in 2013 and 2014, the second largest customer in 2015 which accounted for 31.0% of our total revenue in 2015 and the third largest customer for the five months ended 31 May 2016 which accounted for 23.8% of our total revenue during the period. In light of the facts that our sales contracts with Hubei Golden were obtained under a tendering system and the unit price of our metallised packaging paper sold to Hubei Golden during the Track Record Period was in line with the overall average selling price of comparable products to our other customers, our Directors confirmed that the sales to Hubei Golden were conducted on normal commercial terms during the Track Record Period.

Our Directors confirmed that there was no customer other than Jinye from which we made any significant purchases of raw materials during the Track Record Period.

Sales return

We have adopted a unified sales return policy which applies to all of our products and all customers.

After a customer receives our products and until giving its final confirmation of acceptance, the customer may request us to reprocess any products which fail to meet its required product specifications. During the Track Record Period, we received an insignificant number of such requests but were able to redeliver the products to our customers' satisfaction and obtain their final confirmation of acceptance.

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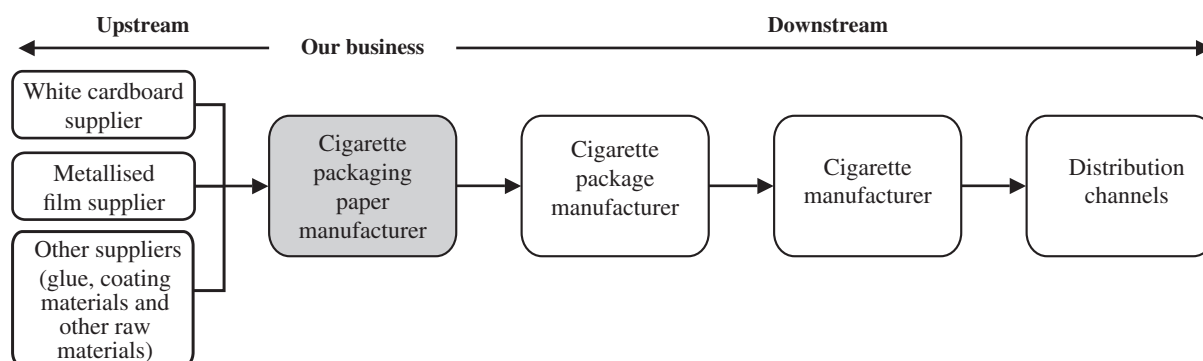
Request for product return after a customer's final confirmation of acceptance is only accepted when there are product quality issues and upon re-examination of the alleged defective product by our production department, quality control department and sales department. During the Track Record Period and up to the Latest Practicable Date, there was no sales return to us from any customers after final confirmation of acceptance.

Seasonal fluctuation

Our sales largely correspond to the fluctuations in the sales of the cigarette industry. Our peak seasons generally occur around the second half of the year due to the higher demand for cigarettes during Chinese New Year and Mid-Autumn Festival.

Our production business is in the upstream sector within the cigarette packaging industry value chain where cigarette sales to end consumers are at the end of the value chain. Please refer to the section headed "Industry Overview — Cigarette Packaging Paper Manufacturing Industry In China and Hubei Province" in this prospectus for the overview of our industry's value chain.

The diagram below highlights the value chain of the cigarette packaging paper manufacturing industry in China:



Source: Ipsos research and analysis

As cigarette packaging paper is manufactured before cigarettes can be packaged and sold to end consumers, there is typically a time lag between business fluctuations for manufacturers of cigarette packaging paper in anticipation of fluctuations in sales of cigarettes in the end market. Our peak seasons generally occur in the second half of the year and the peak seasons of cigarette sales in China are typically the first quarter of the year particularly towards the early part before or around Chinese New Year and third quarter of the year particularly towards the end of the quarter before or around Mid-Autumn Festival. Despite our typical five to 10 days average lead time, our cigarette package manufacturer customers will need to make purchase orders in batches in advance in order to cope with the demand of the cigarette manufacturers during the peak seasons of cigarettes sales in China. Depending on the timing of Mid-Autumn Festival and Chinese New Year periods in the lunar calendar, July to September is usually the peak season for cigarette sales for Mid-Autumn Festival and

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September to December is usually the peak season for cigarette sales for Chinese New Year. Therefore, the peak seasons of our Group usually occur much earlier than the peak seasons of the cigarette end market as the cigarette packaging paper produced by us requires further processing by other manufacturers down the value chain before the cigarettes are sold to the end customers.

INVENTORY CONTROL AND DELIVERY ARRANGEMENT

Inventory control

Our inventory mainly comprises raw materials, work in progress and finished goods. Raw materials, work in progress and finished goods are all stored under a suitable and controlled environment to maintain their quality.

Since all our purchase orders are produced in accordance with customers' specifications, we generally purchase white cardboard and metallised film upon receiving a purchase order. However, our customers typically provide us with their forecasts of purchase orders to facilitate our planning for our procurement of raw materials and for our procurement and production schedules. For the other raw materials, such as glue and ink, we generally maintain a certain inventory level to ensure stable operations.

Our inventory of finished goods comprises metallised paper in flat sheets and in rollers stored in the warehouse before delivering to our customers. Our staff periodically reviews the inventory records to ensure that an appropriate level of inventory is maintained.

Delivery arrangement

We have engaged logistics service providers for the delivery of all our finished goods by road transportation to our customers. We do not enter into long-term service contracts with the logistics service providers. The logistics service providers are responsible for the risks associated with the delivery of finished goods and have to bear any losses or other liabilities should the finished goods be damaged during delivery. Our finished goods are delivered to various provinces in China as specified by our customers.

QUALITY CONTROL

We believe that delivering quality products to our customers is important to our reputation and to our customer relationships. Any defects in our products may lead to our customers returning the products to us and claiming compensation, and may result in financial loss and damage to our brand image and reputation.

We have implemented stringent quality control measures at every stage of our production process, starting with the raw materials to the final delivery. Our current quality control manual is based on the ISO 9001:2008 standards.

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To maintain the competitiveness of our products, we have set up a quality control department to maintain an effective quality control system and internal guidelines covering all the major production stages from the procurement of raw materials to the delivery of products to our customers. Products that failed to pass our quality control requirements will not be delivered to our customers.

Quality control on raw materials

We consider the quality of raw materials supplied to us as one of the key criteria for selecting a supplier. This serves as an initial step to achieve and maintain a high quality of our products. Our procurement department generally conducts assessments on all suppliers once a month and review their quality and services. When raw materials are delivered to our production facilities, our quality control department will select samples of raw materials for inspection of their quality before commencing production.

Quality control on the production process

Our production department is responsible for conducting the management, examination and maintenance of our production equipment from time to time in order to ensure their proper functioning and safe operation, thus enhancing our productivity and product quality. We have a set of internal guidelines on the maintenance of equipment observed by the production department. During the Track Record Period, we carried out periodic inspection and maintenance of our machinery and equipment.

Our production department has a set of internal manuals on standards for testing product quality and these quality control standards are implemented at each stage of the production process. Our production staff is required to record the conditions of the work in progress. The production department also works closely with the quality control department throughout the production process to ensure each production process is carried in accordance with the quality standard.

Before we deliver our final products to customers, our quality control department conducts quality assessment on each batch of final products to check that the products have been produced in accordance with the applicable standards and approved production processes. Only those final products that have fulfilled all testing requirements are delivered to our customers.

As at the Latest Practicable Date, we had a team of 12 quality control staff members led by Mr. Zhu Jizhong, one of our senior management. For details of his experience and qualifications, please refer to the section headed “Directors and Senior Management — Senior Management” in this prospectus.

During the Track Record Period and up to the Latest Practicable Date, we were not subject to any material claims for compensation due to product flaws or defects.

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PRODUCT RESEARCH AND DEVELOPMENT

Product research and development team

We place great emphasis on our product research, know-how and development capabilities. Our main objective is to develop products which are competitive and unique. Our product research and development team comprises 12 core members from the production department who have extensive experience in metallised packaging paper production and some of them have worked with us for over six years.

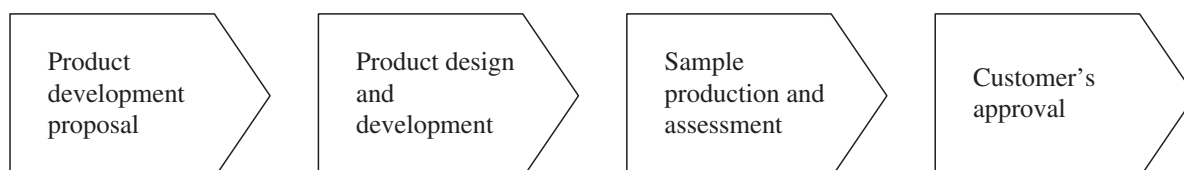
The team is led by the head of our product research and development team, who has been engaged in the metallised packaging paper manufacturing industry with a focus in production and know-how for over 15 years. He has been involved in the majority of the development of our technological achievements recognised by the Science and Technology Department of Hubei Province and our registered patents.

In addition, our experienced management team and technical staff with in-depth knowledge of the cigarette paper packaging and cigarette manufacturing industries in China, including Mr. Fu, Mr. Gong Longjie and Mr. Zhu Jizhong, would also participate in our research and development projects.

Our product research and development projects are generally initiated by our customers based on the customers' needs and demands. In order to be certain that the new products can meet the customer's needs, once we have developed new products, we will provide samples to the customers for quality testing.

Product development process

In order to ensure each product development project is properly and orderly executed, we have established the following process before implementing a project. The following flowchart sets out our product development process:



The product development proposal is first prepared by the sales department in accordance with the customer's needs and request. The proposal is then assessed by the production department, the quality control department and the procurement department for approval. Upon approval, the production department will commence on the product design, development and production of sample as stated in the product development proposal. The sample produced will be passed on for assessment by the production department, the quality control department and the sales department before delivering it to the client for final approval.

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Collaboration with tertiary institution

We seek to collaborate with tertiary institutions to strengthen our research and development capabilities. In April 2014, we entered into a four-year overall strategic cooperation framework agreement with the Wuhan Institute of Technology for innovation and technology information exchange, talents training and product development, under which the parties agree to jointly explore any future research and development projects and will enter into project agreements to set forth the detailed terms for future projects. The Wuhan Institute of Technology and we will co-own the intellectual property rights for any technologies or products developed and we will have the exclusive right to use any of those technologies or products. As at the Latest Practicable Date, there were no registered intellectual property right co-owned by the Wuhan Institute of Technology and us.

We further entered into a technical consulting service contract with the Wuhan Institute of Technology in April 2015, pursuant to which the Wuhan Institute of Technology had agreed, among other things, to provide technical consultation to us for six months for a consideration of RMB5,000. Under this collaboration, the Wuhan Institute of Technology can help us further improve our product development and innovation achievements.

Our technology capabilities

We have been carrying out technology research and development projects which aim at enhancing our metallised packaging paper processing technology. Among these, 19 of our research results had been recognised as “technological achievements” in Hubei Province by the Science and Technology Department of Hubei Province.

As at the Latest Practicable Date, we had 13 registered patents, consisting of seven utility patents and six invention patents, and three pending invention patent registrations. For details of our intellectual property rights, please refer to the section headed “Intellectual Property” set out in this section and the section headed “Statutory and General Information — B. Further Information about the Business of our Group — 2. Intellectual property rights” set out in Appendix V to this prospectus.

Research and development expenses

We make significant investments in research and development, particularly in connection with production technology and packaging material fields. Our research and development expenses amounted to RMB11.3 million, RMB10.8 million, RMB10.6 million and RMB1.9 million for the years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2016, respectively, representing 4.2%, 4.0%, 3.3% and 2.0% of our revenue and 22.1%, 21.8%, 15.9% and 8.9% of our gross profit, for the respective periods.

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COMPETITION

We primarily compete with domestic metallised packaging paper manufacturers, including packaging paper manufacturers specialising in cigarette packaging and integrated packaging paper manufacturers which produce cigarette packaging paper and other social products packages. We believe that by differentiating ourselves through product differentiation, improvement of product quality and maintenance of better customer services, we will be able to maintain our competitiveness.

In the cigarette packaging paper industry, we and other packaging paper manufacturers compete primarily in price, quality and production capacity, among other areas. We believe we can compete effectively in this marketplace due to our solid market presence in Hubei Province and a strong research and development team.

For further details of the competitive landscape of the cigarette packaging paper market in China, please refer to the section headed “Industry Overview” in this prospectus.

CERTIFICATIONS AND RECOGNITIONS

We have been granted a number of awards set out below:

Recognitions	Awarding body	Year of Issue
High Technology Enterprise	<ul style="list-style-type: none">• Science and Technology Department of Hubei• Department of Finance of Hubei Province• Hubei Provincial Office, SAT• Hubei Local Taxation Bureau	2013
Pilot Enterprise for Technological SME Innovation and Growth Projects in Yichang City	<ul style="list-style-type: none">• Department of Science and Technology of Yichang City• Department of Finance of Yichang City	2014
Certification	Issuing authority	Expiry Date
ISO 9001:2008	Beijing Sanxing 9000 Certification Body	31 August 2018

PROPERTIES

Land

As at the Latest Practicable Date, we owned two parcels of land located in Yichang, Hubei Province with a site area of approximately 39,073.6 sq.m. These two parcels of land are adjacent to

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each other on which our production facilities and staff dormitory building were built. We had obtained valid land use right certificates for these two parcels of land. Our PRC Legal Adviser confirmed that we have the valid land use rights on these two parcels and we are entitled to legally occupy and use such land.

Buildings

Properties in the PRC

As at the Latest Practicable Date, we owned four building properties with building ownership certificates, which had an aggregate gross floor area of approximately 21,245.8 sq.m. in Yichang, Hubei Province. All these four building properties are located on the two parcels of land owned by us. Of these, two building properties with an aggregate gross floor area of approximately 9,987.9 sq.m. are used as our production facilities; one building property with a gross floor area of approximately 2,310.3 sq.m. is used for production, research and development and office use; and the remaining building property with a gross floor area of approximately 8,947.7 sq.m. is used as a staff dormitory building. Our PRC Legal Adviser confirmed that we hold the valid title certificates and we are entitled to legally occupy and use such buildings. With respect to the staff dormitory building owned by us, we use approximately 3,080 sq.m. as dormitory for our own staff and lease out approximately 4,770 sq.m. (120 rooms) to Hubei Golden as dormitory for their staff at a monthly rent of RMB81,725. It does not provide for any specified term and one month's notice is required for termination by either party. Hubei Golden was a former shareholder of Hubei Mengke, our sole PRC operating subsidiary, and it is also one of our major customers. For more information on Hubei Golden, please refer to the section headed "History, Development and Reorganisation".

Buildings with defective titles

As at the Latest Practicable Date, we occupied four building properties with an aggregate floor area of approximately 1,271.5 sq.m., for which we had not obtained the relevant construction approvals and the building ownership certificates. These building properties are currently used by us as security office, laundry room, tool room, staff canteen and ancillary facilities. For these properties with defective titles, we are in the process of applying for the building ownership certificates from the relevant governmental authorities. As advised by our PRC Legal Adviser, based on the confirmations from the competent governmental authorities, there is no material legal impediment to obtain such building ownership certificates and we are entitled to legally occupy and use such buildings.

As at the Latest Practicable Date, we had not received any notice or warning in relation to the defective titles, nor we had been subject to any fines, penalties or other legal actions by government agencies in the PRC in relation to these four building properties. As advised by our PRC Legal Adviser, the maximum penalty which may be imposed on us by the relevant governmental authorities amounted to RMB39,229.6. Since these properties with defective titles are not crucial to our business operation, our Directors are of the view that these defective titles would not cause any material adverse effect to our operation.

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Properties in Hong Kong

As at the Latest Practicable Date, we leased one property with a gross floor area of approximately 779 sq.ft. in Hong Kong as our principal place of business in Hong Kong.

Further details of our certain property interests are set out in the valuation report prepared by DTZ Cushman & Wakefield Limited, an independent valuer, in Appendix III to this prospectus. Except for the property interests in the valuation report, no single property interest that forms part of its non-property activities has a carrying amount of 15% or more of total assets.

INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we were the registered owner of 13 patents. These include patents in respect of, amongst others:

- the method for producing UV (ultraviolet) cold transfer laser printing paper by utilising gravure steel plate, which shortens the production process;
- a nano-level film material for producing laser paper, which simplifies the production process and saves equipment and manpower;
- medium-free metallised paper production device, which improves the production efficiency and product quality; and
- the device reducing and treating VOCs (volatile organic compounds) in metallised papers, which reduces the content of VOC in metallised papers.

In addition, we had three pending patent registrations as at the Latest Practicable Date.

During the Track Record Period, there had not been any pending or threatened claims made against us, nor had there been any claims made by us against third parties, with respect to the infringement of intellectual property rights owned by us or third parties. As at the Latest Practicable Date, we were not aware of any infringement by us of any intellectual property rights owned by any third parties or by any third party of any intellectual property rights owned by us.

For further details of our intellectual property rights, please refer to the paragraph headed “Statutory and General Information — B. Further Information about the Business of our Group — 2. Intellectual property rights” set out in Appendix V to this prospectus.

RISK MANAGEMENT

We have devised a comprehensive risk management system to monitor the possible risks that we may encounter in our operations. Through our risk management system, we seek to minimise and

BUSINESS

protect losses that the risks may cause to our business. We have designed and implemented risk management policies to address various potential risks identified in relation to our operations. These risks include operation risks, financial risks and information risks. Our risk management system set forth procedures to identify, analyse, assess, mitigate and monitor various risks.

The risk management and assessment committee of the general manager office is responsible for overseeing our overall risk management system and the efficiency management department would assist the general manager office to identify the risks during their internal audit exercise. Each department carries out their own risk management identification exercises regularly. They are required to present the risks analysis, evaluation report to the general office. The general office will base on the analysis, discuss with relevant staff and determine the appropriate risk management strategies to effectively avoid, reduce, transform or absorb such risks.

EMPLOYEES

As at the Latest Practicable Date, we had 170 full time employees. The following table sets out the breakdown of our employees number by department as at the Latest Practicable Date:

Function	Number of employees
Production	
Operation	79
Research and development	12
Management and administration	29
Quality control	12
Procurement	4
Sales	13
Finance	6
Efficiency management	3
Warehousing	12
Total	<u>170</u>

We place great emphasis on training our employees such that we provide induction training for new employees, on-the-job training, team-building training and external training. We also organise various social activities occasionally to create a harmonious working environment for our employees.

During the Track Record Period and up to the Latest Practicable Date, we did not have any significant difficulty in recruiting employees nor had we faced any material labour disputes. During the Track Record Period, there had been no incidence of work stoppages, labour disputes, claims, litigation, administrative action or arbitration relating to labour disputes that had materially and adversely affected our operations.

Social Insurance and Housing Provident Funds Contributions

Pursuant to applicable PRC laws and regulations, employers are required to make contributions to, and employees are required to participate in, a number of social security funds, including funds for basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance, and the housing provident fund. For details, please refer to the section headed “Regulatory Overview” in this prospectus.

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During the Track Record Period, we had not made full contributions to the social insurance and housing provident funds based on the actual wages of our employees. During the Track Record Period, our total unpaid contributions for the social insurance and housing provident funds amounted to RMB721,796 and RMB109,109, respectively, and the applicable late payment fee which we may be ordered by the relevant government authorities to pay amounted to RMB243,163. The non-compliance was mainly caused by the following reasons: (i) actual wages of our employees being higher than the base wages reported for calculation of insurance and housing provident fund contributions; and (ii) inconsistent implementation or interpretation of the relevant regulations by local authorities in connection with the applicable contribution base of social insurance and housing provident funds in the PRC. In addition, some employees were reluctant to make full contribution according to their actual wages as they consider that the full contribution creates heavy financial burden to them.

On 10 March 2016, the labour union of Hubei Mengke convened a meeting attended by the representatives of the labour union and the labour union confirmed that it agreed to the amounts of social insurance and housing provident fund contributions paid by the Group and it would not lodge any complaint or claim against Hubei Mengke in relation to the social insurance and housing provident funds.

In order to mitigate the risks of this incident, our internal policy and guidelines have been revised to include (i) the designation of general manager office to process matters relating to social security insurance and housing provident fund contribution matters; and (ii) the calculation to be reviewed by our efficiency management department.

During the Track Record Period and up to the Latest Practicable Date, we had not received any complaints from our employees for insufficient contributions by us to any social insurance or housing provident fund nor had we received any order or notice from the relevant government authorities requesting contributions to any social insurance and housing provident funds. Our Directors confirmed that we would make contributions to the unpaid amounts in relation to the social insurance and housing provident funds upon receiving any order or notice from the relevant government authorities requesting such additional contributions. In August 2016, we had made the necessary filings with the relevant government authorities to report the actual wages for all employees and had made full contributions in relation to the social insurance and housing provident funds.

Based on the interviews with and written confirmations from the relevant competent government authorities, we were not involved in any investigation or imposed any administrative penalty by the relevant government authorities in connection with social insurance and housing provident funds contributions. As advised by our PRC Legal Adviser, based on the interviews with and written confirmations from the relevant competent government authorities, the risk that we will be ordered to make any further contributions or late payment fee for our previous outstanding payment by the relevant government authorities is remote. We did not make any provision in relation to these unpaid contributions.

In view of the above, Mr. Zhang, one of our Controlling Shareholders, undertook in the event that we are required to pay any of the abovementioned outstanding contributions, overdue charges or penalties imposed by the relevant regulators, Mr. Zhang would indemnify all of its obligations, losses and liabilities in relation to the above.

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ENVIRONMENTAL PROTECTION

We are subject to certain laws and regulations in relation to environmental protection. Please refer to the section headed “Regulatory Overview” in this prospectus for further information about these laws and regulations.

Pursuant to applicable PRC laws and regulations, enterprises are prohibited from discharging industrial waste water and sewage to waters without a pollutants discharge permit and commencing construction or production without relevant government approvals. During the Track Record Period, we had commenced production and construction projects before obtaining the pollutants discharge permit and the relevant government approvals required for our operations. We had rectified this non-compliance by obtaining the pollutants discharge permit on 18 January 2016 and the relevant government approvals. The maximum penalty for commencing production without obtaining the pollutants discharge permit may amount to up to RMB100,000. The reasons for the non-compliance mainly include: (i) our local management at the relevant time being unfamiliar with the relevant regulatory requirements; and (ii) inconsistent implementation or interpretation of the relevant regulations by local authorities in connection with discharges of pollutants. As advised by our PRC Legal Adviser, based on the interview from the relevant competent government authority, we were in compliance with the relevant environmental laws and regulations upon the rectification and the risk that we will be penalised by the relevant competent government authority in connection with the above non-compliance incidents is remote.

During the Track Record Period and up to the Latest Practicable Date, we had not received any notice or warning in relation to pollution in respect of our production, nor we had been subject to any fines, penalties or other legal actions by government agencies in the PRC resulting from any non-compliance with any environmental protection laws in the PRC and, so far as our Directors are aware after making all reasonable enquiries, there was no threatened or pending action by any PRC environmental government agencies in respect thereof.

In order to mitigate the recurrence of the above non-compliance, we have formulated environmental protection policies and guidelines to enhance our environmental protection management. New measures include forming an environmental protection committee to oversee and supervise our environmental protection management and to monitor the implementation of the environmental protection policies and guidelines.

In view of the above, Mr. Zhang, one of our Controlling Shareholders, undertook in the event that we are required to pay any of the abovementioned charges or penalties imposed by the relevant regulators, Mr. Zhang would indemnify all of its obligations, losses and liabilities in relation to the above.

OCCUPATIONAL SAFETY AND HEALTH MATTERS

We are subject to the PRC Environmental Protection Law, Product Quality Law, PRC Labour Law and other relevant laws, administrative regulations, national standards and industrial standards which stipulate the requirements to maintain safe production conditions and to protect the occupational health of employees.

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Pursuant to the above requirements, we require new employees to participate in safety training to familiarise themselves with the relevant safety rules and procedures. Our equipment and machineries are also maintained regularly to ensure they are safe to be operated. We also implement safety measures at our production facilities to ensure compliance with applicable regulatory requirements and to minimise the risk of injury for our employees.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material or prolonged stoppages of production due to equipment failure and we had not experienced any severe accidents during our production process. As advised by our PRC Legal Adviser, based on the written confirmation from the relevant competent government authority, we have complied with all applicable laws, regulations in the PRC in relation to occupational safety and health matters.

INSURANCE

In addition to the government-mandated social insurance and housing fund schemes, we maintain insurance for all of our properties, manufacturing facilities, plant and machinery, equipment and inventories against damage caused by accidents. We believe that our insurance coverage is adequate and is in line with industry practice. During the Track Record Period and up to the Latest Practicable Date, we had not had any material claims or liabilities arising from any accidents relating to our operations, nor had we experienced any material production interruptions or product liability incidents.

During the Track Record Period and up to the Latest Practicable Date, we had not made, nor had we been the subject of, any insurance claims which are of a material nature to us.

LEGAL PROCEEDINGS

We may from time to time be subject to various legal or administrative proceedings arising in the ordinary course of business, such as proceedings in respect of disputes with suppliers or customers and labour disputes. During the Track Record Period and up to the Latest Practicable Date, there had not been any material legal proceedings, regulatory inquiries or investigations made or pending or threatened against us.

REGULATORY COMPLIANCE

As at the Latest Practicable Date, as advised by our PRC Legal Adviser, we had obtained the requisite governmental licences, permits and certifications and renewals which are necessary for its operations, and had complied, in all material aspects, with all applicable laws and regulations.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any non-compliance incidents that had or would reasonably be expected to have a material financial or operational impact on our business or would negatively affect our Directors' or senior management's ability or tendency to operate in a compliant matter.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme), Happily Soar, which is owned by Mr. Zhang as to 76%, will hold approximately 56.25% of the issued share capital of our Company and each of Happily Soar and Mr. Zhang is regarded as a Controlling Shareholder under the Listing Rules.

For details, please refer to the section headed “History, Development and Reorganisation” in this prospectus.

RULE 8.10 OF THE LISTING RULES

Each of our Controlling Shareholders, our Directors and their respective close associates does not have any interest apart from our Group’s business which competes or is likely to compete, directly or indirectly, with our Group’s business and which requires disclosure pursuant to Rule 8.10 of the Listing Rules.

In addition, each of our Controlling Shareholders has given a non-competition undertaking in favour of our Group. For details, please refer to the paragraph headed “Non-Competition Undertaking” under this section below.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors do not expect that there will be any significant transactions between our Group and our Controlling Shareholders upon or shortly after the Listing.

Our Directors believe that our Group is capable of carrying on our business independent of, and does not place undue reliance on, our Controlling Shareholders or their respective close associates, taking into consideration the following factors:

Management independence

We have an independent management team comprising our executive Director and senior management who have substantial experience in our business. None of the members of our management team is connected with our Controlling Shareholders. Our management team is able to implement our Group’s policies and strategies and perform its roles in our Company independently.

We aim at establishing and maintaining a strong and independent Board to oversee our Group’s business. Our Board consists of five Directors, comprising one executive Director, one non-executive Director and three independent non-executive Directors. The three independent non-executive Directors have extensive experience in different areas or professions. The main function of our Board includes the approval of our overall business plans and strategies, monitoring the implementation of these plans and strategies and the management of our Group.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Each of our Directors is aware of his fiduciary duties as a director which require, among other things, that he acts for the benefit and in the best interests of our Company and Shareholders as a whole, and does not allow any conflict between his duties as a Director and his personal interest to exist. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant Board meeting in respect of such transaction and shall not be counted in the quorum. Further, our independent non-executive Directors will bring independent judgment to the decision making process of our Board. Our senior management also possesses in-depth experience and understanding of the industry in which our Group is engaged. In this regard, our Directors are of the view that our Group can be managed independently notwithstanding that Mr. Zhang, being our Controlling Shareholder, is our Chairman and our non-executive Director.

Operational independence

We have established our own organisational structure comprising individual departments, each with specific areas of responsibilities. We have not shared our operational resources, such as suppliers, customers, marketing, sales and general administration resources with our Controlling Shareholders and/or their respective close associates.

Further, we hold all relevant licences necessary to carry on businesses and have sufficient capital, equipment and employees to operate our businesses independently. We have also established various internal controls procedures to facilitate the effective operation of our business.

Our Group has not entered into any connected transaction with any of our Controlling Shareholders that will continue after the Listing.

Financial independence

Our Group has our own accounting systems, accounting and finance department and independent treasury function for cash receipts and payment. We make financial decisions according to our own business needs.

Our accounting and finance department will be responsible for the financial reporting, liaising with our auditors, reviewing our cash position and negotiating and monitoring our bank loan facilities and drawdowns. As at 31 May 2016, the Group's aggregate amounts due to Mr. Zhang and Yichang Kunxiang amounted to approximately RMB9.9 million. The above amounts will be settled prior to the Listing. Our Directors also confirmed that, as at the Latest Practicable Date, our Group did not provide any loans, guarantees or pledges to our Controlling Shareholders or their respective close associates.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

In view of our Group's internal resources and the estimated net proceeds from the Share Offer, our Directors believe that our Group will have sufficient capital for its financial needs without dependence on our Controlling Shareholders and their respective close associates. Our Directors further believe that, upon Listing, our Group is capable of obtaining financing from external sources independently without the support of our Controlling Shareholders and their respective close associates.

NON-COMPETITION UNDERTAKING

Our Controlling Shareholders as covenantors (each a "**Covenantor**", collectively, the "**Covenantors**") executed the Deed of Non-Competition in favour of our Company (for ourselves and as trustee for and on behalf of our subsidiaries) and confirmed that none of them is engaged in any business which, directly or indirectly, competes or is likely to compete with the business of our Company and any of our subsidiaries, or has any interest in such business.

In accordance with the Deed of Non-Competition, each Covenantor undertakes that, from the Listing Date and ending on the occurrence of the earliest of (a) the date on which our Shares cease to be listed on the Main Board; or (b) the date on which the Covenantors cease to be a Controlling Shareholder; or (c) the date on which the Covenantors beneficially own or become interested jointly or severally in the entire issued share capital of our Company:

1. Non-competition

He/It will not, and will use his/its best endeavours to procure any Covenantor, his/its close associates (collectively, the "**Controlled Persons**") and any company directly or indirectly controlled by the Covenantor (the "**Controlled Company**") not to, either on his/its own or in conjunction with any body corporate, partnership, joint venture or other contractual agreement, whether directly or indirectly, whether for profit or not, carry on, participate in, hold, engage in, be interested in, acquire or operate (in each case whether as a shareholder, director, partner, agent, employee, or otherwise, and whether for profit, reward or otherwise), or provide any form of assistance to any person, firm or company (except members of our Group) to conduct any business which, directly or indirectly, competes or is likely to compete with the business of our Company or any of our subsidiaries in Hong Kong, the PRC and such other places as our Company or any of our subsidiaries may conduct or carry on business from time to time, including but not limited to the manufacture of metallised packaging paper for the cigarette package manufacturers in the PRC (the "**Restricted Business**").

The Deed of Non-Competition does not apply if the Controlled Persons and Controlled Company in aggregate own any interest not exceeding 5% of the issued shares in any company conducting any Restricted Business (the "**Relevant Company**"), and the Relevant Company is listed on any recognised stock exchange (as defined under the SFO), notwithstanding that the business conducted by the Relevant Company constitutes or might constitute competition with the business of our Company or any of our subsidiaries, provided that:

- (a) the shareholding of any one holder (and his/its close associate, if applicable) in the Relevant Company is more than that of the Controlled Persons and the Controlled Company in aggregate at any time;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (b) the total number of the relevant Covenantors' representatives on the board of directors of the Relevant Company is not significantly disproportionate with respect to his/its shareholding in the Relevant Company; and
- (c) the Covenantors and/or their respective close associates, whether acting singly or jointly, are not entitled to appoint a majority of the directors of the Relevant Company or otherwise participate in or be involved in the management of the Relevant Company.

2. **New business opportunity**

If any Covenantor and/or any Controlled Company is offered or becomes aware of any business opportunity directly or indirectly engages in or owns a Restricted Business (the “**New Business Opportunity**”):

- (a) he/it shall within 10 days notify our Company of such New Business Opportunity in writing and refer the same to our Company for consideration, and shall provide the relevant information to our Company in order to enable us to make an informed assessment of such opportunity; and
- (b) he/it shall not, and shall procure that his/its Controlled Persons or Controlled Companies not to, invest or participate in any project or New Business Opportunity, unless such project or New Business Opportunity shall have been rejected by our Company and the principal terms of which the Covenantor or his/its Controlled Persons or Controlled Companies invest or participate in are no more favourable than those made available to our Company.

A Covenantor may only engage in the New Business Opportunity if (a) a notice is received by the Covenantor from our Company confirming that the New Business Opportunity is not accepted and/or does not constitute competition with the Restricted Business (the “**Non-acceptance Notice**”); or (b) the Non-acceptance Notice is not received by the Covenantor within 30 days after the proposal of the New Business Opportunity is received by our Company.

Any Director who has an actual or potential material interest in the New Business Opportunity shall abstain from attending (unless their attendance is specifically requested by the remaining non-interested Directors) and voting at, and shall not count towards the quorum for, any meeting or part of a meeting convened to consider such New Business Opportunity.

Our Board (including our independent non-executive Directors) will be responsible for reviewing and considering whether or not to take up a New Business Opportunity referred by a Covenantor or Controlled Company or whether or not the New Business Opportunity constitutes competition with the Restricted Business. The factors that will be taken into consideration by our Board in making the decision include whether it is in line with the overall interests of our Shareholders.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

3. Corporate governance measures

We will adopt the following measures to strengthen our corporate governance practice and to safeguard the interests of our Shareholders:

- (a) the Articles provide that a Director shall abstain from attending the Board meetings (nor shall he be counted in the quorum) and voting on any resolutions of our Board approving any contracts or arrangements or other proposals in which he or any of his close associates is materially interested;
- (b) our independent non-executive Directors will conduct annual review on the compliance of the Deed of Non-Competition by our Controlling Shareholders and the enforcement thereby by our Company;
- (c) our Controlling Shareholders have undertaken and agreed to provide all information necessary for the annual review by our independent non-executive Directors on the compliance with and enforcement of the Deed of Non-Competition;
- (d) our Company will disclose decisions on matters reviewed by our independent non-executive Directors in relation to the compliance with and enforcement of the Deed of Non-Competition either through our Company's annual report or by way of announcements to the public;
- (e) our Controlling Shareholders have undertaken and agreed to make an annual declaration on the compliance with and enforcement of the Deed of Non-Competition in our Company's annual report;
- (f) our independent non-executive Directors will be responsible for deciding whether or not to allow any Controlling Shareholder and/or his/its close associates to involve or participate in a Restricted Business and if so, any conditions to be imposed; and
- (g) our independent non-executive Directors may appoint independent financial advisers and other professional advisers as they consider appropriate to advise them on any matter(s) relating to the non-competition undertaking or connected transaction(s) at the cost of our Company.

The Deed of Non-Competition and the rights and obligations thereunder are conditional upon (a) the Listing Committee granting the listing of, and the permission to deal in, our Shares, as described in this prospectus, and (b) the Listing and dealings in our Shares on the Main Board taking place.

As the Covenantors have given non-competition undertakings in favour of our Company, and 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 they are capable of carrying on our Group's business independently of the Covenantors following the Listing.

DIRECTORS AND SENIOR MANAGEMENT

SUMMARY OF DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Present Position	Date of Appointment as Director / Senior Management	Date of joining our Group	Roles and Responsibilities	Relationship with other Director(s), and/or Senior Management
Directors						
Mr. ZHANG Weixiang (張偉翔)	53	Chairman and non-executive Director	8 January 2016	21 December 2014 ⁽¹⁾	Strategic planning and formulation of business strategies of our Group	N/A
Mr. FU Mingping (付明平)	51	Chief executive officer and executive Director, and general manager of Hubei Mengke	14 March 2016	8 January 2010	Strategic planning and overall management and supervision of operations of our Group	N/A
Mr. CHENG Tai Kwan Sunny (鄭大鈞)	44	Independent non-executive Director	3 November 2016	3 November 2016	Giving independent advice to the Board	N/A
Mr. TAN Yik Chung Wilson (陳奕聰)	47	Independent non-executive Director	3 November 2016	3 November 2016	Giving independent advice to the Board	N/A
Mr. YICK Ting Fai Jeffrey (易庭暉)	32	Independent non-executive Director	3 November 2016	3 November 2016	Giving independent advice to the Board	N/A
Senior Management						
Mr. GONG Longjie (龔隆杰)	52	Deputy general manager of Hubei Mengke	18 March 2012	18 March 2012	Overseeing the financial management of our Group	N/A
Mr. ZHU Jizhong (朱吉忠)	52	Deputy general manager of Hubei Mengke	4 January 2006	4 January 2006	Overseeing the production and quality control of our Group	N/A

Note:

- (1) On 12 November 2012, Hengqin Jiachuang and Hubei Golden entered into an equity transfer agreement, pursuant to which Hengqin Jiachuang agreed to acquire from Hubei Golden 70% of the equity interest in Hubei Mengke. At the time of the acquisition, Mr. Zhang held 60% of the equity interest of Hengqin Jiachuang. As the ultimate beneficial owner of the controlling interest in Hubei Mengke, Mr. Zhang has been involved in the strategic planning and formulation of business strategies of our Group since then. Hubei Mengke appointed Mr. Zhang as the chairman of its board of directors on 21 December 2014.

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Present Position	Date of Appointment as Director / Senior Management	Date of joining our Group	Roles and Responsibilities	Relationship with other Director(s), and/or Senior Management
Mr. YANG Tao (楊濤)	38	Deputy director of administration of Hubei Mengke	7 August 2015	12 March 2012	Overseeing the human resources and administrative management of our Group	N/A
Mr. LAU Ka Ming (劉嘉銘)	33	Chief financial officer and company secretary	16 February 2016	16 February 2016	Responsible for accounting and financial matters as well as company secretarial matters of our Group	N/A

DIRECTORS

Our Board consists of five Directors, comprising one executive Director, one non-executive Director and three independent non-executive Directors. The main functions of our Board include the approval of our Group's overall business plans and strategies, monitoring the implementation of these policies and strategies and the management of our Company as well as overseeing the corporate governance functions of our Company.

Chairman and non-executive Director

Mr. ZHANG Weixiang (張偉翔) (formerly known as **ZHANG Jue (張覺)**), aged 53, was appointed as our director on 8 January 2016. He was redesignated as our non-executive Director and appointed as our chairman on 14 March 2016. He is also a director and the chairman of the board of directors of Hubei Mengke.

On 12 November 2012, Hengqin Jiachuang and Hubei Golden entered into an equity transfer agreement, pursuant to which Hengqin Jiachuang agreed to acquire from Hubei Golden 70% of the equity interest in Hubei Mengke. At the time of the acquisition, Mr. Zhang held 60% of the equity interest of Hengqin Jiachuang. As the ultimate beneficial owner of the controlling interest in Hubei Mengke, Mr. Zhang has been involved in the strategic planning and formulation of business strategies of our Group since then. On 21 December 2014, Hubei Mengke appointed Mr. Zhang as the chairman of its board of directors.

Mr. Zhang has over 20 years of experience in the tobacco material industry. He graduated from secondary school in June 1979. Mr. Zhang started engaging in the tobacco material industry when he established Zhuhai Huashi Fragrance Company Limited (珠海市華仕香料有限公司) in April 1995, which engages in the trading of tobacco flavour essence. He is a director of the company and has been

DIRECTORS AND SENIOR MANAGEMENT

involved in the day-to-day management and operations of the company. Through operating his trading business, Mr. Zhang has established and maintained business relationships with different tobacco manufacturers in the PRC, and accumulated extensive experience in the tobacco material industry in the PRC over the years.

Executive Director

Mr. FU Mingping (付明平), aged 51, was appointed as our executive Director and our chief executive officer on 14 March 2016. Mr. Fu joined our Group in January 2010 and has been the general manager of Hubei Mengke since then. He is also a director of Hubei Mengke. He is primarily responsible for the strategic planning and overall management and supervision of operations of our Group.

Mr. Fu has over 28 years of experience in the cigarette packaging material industry. Prior to joining our Group, he engaged in sales management in Hubei Province Danyang Cigarette Material Factory (湖北省當陽卷煙材料廠) from June 1987 to June 2002 and worked as a sales director in Hubei Golden from July 2002 to December 2009. He graduated from a course in printing engineering in Hunan University of Technology (湖南工業大學) in 2007.

Independent non-executive Directors

Mr. CHENG Tai Kwan Sunny (鄭大鈞), aged 44, was appointed as our independent non-executive Director on 3 November 2016. He is primarily responsible for giving independent advice to the Board.

Mr. Cheng obtained a degree of Bachelor of Business Administration in Accounting from The Hong Kong University of Science and Technology in November 1996 and a degree of Master of Science from The Chinese University of Hong Kong in December 2006. He completed the Kellogg-HKUST Executive MBA Program and was awarded a degree of Master of Business Administration from Northwestern University and The Hong Kong University of Science and Technology in December 2009. Mr. Cheng was admitted as an associate and a fellow of The Association of Chartered Certified Accountants in July 1999 and July 2004, respectively. He was also admitted as a member of the Hong Kong Institute of Certified Public Accountants (previously known as Hong Kong Society of Accountants) in September 2001.

Mr. Cheng has years of experience in management, financial reporting and management accounting. He worked for subsidiaries of Li & Fung Limited (stock code: 0494), a company listed on the Stock Exchange, from January 2005 to June 2012. He has been appointed as an independent non-executive Director of Shihua Development Company Limited (formerly known as Starlight International Holdings Limited) (stock code: 0485), a company listed on the Stock Exchange, since July 2014. Mr. Cheng is also currently the chief executive officer of a private group principally engaged in the business of electrical product trading.

Mr. Cheng has been a member of the Chinese People's Political Consultative Conference of Enping City, Guangdong Province (中國人民政治協商會議廣東省恩平市委員會) since November 2011.

DIRECTORS AND SENIOR MANAGEMENT

Mr. TAN Yik Chung Wilson (陳奕驄), aged 47, was appointed as our independent non-executive Director on 3 November 2016. He is primarily responsible for giving independent advice to the Board.

Mr. Tan obtained a diploma in Accounting from Hong Kong Shue Yan College (currently known as Hong Kong Shue Yan University) in July 1992 and a degree of Master of Business Administration from Northeast Louisiana University (currently known as University of Louisiana at Monroe) in August 1997.

Mr. Tan has over 20 years of experience in auditing and accounting. He was admitted as an associate and a fellow of The Association of Chartered Certified Accountants in January 1999 and November 2003, respectively. He is currently a practising certified public accountant in Hong Kong. From June 1994 to March 1997, Mr. Tan worked in Kwan Wong Tan & Fong as an accountant. From March 1997 to April 1999, he joined PricewaterhouseCoopers (formerly known as Coopers & Lybrand) as a senior associate. Since March 2000, Mr. Tan has joined PKF Hong Kong and is currently a partner of the firm.

Mr. YICK Ting Fai Jeffrey (易庭暉), aged 32, was appointed as our independent non-executive Director on 3 November 2016. He is primarily responsible for giving independent advice to the Board.

Mr. Yick obtained a degree of Bachelor of Science from The Hong Kong Polytechnic University in December 2007. He subsequently obtained a Juris Doctor degree and completed the Postgraduate Certificate in Laws (PCLL) from The Chinese University of Hong Kong in December 2009 and July 2010, respectively. Mr. Yick was admitted as a solicitor in Hong Kong in December 2012 and has been a member of The Law Society of Hong Kong since then. Mr. Yick worked as an associate solicitor at Edwards Wildman Palmer from January 2013 to April 2013, upon finishing his traineeship at the firm. From April 2013 to February 2015, he worked in Loong & Yeung as a solicitor. Since February 2015, he has joined Cheung & Choy Solicitors as an associate, with emphasis on corporate finance practice.

Mr. Yick had been the company secretary of Hao Tian Development Group Limited (stock code: 0474) from April 2015 to July 2015 and he has been an independent non-executive Director of China Eco-Farming Limited (stock code: 8166) since September 2014. He was admitted as an associate member of The Hong Kong Institute of Directors in October 2015.

Save as disclosed above, each of the Directors 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.

Save as disclosed above, each of our Directors confirms with respect to him that: (a) he does not hold other positions in our Company or other members of our Group as at the Latest Practicable Date; (b) he does not have any relationship with any other Directors, senior management, substantial shareholder or controlling shareholder of our Company as at the Latest Practicable Date; (c) he does not have any interests in our Shares within the meaning of Part XV of the SFO, save as disclosed in the section headed “Statutory and General Information — C. Further Information about our Directors and Substantial Shareholders — 1. Disclosure of interests” in Appendix V to this prospectus; (d) he does not have any interest in any business which competes or is likely to compete, directly or indirectly, with us, which is discloseable under the Listing Rules; and (e) to the best knowledge,

DIRECTORS AND SENIOR MANAGEMENT

information and belief of our Directors having made all reasonable enquiries, there is no additional information relating to our Directors that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and no other matter with respect to their appointments that needs to be brought to the attention of our Shareholders as at the Latest Practicable Date.

SENIOR MANAGEMENT

Mr. GONG Longjie (龔隆杰), aged 52, joined our Group on 18 March 2012 and has been the deputy general manager of Hubei Mengke since then. He is also a director of Hubei Mengke. He is primarily responsible for overseeing the financial management of our Group.

Mr. Gong has more than 25 years of experience in finance and accounting. He was awarded the qualification of senior accountant by Zhigai Group Office of Hubei Province (湖北省職改小組辦公室) in December 2001. Prior to joining our Group, Mr. Gong worked as the financial controller of Guangxi Wuzhou Jiahua Company Limited from January 2005 to November 2008 and he engaged in financial management in Hubei Golden from April 2009 to March 2012.

Mr. ZHU Jizhong (朱吉忠), aged 52, joined our Group on 4 January 2006 and has been the deputy general manager of Hubei Mengke since then. He is primarily responsible for overseeing the production and quality control of our Group.

Mr. Zhu completed a course in Applied Arts in Hubei Radio & TV University (湖北廣播電視大學) in December 2000. Prior to joining our Group, he worked in Hubei Danyang Cigarette Material Factory (湖北省當陽卷煙廠) from September 1983 to July 2004 with the last position as the head of production department. He then engaged in production management in Hubei Golden from August 2004 to December 2004 and Danyang Liantong Printing Industry Company Limited (當陽金三峽聯通印務有限公司) from December 2004 to December 2005, respectively.

Mr. YANG Tao (楊濤), aged 38, joined our Group on 12 March 2012 as the manager of customer services department and was appointed as the deputy director of administration of Hubei Mengke on 7 August 2015. He is primarily responsible for overseeing the human resources and administrative management of our Group.

Mr. Yang obtained a degree of Bachelor of International Economics and Trading and a degree of Master of Business Administration from Wuhan University of Science and Technology (武漢科技大學) in June 2001 and June 2005, respectively. Prior to joining our Group, he engaged in corporate management in Hubei Golden from March 2005 to March 2012.

Mr. LAU Ka Ming (劉嘉銘), aged 33, was appointed as our chief financial officer and our company secretary on 16 February 2016. He is responsible for accounting and financial matters as well as company secretarial matters of our Group.

He obtained a degree of Bachelor of Business Administration in Accounting from The Hong Kong University of Science and Technology in November 2005. He is a member of The Hong Kong Institute of Certified Public Accountants and a member of CPA Australia.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Lau has over 10 years of experience in auditing, accounting and financial reporting. He worked as a senior accountant in PKF Hong Kong from June 2005 to June 2009, a senior associate in BDO Limited from December 2009 to May 2010 and a senior associate in PricewaterhouseCoopers from June 2010 to March 2011. From May 2011 to February 2016, he worked as a senior financial accountant in HKS Management Services Limited, a private group of companies engaged in the garment industry.

Each of the senior management 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.

COMPANY SECRETARY

Mr. LAU Ka Ming (劉嘉銘), aged 33, was appointed as the company secretary of our Company on 16 February 2016. Mr. Lau is also the chief financial officer of our Group and a member of our senior management. For his biography, please refer to the paragraph headed “Senior Management” above.

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This will normally mean that at least two of its executive directors must be ordinarily resident in Hong Kong.

Since our business and operations are primarily based in the PRC, members of our senior management team are and will be expected to continue to be based in the PRC. In addition, it would be practically difficult and commercially unnecessary for us to relocate our executive Director to Hong Kong and/or appoint additional executive Directors who are ordinarily resident in Hong Kong. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 8.12 of the Listing Rules. Further details are set out in the section headed “Waiver from Strict Compliance with the Listing Rules” in this prospectus.

BOARD COMMITTEES

Audit committee

We established an audit committee with written terms of reference in compliance with Rule 3.22 of the Listing Rules and paragraph C3.3 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules pursuant to a resolution of our Directors passed on 3 November 2016. The primary duties of our audit committee are, among others, to make recommendation to our Board on the appointment, reappointment and removal of external auditor, review the financial statements and material advice in respect of financial reporting, oversee our financial reporting process, internal control, risk management systems and audit process and perform other duties and responsibilities assigned by our Board.

DIRECTORS AND SENIOR MANAGEMENT

At present, our audit committee comprises of Mr. Tan Yik Chung Wilson, Mr. Cheng Tai Kwan Sunny and Mr. Yick Ting Fai Jeffrey, all being our independent non-executive Directors. Mr. Tan Yik Chung Wilson is the chairman of our audit committee.

Remuneration committee

We established a remuneration committee on 3 November 2016 with written terms of reference in compliance with Rule 3.26 of the Listing Rules and paragraph B1.2 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of our remuneration committee are, among others, to review and approve the management's remuneration proposals, make recommendations to our Board on the remuneration package of our Directors and senior management and ensure none of our Directors determine their own remuneration.

At present, our remuneration committee comprises Mr. Yick Ting Fai Jeffrey and Mr. Cheng Tai Kwan Sunny, being our independent non-executive Directors as well as Mr. Fu, being our executive Director and chief executive officer. Mr. Yick Ting Fai Jeffrey is the chairman of our remuneration committee.

Nomination committee

We established a nomination committee on 3 November 2016 with written terms of reference in compliance with paragraph A5.2 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of our nomination committee are, among others, to review the structure, size and composition of our Board, and select or make recommendations on the selection of individuals nominated for directorships.

At present, our nomination committee comprises Mr. Cheng Tai Kwan Sunny and Mr. Tan Yik Chung Wilson, being our independent non-executive Directors and Mr. Fu, being our executive Director and chief executive officer. Mr. Cheng Tai Kwan Sunny is the chairman of our nomination committee.

COMPLIANCE ADVISER

We have appointed RaffAello Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules for the term commencing on the Listing Date and ending on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the Listing Date. Such appointment may be subject to extension by mutual agreement.

Pursuant to Rule 3A.23 of the Listing Rules, we shall seek advice from our compliance adviser on a timely basis in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;

DIRECTORS AND SENIOR MANAGEMENT

- where we propose to use the proceeds of the Listing in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate to a material extent from any forecast, estimate, or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

REMUNERATION POLICY

Our Directors and senior management receive compensation in the form of salaries. We also reimburse them for expenses which are necessarily and reasonably incurred in relation to all business and affairs carried out by us from time to time or for providing services to us or executing their functions in relation to our business and operations. We regularly review and determine the remuneration and compensation package of our Directors and senior management by reference to, among other things, market level of salaries paid by comparable companies, the respective responsibilities of our Directors and our performance.

After the Listing, our Directors and senior management may also receive options to be granted under the Share Option Scheme.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

For the three years ended 31 December 2013, 2014, 2015 and the five months ended 31 May 2016, the aggregate remuneration including basic salaries, allowance, other benefits and contribution to employee social security plans, paid to our Directors was approximately RMB0.2 million, RMB0.2 million, RMB0.8 million and RMB0.3 million, respectively.

Among our Group's five highest paid individuals for the years ended 31 December 2013, 2014, 2015 and the five months ended 31 May 2016, one, nil, one and one of them was our Directors. The aggregate remuneration including basic salaries, allowance, other benefits and contribution to employee social security plans, paid to the remaining four, five, four and four individuals, respectively, for the years ended 31 December 2013, 2014, 2015 and the five months ended 31 May 2016 was approximately RMB1.3 million, RMB1.5 million, RMB1.5 million and RMB0.7 million, respectively.

Save as disclosed in this prospectus, no other emoluments have been paid, or are payable, by us to our Directors and the five highest paid individuals in respect of the three years ended 31 December 2013, 2014, 2015 and the five months ended 31 May 2016.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary bonus) for the seven months ending 31 December 2016 will be approximately RMB0.5 million. Upon completion of the Listing, our remuneration committee will make recommendations on the remuneration of our Directors taking into account the performance of our Directors and market standards and the remuneration will be subject to approval by our Shareholders. Accordingly, the historical remuneration to our Directors during the Track Record Period may not reflect the future levels of remuneration of our Directors.

DIRECTORS AND SENIOR MANAGEMENT

During the Track Record Period, no remuneration was paid by us to, or received by, our Directors or the five highest individuals as an inducement to join or upon joining us or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Track Record Period.

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

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. Further information on the Share Option Scheme is set forth in the section headed "Statutory and General Information — D. Share Option Scheme" in Appendix V to this prospectus.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme), each of the following persons will have an interest or short position in our Shares or our underlying Shares which would fall to be disclosed to us and the 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 our Company or any other member of our Group:

Name	Capacity / Nature of interest	Number of Shares held immediately after completion of the Capitalisation Issue and the Share Offer <i>(Note 1)</i>	Approximate percentage of interests in our Company immediately after completion of the Capitalisation Issue and the Share Offer
Happily Soar <i>(Note 2)</i>	Beneficial owner	281,252,000(L)	56.25%
Mr. Zhang <i>(Note 2)</i>	Interest in a controlled corporation	281,252,000(L)	56.25%
Liberal Rite <i>(Note 3)</i>	Beneficial owner	93,748,000(L)	18.75%
Mr. Shiu <i>(Note 3)</i>	Interest in a controlled corporation	93,748,000(L)	18.75%

Notes:

- (1) The letter “L” denotes a person’s “long position” (as defined under Part XV of the SFO) in such Shares.
- (2) The issued share capital of Happily Soar was owned as to 76% by Mr. Zhang. Under the SFO, Mr. Zhang is deemed to be interested in the same number of Shares held by Happily Soar. Ms. Huang Feixia is the spouse of Mr. Zhang and is deemed to be interested in the Shares indirectly held by Mr. Zhang.
- (3) The issued share capital of Liberal Rite is wholly owned by Mr. Shiu. Under the SFO, Mr. Shiu is deemed to be interested in the same number of Shares held by Liberal Rite. Ms. Lai Pik Chu is the spouse of Mr. Shiu and is deemed to be interested in the Shares indirectly held by Mr. Shiu.

Save as disclosed above, we are not aware of any person who will, immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares that may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme), have an interest or short position in Shares or underlying Shares which fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

SHARE CAPITAL

SHARE CAPITAL

The tables below set forth information with respect to the share capital of our Company after completion of the Capitalisation Issue and the Share Offer.

Authorised Share Capital	<i>HK\$</i>
<u>1,000,000,000</u> Shares of HK\$0.01 each	<u>10,000,000</u>

Without taking into account any Shares that may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme, the issued share capital of our Company immediately after completion of the Capitalisation Issue and the Share Offer will be as follows:

Shares issued or to be issued, fully paid or credited as fully paid	<i>HK\$</i>
100 Shares in issue as at the Latest Practicable Date	1
374,999,900 Shares to be issued pursuant to the Capitalisation Issue	3,749,999
<u>125,000,000</u> Shares to be issued pursuant to the Share Offer	<u>1,250,000</u>
<u>500,000,000</u> Total	<u>5,000,000</u>

ASSUMPTIONS

The above tables assume that the Share Offer becomes unconditional and Shares are issued pursuant to the Share Offer. It takes no account of any Shares which may be issued or repurchased by us pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

RANKING

The Offer Shares are ordinary shares in the share capital of our Company and rank equally with all Shares currently in issue or to be issued, in particular, will rank 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 this prospectus.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. 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.

We did not have any outstanding share option(s), warrant(s), convertible instrument(s), or similar right(s) convertible into our Shares as at the Latest Practicable Date.

SHARE CAPITAL

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 Shares with an aggregate nominal amount not exceeding the sum of:

- (a) 20% of the aggregate nominal amount of the share capital of our Company in issue immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares that may be allotted and issued upon the exercise of the options which may be granted under the Share Option Scheme); and
- (b) the aggregate nominal amount of the share capital of our Company which may be purchased by our Company pursuant to the authority granted to our Directors under the general mandate to repurchase Shares referred to below.

Our Directors may, in addition to our Shares which they are authorised to issue under the general mandate, allot, issue and deal in our Shares pursuant to a rights issue, scrip dividend schemes or similar arrangements providing for the allotment of Shares in lieu of the whole or in any part of any cash dividend in accordance with the Articles, or upon the exercise of any options which may be granted under the Share Option Scheme or under the Capitalisation Issue and the Share Offer.

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

- (a) the conclusion of our next annual general meeting; or
- (b) the date by which our next annual general meeting is required by the Articles or any applicable law(s) to be held; or
- (c) the passing of an ordinary resolution of our Shareholders in a general meeting revoking or varying or varying the authority given to our Directors.

Further details of this general mandate are set out in the section headed “Statutory and General Information — A. Further Information about our Group — 6. Written Resolutions of all Shareholders passed on 3 November 2016” in Appendix V to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Share Offer becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all powers of our Company to repurchase, on the Stock Exchange and/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 in accordance with applicable laws and requirements of the Listing Rules (or of such other stock exchange), Shares in the number not

SHARE CAPITAL

exceeding 10% of the number of issued Shares of our Company in issue immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares that may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme).

This general mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange which is recognised by the SFC and the Stock Exchange for this purpose in accordance with the applicable laws and requirements of the Listing Rules (or such other stock exchange). A summary of the relevant Listing Rules is set out in the paragraph headed “Statutory and General Information — A. Further Information about our Group — 7. Repurchase of our Shares” in Appendix V to this prospectus.

This general mandate to repurchase Shares will remain in effect until whichever is the earliest of:

- (a) the conclusion of our next annual general meeting; or
- (b) the date by which our next annual general meeting is required by the Articles or any applicable law(s) to be held; or
- (c) the passing of an ordinary resolution of our Shareholders in a general meeting revoking or varying the authority given to our Directors.

Further details of this repurchase mandate are set out in the paragraph headed “Statutory and General Information — A. Further Information about our Group — 7. Repurchase of our Shares” in Appendix V to this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

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

FINANCIAL INFORMATION

The following discussion and analysis of our financial condition and results of operations are based on and should be read in conjunction with our financial information for the years ended 31 December 2013, 2014, 2015 and the five months ended 31 May 2016, including the notes thereto, as set out in the Accountant's Report in Appendix I to this prospectus. Our financial information has been prepared in accordance with HKFRSs.

The following discussion and analysis contains 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 we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that may cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed elsewhere in this prospectus, particularly in the sections headed "Risk Factors" and "Forward-looking Statements".

OVERVIEW

We produce metallised packaging paper for cigarette package manufacturers in China. Our main lines of products are transfer metallised paper and laminated metallised paper. We operate our business through our sole PRC operating subsidiary, Hubei Mengke, which has been engaged in this business since 2005. According to Ipsos, in 2015, we were the largest cigarette packaging paper manufacturer in Hubei Province, China and one of the top 10 cigarette packaging paper manufacturers in China by sales. We sell our products to cigarette package manufacturers across ten provinces in China.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations are subject to the influence of numerous factors. Some of the key factors are set out below:

Cigarette consumption

The demand for our metallised packaging paper depends directly on the amount of cigarette consumption in China, where we sell our products. Though the overall cigarette industry in China has undergone many tobacco control regulations in the past few years, according to Ipsos, the cigarette market in China maintained steady growth over the years, reaching RMB1,422.3 billion in sales value in 2015, with a further expected CAGR of 4.5% between 2016 to 2020, reaching RMB1,749.6 billion in 2020. However, fluctuations in the Chinese cigarette market due to changes in economic conditions, regulatory changes, greater health awareness or any other reasons may further impact the market demand for cigarette packaging paper and therefore affect our business and results of operations.

Government policies

Government policies in the PRC have impacted our business, primarily with respect to the regulations affecting the cigarette industry in China and environmental laws.

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The cigarette market in China is controlled primarily by the STMA and CNTC. Regulations by the STMA and CNTC have resulted in consolidation of cigarette brands and cigarette manufacturers in China. Consolidation of cigarette manufacturers helps to increase their bargaining power which creates downward pressure on the selling price of cigarette packaging paper. Additionally, in 2015, the PRC government increased the specific tax on cigarette products which negatively impacted cigarette sales. While we have been able to maintain competitiveness through our solid and long-term relationship with leading cigarette package manufacturers, further consolidation in the cigarette manufacturing market or other new regulations on the cigarette industry or cigarette-related industries may affect our sales of metallised packaging paper and our results of operations.

Additionally, recent efforts by the PRC government to encourage the use of more environmentally-friendly products have negatively impacted our sales of laminated metallised paper. Laminated metallised paper includes a plastic film, which makes it less environmentally-friendly and customers are less likely to purchase such products in recent years. In 2013, sales of laminated metallised paper accounted for RMB78.5 million, or 29.2% of our total sales of cigarette packaging products. In 2015, such sales decreased to RMB47.3 million, or 15.0% of our total sales of cigarette packaging products.

Many of our customers have chosen to purchase transfer metallised paper from us instead, as transfer metallised paper does not include the plastic film layer. Our sales of transfer metallised paper increased from RMB190.1 million in 2013 to RMB267.8 million in 2015. However, further environmental regulations regarding paper packaging products may also affect demand for our products in the future.

Competition

Competition in the cigarette packaging paper market in China is intensive. We compete with our competitors on various areas, including price and quality of products, manufacturing technology and equipment, industry knowledge, production capacity and customer relationship. A large amount of capital investment may be needed should we decide to upgrade our manufacturing equipment and increase our production capacity. To keep our competitive position in the market, we may also need to invest capital resources and human resources in employee training or hiring experienced technicians. To maintain and strengthen our customer relationships, we may need to incur a significant amount of management attention, expenses and human resources. Our results of operation will be affected by our ability to stay competitive as the cigarette packaging paper manufacturing industry develops.

Production capacity

During the Track Record Period, we carried out our production activities entirely at our production facility in Yichang, Hubei Province. We currently operate seven production lines, including five that we had installed prior to the Track Record Period, one installed in 2013 and one recently installed in December 2015. Our production capacity, measured by the total length of metallised packaging paper that can be produced, for the years ended 31 December 2013, 2014, 2015 and the five

FINANCIAL INFORMATION

months ended 31 May 2016 was approximately 169.3 million m., 190.5 million m., 191.6 million m. and 81.0 million m., respectively, and our estimated annual production capacity for the year ending 31 December 2016 is 222.3 million m. For more details on our production capacity, please refer to the section headed “Business — Our Production — Production facility” in this prospectus.

Our competitiveness to a large extent depends on our ability to expand our production capacity and business development capabilities to increase our market share. As such, we will continue seeking expansion of our production capacity and business development capabilities to capture new market opportunities. Details of our future expansion plans are set forth in the section headed “Future Plans and Use of Proceeds” in this prospectus.

Cost of raw materials

The major component of our cost of sales was the cost of raw materials, which constituted 93.7%, 92.3%, 92.6% and 92.7% of our total cost of sales for the years ended 31 December 2013, 2014, 2015 and the five months ended 31 May 2016, respectively. During the Track Record Period, we did not enter into any long-term supply contracts with our raw material suppliers. We did not have any hedging facilities to minimise the risk of raw materials price fluctuation. As a result, the costs of our raw materials will be subject to market fluctuations. The principal raw materials required for our production are white cardboard and metallised film. Key factors affecting the purchase price of white cardboard and metallised film include supply and demand in the market, the policies of the PRC government and market competition.

Sensitivity analysis of white cardboard

For the years ended 31 December 2013, 2014, 2015 and the five months ended 31 May 2016, the cost of white cardboard constituted 50.1%, 49.0%, 47.8% and 52.0% of our total cost of sales, respectively. The table below sets forth a sensitivity analysis relating to our cost of white cardboard, illustrating the impact on our gross profit and gross profit margin had the price of white cardboard increased by 1.5%, 2.0% and 2.5% for the periods indicated, the magnitude of which corresponds to the range of historical fluctuations in our unit cost of white cardboard.

	Year ended 31 December			Five months ended 31 May
	2013	2014	2015	2016
Percentage change in gross profit:				
1.5% increase in white cardboard price	-3.2%	-3.3%	-2.7%	-2.8%
2.0% increase in white cardboard price	-4.3%	-4.4%	-3.6%	-3.7%
2.5% increase in white cardboard price	-5.3%	-5.5%	-4.6%	-4.6%
Gross profit margin:				
Actual	19.0%	18.3%	20.8%	21.9%
1.5% increase in white cardboard price	18.4%	17.7%	20.2%	21.3%
2.0% increase in white cardboard price	18.2%	17.5%	20.0%	21.1%
2.5% increase in white cardboard price	18.0%	17.3%	19.8%	20.9%

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Sensitivity analysis of metallised film

For the years ended 31 December 2013, 2014, 2015 and the five months ended 31 May 2016, the cost of metallised film constituted 36.9%, 37.7%, 36.3% and 34.1% of our total cost of sales, respectively. During the Track Record Period, we purchased a variety of metallised films. The table below sets forth a sensitivity analysis relating to our cost of metallised film, illustrating the impact on our gross profit and gross profit margin had the price of metallised film increased by 1%, 5% and 10% for the periods indicated, the magnitude of which corresponds to the range of historical fluctuations in the unit cost of our most common type of metallised film.

	Year ended 31 December			Five months ended 31 May
	2013	2014	2015	2016
Percentage change in gross profit:				
1% increase in metallised film price	-1.6%	-1.7%	-1.4%	-1.2%
5% increase metallised film price	-7.9%	-8.4%	-6.9%	-6.1%
10% increase in metallised film price	-15.7%	-16.9%	-13.8%	-12.1%
Gross profit margin:				
Actual	19.0%	18.3%	20.8%	21.9%
1% increase in metallised film price	18.7%	18.0%	20.5%	21.7%
5% increase metallised film price	17.5%	16.7%	19.4%	20.6%
10% increase in metallised film price	16.0%	15.2%	17.9%	19.3%

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on 8 January 2016. We underwent a reorganisation, pursuant to which our Company became the holding company of the companies now comprising our Group. The companies now comprising our Group were ultimately controlled by Mr. Zhang, our Controlling Shareholder, before and after the Reorganisation. The steps taken during the reorganisation did not result in any change in management and the ultimate owners remain the same. Accordingly, our Group is regarded as a continuation of the business under Hubei Mengke and the financial information of our Group have been prepared and are presented as the financial information of Hubei Mengke.

For the purposes of the Accountant's Report and this Financial Information section, the financial information of the Group have been prepared on a basis in accordance with the principal accounting policies in accordance with HKFRSs.

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CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial position and results of operations as included in this prospectus is based on the financial information prepared in accordance with HKFRSs. The preparation of financial information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying our accounting policies. For more information, please see Notes 2 and 4 of the Accountant's Report in Appendix I to this prospectus.

Set forth below are the most significant accounting policies, judgments and estimates used in the preparation of our financial information:

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods or services rendered in the normal course of business, net of discounts, returns and value added taxes. Revenue from sale of goods is recognised when the goods are delivered, the customer has initially accepted the products; the risks and rewards relating to the products are passed to the customer and the collectability of the related receivables is reasonably assured. Processing service income is recognised in the accounting period in which the services are rendered.

Depreciation

Property, plant and equipment are stated at historical cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than construction in progress, less their residual values over their estimated useful lives, using the straight line method as follows: (i) plant and buildings: 5 to 20 years; (ii) machinery: 10 years; (iii) motor vehicles: five years; and (iv) office equipment: five years. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. For more information, please see Note 2.6 of the Accountant's Report set out in Appendix I to this prospectus.

Assets under construction represent buildings and ancillary facilities under construction, and are stated at cost. No depreciation is made on assets under construction until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

Taxes

Tax expense for the period comprises current and deferred tax. Tax is recognised in our profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

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Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where our subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provision where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial information. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

COMPONENTS OF CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Selected consolidated statement of comprehensive income information

	Year ended 31 December						Five months ended 31 May			
	2013		2014		2015		2015		2016	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
Revenue	268,655	100.0	269,903	100.0	319,273	100.0	94,219	100.0	98,997	100.0
Cost of sales	(217,627)	(81.0)	(220,580)	(81.7)	(252,900)	(79.2)	(74,271)	(78.8)	(77,281)	(78.1)
Gross profit	51,028	19.0	49,323	18.3	66,373	20.8	19,948	21.2	21,716	21.9
Other income and other expenses — net	345	0.1	(212)	(0.1)	1,481	0.5	370	0.4	325	0.3
Distribution expenses	(12,271)	(4.6)	(13,360)	(4.9)	(17,225)	(5.4)	(6,311)	(6.7)	(6,074)	(6.1)
Administrative expenses	(17,554)	(6.5)	(18,689)	(6.9)	(24,201)	(7.6)	(6,021)	(6.4)	(15,463)	(15.6)
Operating profit	21,548	8.0	17,062	6.3	26,428	8.3	7,986	8.5	504	0.5
Finance expenses — net	(2,010)	(0.7)	(327)	(0.1)	(911)	(0.3)	(182)	(0.2)	(280)	(0.3)
Profit before income tax	19,538	7.3	16,735	6.2	25,517	8.0	7,804	8.3	224	0.2
Income tax expense	(2,500)	(1.0)	(2,156)	(0.8)	(3,625)	(1.1)	(1,127)	(1.2)	(1,382)	(1.4)
Profit/(loss) for the year/period	17,038	6.3	14,579	5.4	21,892	6.9	6,677	7.1	(1,158)	(1.2)

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Revenue

Revenue primarily represents our income derived from the sale of cigarette packaging paper products, namely transfer metallised paper and laminated metallised paper. We also derive a small amount of revenue from providing processing services such as paper cutting or other paper processing work.

The following table sets out our revenue, sales volume and average selling price of transfer metallised paper and laminated metallised paper, as well as revenue from processing service income, for the periods indicated:

	Year ended 31 December											
	2013				2014				2015			
	Revenue	% of total revenue	Sales volume	Average selling price	Revenue	% of total revenue	Sales volume	Average selling price	Revenue	% of total revenue	Sales volume	Average selling price
	<i>RMB'000</i>	%	<i>tonnes</i>	<i>RMB per tonne</i>	<i>RMB'000</i>	%	<i>tonnes</i>	<i>RMB per tonne</i>	<i>RMB'000</i>	%	<i>tonnes</i>	<i>RMB per tonne</i>
Transfer metallised paper	190,087	70.8	11,347	16,752	212,262	78.6	13,225	16,050	267,769	83.9	16,778	15,960
Laminated metallised paper	78,513	29.2	6,304	12,454	55,528	20.6	4,500	12,340	47,269	14.8	3,365	14,047
Processing service income	55	0.0	N/A	N/A	2,113	0.8	N/A	N/A	4,235	1.3	N/A	N/A
Total	<u>268,655</u>	<u>100.0</u>	<u>17,651</u>		<u>269,903</u>	<u>100.0</u>	<u>17,725</u>		<u>319,273</u>	<u>100.0</u>	<u>20,143</u>	

	Five months ended 31 May							
	2015				2016			
	Revenue	% of total revenue	Sales volume	Average selling price	Revenue	% of total revenue	Sales volume	Average selling price
	<i>RMB'000</i>	%	<i>tonnes</i>	<i>RMB per tonne</i>	<i>RMB'000</i>	%	<i>tonnes</i>	<i>RMB per tonne</i>
Transfer metallised paper	79,992	84.9	5,062	15,802	84,242	85.1	5,441	15,483
Laminated metallised paper	12,842	13.6	982	13,077	12,968	13.1	1,003	12,929
Processing service income	1,385	1.5	N/A	N/A	1,787	1.8	N/A	N/A
Total	<u>94,219</u>	<u>100.0</u>	<u>6,044</u>		<u>98,997</u>	<u>100.0</u>	<u>6,444</u>	

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The following table sets out our revenue by province for the periods indicated⁽¹⁾:

	Year ended 31 December						Five months ended 31 May	
	2013		2014		2015		2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Provinces								
Hubei	173,156	64.5	220,484	81.7	244,920	76.7	61,021	61.6
Beijing	52,146	19.4	26,429	9.8	32,111	10.1	33,053	33.4
Guangdong	5,625	2.1	13,549	5.0	8,470	2.7	1,224	1.2
Hunan	—	0.0	—	0.0	15,882	5.0	—	—
Shanghai	—	0.0	—	0.0	8,128	2.5	—	—
Others ⁽²⁾	37,728	14.0	9,441	3.5	9,762	3.0	3,699	3.8
Total	<u>268,655</u>	<u>100.0</u>	<u>269,903</u>	<u>100.0</u>	<u>319,273</u>	<u>100.0</u>	<u>98,997</u>	<u>100.0</u>

Notes:

⁽¹⁾ The location of our customers is determined by the location of their business registration.

⁽²⁾ Others include Jiangsu Province, Sichuan Province, Shaanxi Province, Shandong Province and Zhejiang Province.

Cost of sales

Cost of sales consists of cost of (i) raw materials (which include white cardboard, metallised film and others); (ii) manufacturing overhead (which includes primarily utilities, salaries and benefits related to indirect labour, and depreciation); (iii) direct labour; and (iv) others.

The following table sets out the breakdown of our cost of sales for the periods indicated:

	Year ended 31 December						Five months ended 31 May			
	2013		2014		2015		2015		2016	
	<i>RMB'000</i>	<i>% of total cost of sales</i>	<i>RMB'000</i>	<i>% of total cost of sales</i>	<i>RMB'000</i>	<i>% of total cost of sales</i>	<i>RMB'000</i>	<i>% of total cost of sales</i>	<i>RMB'000</i>	<i>% of total cost of sales</i>
Raw materials										
White cardboard	109,019	50.1	107,987	49.0	120,869	47.8	36,393	49.0	40,158	52.0
Metallised film	80,234	36.9	83,129	37.7	91,730	36.3	27,452	37.0	26,322	34.1
Others	14,683	6.7	12,505	5.6	21,566	8.5	4,996	6.7	5,124	6.6
	<u>203,936</u>	<u>93.7</u>	<u>203,621</u>	<u>92.3</u>	<u>234,165</u>	<u>92.6</u>	<u>68,841</u>	<u>92.7</u>	<u>71,604</u>	<u>92.7</u>
Manufacturing overhead.	11,154	5.1	13,145	6.0	14,591	5.8	4,629	6.2	4,509	5.8
Direct labour.	1,856	0.9	2,369	1.1	2,198	0.9	387	0.5	823	1.1
Others.	681	0.3	1,445	0.6	1,946	0.7	414	0.6	345	0.4
Total	<u>217,627</u>	<u>100.0</u>	<u>220,580</u>	<u>100.0</u>	<u>252,900</u>	<u>100.0</u>	<u>74,271</u>	<u>100.0</u>	<u>77,281</u>	<u>100.0</u>

FINANCIAL INFORMATION

Other income and other expenses — net

Other income consists of (i) rental income, (ii) subsidy income, and (iii) sales of raw material and waste material. Other expenses include (i) cost of rental and (ii) cost of raw material and waste material sold. The following table sets out the breakdown of our other income and other expenses for the periods indicated:

	Year ended 31 December			Five months ended 31 May	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>				
Other income					
Rental income	—	—	982	163	389
Subsidy income	183	234	500	176	94
Sales of raw material and waste material	349	4,313	2,298	1,438	—
	532	4,547	3,780	1,777	483
Other expenses					
Cost of rental	—	—	(281)	(68)	(158)
Cost of raw material and waste material sold	(187)	(4,759)	(2,018)	(1,339)	—
	(187)	(4,759)	(2,299)	(1,407)	(158)
Other income and other expenses — net	345	(212)	1,481	370	325

We derive rental income from leasing out part of the staff dormitory building to Hubei Golden beginning in April 2015. Subsidies are granted by the government which occasionally provides funds to subsidise and promote the development of various industries. The sales of raw material and waste material result from our sale of excess inventory at prices that may be above or below our unit cost and are best available to us at the time of sale.

Distribution expenses

Distribution expenses consist of costs of (i) transportation expenses; (ii) staff costs; (iii) entertainment expenses; (iv) travelling expenses; and (v) others. The following table sets out the breakdown of our distribution expenses for the periods indicated:

	Year ended 31 December						Five months ended 31 May			
	2013		2014		2015		2015		2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	<i>(unaudited)</i>									
Transportation expenses	6,659	54.3	7,690	57.6	11,601	67.3	4,026	63.8	3,569	58.8
Staff costs	2,007	16.4	1,730	12.9	2,815	16.3	1,094	17.3	1,123	18.5
Entertainment expenses	2,776	22.6	2,960	22.2	1,796	10.4	879	13.9	909	15.0
Travelling expenses	490	4.0	585	4.4	350	2.0	161	2.6	132	2.2
Others	339	2.7	395	2.9	663	4.0	151	2.4	341	5.5
Total	12,271	100.0	13,360	100.0	17,225	100.0	6,311	100.0	6,074	100.0

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Administrative expenses

Administrative expenses consist of cost of (i) listing expenses; (ii) staff costs; (iii) research and development expenses; (iv) depreciation and amortisation; (v) entertainment expenses; (vi) other taxes and surcharges; and (vii) others. The following table sets out the breakdown of our administrative expenses for the periods indicated:

	Year ended 31 December						Five months ended 31 May			
	2013		2014		2015		2015		2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	<i>(unaudited)</i>									
Listing expenses	—	—	—	—	3,863	16.0	—	—	8,812	57.0
Staff costs	2,590	14.8	2,276	12.2	3,524	14.6	1,850	30.8	2,265	14.6
Research and development expenses	11,269	64.2	10,759	57.6	10,562	43.6	1,893	31.4	1,934	12.5
Depreciation and amortisation	600	3.4	644	3.4	1,259	5.2	448	7.4	509	3.3
Entertainment expenses	538	3.1	957	5.1	1,242	5.1	669	11.1	509	3.3
Other taxes and surcharges	416	2.4	500	2.7	780	3.2	297	4.9	310	2.0
Others	2,141	12.1	3,553	19.0	2,971	12.3	864	14.4	1,124	7.3
Total	17,554	100.0	18,689	100.0	24,201	100.0	6,021	100.0	15,463	100.0

The amount of research and development expenses incurred in 2013, 2014 and 2015 and for the five months ended 31 May 2016 was RMB11.3 million, RMB10.8 million, RMB10.6 million and RMB1.9 million, respectively. During the Track Record Period, research and development expenditure was mainly incurred for the development of utility models and utility patents in respect of cigarette package printing materials and techniques, which are catered for the specific requirements of different customers. As a result, the possibility of such utility models and utility patents being continuously applied in future products cannot be reasonably assessed and there are uncertainties as to whether they can bring inflow of future economic benefits to us. As the research and development expenditure does not meet the relevant criteria under Hong Kong Accounting Standard 38 as set out in Note 2.8 of the Accountant's Report set out in Appendix I to this prospectus for capitalisation of research and development expenditure, such expenditure was recognised as expenses as incurred.

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Finance expenses — net

Net finance expenses represent the net amount of our finance income and finance expenses. Our finance income consists primarily of interest income from bank deposits. Our finance expenses consist of interest expenses from bank borrowings and discount charges on bank acceptance notes. The following table sets out the breakdown of our net finance expenses for the periods indicated:

	Year ended 31 December			Five months ended 31 May	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Finance income					
Interest income	595	1,059	718	369	235
Exchange gains	—	—	—	—	9
	595	1,059	718	369	244
Finance expenses					
Interest expenses	(1,808)	(1,386)	(1,225)	(551)	(524)
Discount charges on bank acceptance notes	(797)	—	(404)	—	—
	(2,605)	(1,386)	(1,629)	(551)	(524)
Finance expenses — net	(2,010)	(327)	(911)	(182)	(280)

Income tax expense

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law. The Cayman Islands currently levies no taxes on corporations based upon profits, income, gains or appreciations.

Our direct subsidiary was incorporated in the BVI under the International Business Companies Act of the British Virgin Islands and is exempted from paying income tax in the BVI.

No provision for Hong Kong profits tax was made, as our Group had no assessable profit subject in Hong Kong during the Track Record Period.

Our tax charges represent current PRC corporate income tax and deferred income tax. Our PRC subsidiary was designated as a “High and New Technology Enterprise” on 27 November 2013, which allowed it to apply an income tax rate of 15% for the years ended 31 December 2013, 2014, 2015 and the five months ended 31 May 2016. As advised by our PRC Legal Advisor, based on the written confirmation from the Yichang City Technology Bureau, our Company had passed the assessment by panels of experts for renewing the “High and New Technology Enterprise” designation, the public announcement of the result will be made shortly by the relevant government authority, and there are no material obstacles in renewing this recognition. Our PRC Legal Advisor further advised that

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Yichang City Technology Bureau is the competent governmental authority to issue the confirmation letter and it had confirmed with the Hubei Province Technology Bureau, the competent governmental authority to process the renewal application, on the status of our renewal application before issuance of the above confirmation. Our Directors are therefore of the view that our Group is likely to successfully renew the designation.

	Year ended 31 December			Five months ended 31 May	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Current income tax					
PRC corporate income tax	1,677	2,662	4,068	1,263	1,659
Under-provision of PRC corporate income tax in prior year.	—	—	—	—	92
Deferred income tax					
PRC corporate income tax	823	(506)	(443)	(136)	(369)
Income tax expense	2,500	2,156	3,625	1,127	1,382

PERIOD TO PERIOD COMPARISON

Five months ended 31 May 2016 compared to five months ended 31 May 2015

Revenue

Revenue increased by RMB4.8 million, or 5.1%, from RMB94.2 million for the five months ended 31 May 2015 to RMB99.0 million for the five months ended 31 May 2016. Such increase was mainly attributable to a 6.6% increase in total sales volume of transfer metallised paper and laminated metallised paper from approximately 6,044 tonnes for the five months ended 31 May 2015 to approximately 6,444 tonnes for the five months ended 31 May 2016.

Revenue from sales of transfer metallised paper increased by RMB4.3 million, or 5.3%, from RMB80.0 million for the five months ended 31 May 2015 to RMB84.2 million for the five months ended 31 May 2016 due to an increase in sales volume of 7.5% from approximately 5,062 tonnes for the five months ended 31 May 2015 to approximately 5,441 tonnes for the five months ended 31 May 2016, primarily because we received more sales orders during the first quarter of 2016. The average selling price of transfer metallised paper decreased slightly by 2.0% from approximately RMB15,802 per tonne for the five months ended 31 May 2015 to approximately RMB15,483 per tonne for the five months ended 31 May 2016.

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Revenue from sales of laminated metallised paper increased slightly by RMB0.1 million, or 1.0%, from RMB12.8 million for the five months ended 31 May 2015 to RMB13.0 million for the five months ended 31 May 2016 due to an increase in sales volume of 2.1% from approximately 982 tonnes for the five months ended 31 May 2015 to approximately 1,003 tonnes for the five months ended 31 May 2016.

Cost of Sales

Cost of sales increased by RMB3.0 million, or 4.1%, from RMB74.3 million for the five months ended 31 May 2015 to RMB77.3 million for the five months ended 31 May 2016. This increase was primarily due to the increased uses of raw materials for the production of the larger quantity of metallised paper sold.

Gross profit and gross profit margin

Our gross profit increased by RMB1.8 million, or 8.9% from RMB19.9 million for the five months ended 31 May 2015 to RMB21.7 million for the five months ended 31 May 2016 and our gross profit margin increased slightly from 21.2% for the five months ended 31 May 2015 to 21.9% for the five months ended 31 May 2016. This increase in gross profit margin was mainly due to our increased efforts to control costs in manufacturing overhead and production.

Other income and other expenses — net

Other net income decreased by approximately RMB45,000, or 12.2%, from RMB0.4 million for the five months ended 31 May 2015 to RMB0.3 million for the five months ended 31 May 2016. This was mainly because we did not sell raw material or waste material during the five months ended 31 May 2016.

Distribution expenses

Our distribution expenses decreased slightly by RMB0.2 million, or 3.8%, from RMB6.3 million for the five months ended 31 May 2015 to RMB6.1 million for the five months ended 31 May 2016. Distribution expenses as a percentage of revenue also decreased slightly from 6.7% for the five months ended 31 May 2015 to 6.1% for the five months ended 31 May 2016. Such decrease in distribution expenses was primarily due to a decrease of RMB0.5 million in transportation expenses during the five months ended 31 May 2016 compared with the corresponding period in 2015 mainly because in the five months ended 31 May 2015 we incurred relatively high transportation costs as we provided delivery services for transfers of goods to multiple locations as requested by a customer. This was partially offset by an increase of RMB0.2 million in other distribution related expenses.

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Administrative expenses

Our administrative expenses increased considerably by RMB9.4 million, or 156.8%, from RMB6.0 million for the five months ended 31 May 2015 to RMB15.5 million for the five months ended 31 May 2016. This was primarily due to (i) the expenses in connection with the Listing of RMB8.8 million for the five months ended 31 May 2016, compared to nil in the five months ended 31 May 2015; and (ii) an increase of RMB0.4 million in staff costs resulting from increases in administrative personnel and welfare costs.

Finance expenses — net

Net finance expenses increased from RMB0.2 million for the five months ended 31 May 2015 to RMB0.3 million for the five months ended 31 May 2016. This increase was mainly attributable to a decrease in interest income of RMB0.1 million, which was in part due to the decrease in interest rates on our bank deposits.

Income tax expense

Income tax expense increased by RMB0.3 million, or 22.6%, from RMB1.1 million for the five months ended 31 May 2015 to RMB1.4 million for the five months ended 31 May 2016. The effective tax rate increased considerably from 14.4% for the five months ended 31 May 2015 to 617.0% for the five months ended 31 May 2016, primarily due to the increase in expenses which are not deductible for tax purposes, mainly including certain expenses incurred in preparation for the Listing.

Profit/loss for the period

For the foregoing reasons, we recorded a loss for the period of RMB1.2 million for the five months ended 31 May 2016 compared to a profit for the period of RMB6.7 million for the five months ended 31 May 2015. Our net profit margin decreased from 7.1% for the five months ended 31 May 2015 to a net loss margin of 1.2% for the five months ended 31 May 2016. However, excluding the one-off expenses in connection with the Listing (taking into account the relevant tax impact) of RMB8.7 million, we would have recorded a profit for the period of RMB7.6 million and our net profit margin would have been 7.6% for the five months ended 31 May 2016.

YEAR TO YEAR COMPARISON

Year ended 31 December 2015 compared to year ended 31 December 2014

Revenue

Revenue increased by RMB49.4 million, or 18.3%, from RMB269.9 million in 2014 to RMB319.3 million in 2015. Such increase was mainly attributable to a 13.6% increase in total sales volume of transfer metallised paper and laminated metallised paper from approximately 17,725 tonnes in 2014 to approximately 20,143 tonnes in 2015.

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Revenue from sales of transfer metallised paper increased by RMB55.5 million, or 26.2%, from RMB212.3 million in 2014 to RMB267.8 million in 2015. Such increase was mainly due to an increase in sales volume of 26.9% from approximately 13,225 tonnes in 2014 to approximately 16,778 tonnes in 2015 primarily because we received more sales orders from our major customers in 2015. The average selling price of transfer metallised paper remained relatively stable at approximately RMB15,960 per tonne in 2015 compared to approximately RMB16,050 per tonne in 2014.

Revenue from sales of laminated metallised paper decreased by RMB8.3 million, or 14.9%, from RMB55.5 million in 2014 to RMB47.3 million in 2015 due to a decrease of 25.2% in sales volume from approximately 4,500 tonnes in 2014 to approximately 3,365 tonnes in 2015. The decrease in sales volume was the result of lower market demand as recent PRC government regulations have discouraged the use of laminated metallised paper because it incorporates a plastic layer, making it less environmentally-friendly. This was partially offset by an increase of 13.8% in the average selling price of laminated metallised paper from approximately RMB12,340 per tonne in 2014 to approximately RMB14,047 per tonne in 2015 because we focused on bidding for higher value orders which yielded better selling prices compared to 2014.

Cost of sales

Cost of sales increased by RMB32.3 million, or 14.7%, from RMB220.6 million in 2014 to RMB252.9 million in 2015. This increase was primarily due to increased purchases of raw materials for the production of the larger quantity of metallised paper sold.

Gross profit and gross profit margin

Our gross profit increased by RMB17.1 million, or 34.6%, from RMB49.3 million in 2014 to RMB66.4 million in 2015 and our gross profit margin increased from 18.3% in 2014 to 20.8% in 2015. The increase in gross profit margin was mainly due to (i) the increase in average selling price of laminated metallised paper while the average selling price of transfer metallised paper remained stable as discussed above and (ii) cost benefits from economies of scale.

Information on the gross profit margin for each of the transfer metallised paper and laminated metallised paper is unascertainable because our production lines are used interchangeably to manufacture both product lines, which together constitute a single business segment. Both types of products are produced at the same production facility using the same team of production staff and generally the same raw materials such as glue and ink (except for the different types of metallised film) and the cost components of both products were therefore similar and cannot be readily distinguished for purposes of determining their respective gross profit margin.

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Other income and other expenses — net

We recorded other net income of RMB1.5 million in 2015 compared to other net expenses of RMB0.2 million in 2014. The increase in other net income was primarily due to (i) the net income of RMB0.3 million for the sales of raw material and waste material in 2015 compared to net loss of RMB0.4 million in 2014 because the raw material and waste material sold in 2015 were of higher value when compared with that in 2014 and (ii) the net rental income of RMB0.7 million because we began leasing out a portion of our staff dormitory building in 2015.

Distribution expenses

Distribution expenses increased by RMB3.9 million, or 28.9%, from RMB13.4 million in 2014 to RMB17.2 million in 2015. Distribution expenses as percentage of revenue increased from 4.9% in 2014 to 5.4% in 2015. The increase in distribution expenses was primarily due to (i) an increase in transportation expenses of RMB3.9 million because a greater percentage of our sales were to customers located further away, particularly in Shenzhen and Beijing, and (ii) an increase of RMB1.1 million in staff costs mainly because we increased bonuses for our sales staff due to increased sales in 2015. This increase was partially offset by a decrease in entertainment expenses of RMB1.2 million because of our cost control efforts implemented in relation to business development activities.

Administrative expenses

Administrative expenses increased by RMB5.5 million, or 29.5%, from RMB18.7 million in 2014 to RMB24.2 million in 2015. Administrative expenses as a percentage of revenue increased from 6.9% in 2014 to 7.6% in 2015. The increase in administrative expenses was primarily due to (i) an increase of RMB3.9 million in listing expenses from incurrence of professional fees, (ii) an increase of RMB1.2 million in staff costs because we increased wages and benefits for our administrative staff and (iii) an increase of RMB0.6 million in depreciation and amortisation.

Finance expenses — net

Net finance expenses increased from RMB0.3 million in 2014 to RMB0.9 million in 2015, mainly due to (i) an increase of discount charges on bank acceptance notes of RMB0.4 million because we did not discount any bank acceptance notes in 2014; and (ii) a decrease in interest income of RMB0.3 million.

Income tax expense

Income tax expense increased by RMB1.5 million, or 68.1%, from RMB2.2 million in 2014 to RMB3.6 million in 2015, primarily as a result of an increase in profit before tax. Our effective tax rate increased from 12.9% in 2014 to 14.2% in 2015 due to an increase in expenses not deductible for tax purposes, such as expenses incurred in preparation for the Listing.

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Profit for the year

For the foregoing reasons, profit for the year increased by 50.2% from RMB14.6 million in 2014 to RMB21.9 million in 2015 and our net profit margin increased from 5.4% in 2014 to 6.9% in 2015.

Year ended 31 December 2013 compared to year ended 31 December 2014

Revenue

Revenue increased by RMB1.2 million, or 0.5%, from RMB268.7 million in 2013 to RMB269.9 million in 2014. This increase was primarily attributable to a 0.4% increase in total sales volume of transfer metallised paper and laminated metallised paper from approximately 17,651 tonnes in 2013 to 17,725 tonnes in 2014.

We recorded an increase of 11.7% in sales of transfer metallised paper from RMB190.1 million in 2013 to RMB212.3 million in 2014. Such increase was mainly due to recent government initiatives regarding environmental protection which encouraged purchases of transfer metallised paper as it is more environmentally friendly than laminated metallised paper. The average selling price for our transfer metallised paper decreased from approximately RMB16,752 per tonne to approximately RMB16,050 per tonne because in 2013 we received a greater percentage of high-value orders for transfer metallised paper from our major customers which yield a greater selling price.

Revenue from sales of laminated metallised paper decreased by 29.3% from RMB78.5 million in 2013 to RMB55.5 million in 2014 mainly due to a decrease in sales volume from approximately 6,304 tonnes in 2013 to approximately 4,500 tonnes in 2014, resulting from recent government environmental policies discouraging the use of laminated metallised paper because it incorporates a plastic layer, making it less environmentally friendly. The average selling price for laminated metallised paper remained relatively steady at approximately RMB12,340 per tonne in 2014 compared to approximately RMB12,454 per tonne in 2013.

Cost of sales

Cost of sales increased by RMB3.0 million, or 1.4%, from RMB217.6 million in 2013 to RMB220.6 million in 2014. This increase was primarily due to an increase of RMB2.0 million in manufacturing overhead resulting from an increase in workers' safety expenses and an increase of RMB0.8 million in miscellaneous costs.

Gross profit and gross profit margin

Our gross profit decreased by 3.3% from RMB51.0 million in 2013 to RMB49.3 million in 2014. Our gross profit margin decreased slightly from 19.0% in 2013 to 18.3% in 2014. The decrease in gross profit margin was primarily due to a decrease in average selling price because of a decline in orders for more sophisticated metallised paper products from our major customers combined with an increase in cost of sales as discussed above.

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Other income and other expenses — net

We recorded other net expenses of RMB0.2 million in 2014 compared to other net income of RMB0.3 million in 2013. This change was primarily due to a net loss of RMB0.4 million from the sales of raw material and waste material in 2014 compared to net income of RMB0.2 million in 2013, as in 2014 we sold a greater amount of raw material and waste material and our sales of these materials were mostly priced at or below the original cost.

Distribution expenses

Distribution expenses increased by RMB1.1 million, or 8.9%, from RMB12.3 million in 2013 to RMB13.4 million in 2014. Distribution expenses as a percentage of revenue increased slightly from 4.6% in 2013 to 4.9% in 2014. The increase in distribution expenses was primarily due to an increase of RMB1.0 million in transportation expenses resulting from an increase in fees by a logistics services provider.

Administrative expenses

Administrative expenses increased by RMB1.1 million, or 6.5%, from RMB17.6 million in 2013 to RMB18.7 million in 2014. Administrative expenses as a percentage of revenue increased slightly from 6.5% in 2013 to 6.9% in 2014. The increase in administrative expenses was primarily due to an increase of RMB1.4 million in other miscellaneous expenses, which was partially offset by a RMB0.5 million decrease in research and development expenses and a RMB0.3 million decrease in staff costs and benefits.

Finance expenses — net

Net finance expenses decreased significantly from RMB2.0 million in 2013 to RMB0.3 million in 2014. This decrease was primarily due to (i) a decrease of RMB0.8 million in discount charges on bank acceptance notes since we did not discount any bank acceptance notes in 2014; (ii) an increase of RMB0.5 million in interest income which consisted primarily of interest income from bank deposits including restricted cash; and (iii) a decrease of RMB0.4 million in interest expenses as we paid back a bank loan in full.

Income tax expense

Income tax expense decreased by RMB0.3 million, or 13.8%, from RMB2.5 million in 2013 to RMB2.2 million in 2014. This decrease was primarily due to a 14.3% decrease in profit before tax from RMB19.5 million in 2013 to RMB16.7 million in 2014. Our effective tax rate remained stable with a slight increase from 12.8% in 2013 to 12.9% in 2014.

Profit for the year

For the foregoing reasons, our profit for the year decreased by 14.4% from RMB17.0 million in 2013 to RMB14.6 million in 2014 and our net profit margin decreased from 6.3% in 2013 to 5.4% in 2014.

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LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we financed our working capital and capital expenditures principally through net cash inflows from operating activities and borrowings.

Cash flows

The following table sets out a summary of our consolidated statement of cash flow information for the periods indicated:

	Year ended 31 December			Five months ended 31 May	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Net cash generated from/(used in) operating activities	6,333	27,696	36,420	12,377	(3,075)
Net cash (used in)/generated from investing activities	(8,744)	(19,422)	(956)	5,534	(1,438)
Net cash generated from/(used in) financing activities	<u>2,930</u>	<u>(10,730)</u>	<u>(28,102)</u>	<u>(15,766)</u>	<u>4,892</u>
Net increase/(decrease) in cash and cash equivalents	519	(2,456)	7,362	2,145	379
Cash and cash equivalents at beginning of the year/period	2,329	2,848	392	392	7,754
Exchange gains on cash and cash equivalents	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>9</u>
Cash and cash equivalents at end of the year/period	<u><u>2,848</u></u>	<u><u>392</u></u>	<u><u>7,754</u></u>	<u><u>2,537</u></u>	<u><u>8,142</u></u>

Cash flows from operating activities

For the five months ended 31 May 2016, our net cash used in operating activities amounted to RMB3.1 million, reflecting cash used in operations of RMB1.4 million, interest and other finance costs paid of RMB0.5 million and income tax paid of RMB1.2 million. Cash used in operations primarily reflected our profit before income tax of RMB0.2 million as positively adjusted for depreciation of RMB1.5 million and net finance expenses of RMB0.5 million, as well as a decrease in cash of RMB3.9 million related to changes in working capital. Our cash flows from operating activities had changed to negative cash flows for the five months ended 31 May 2016 mainly because of the lower profit before income tax for this period, which resulted primarily from the expenses incurred in connection with the Listing, and the decrease in cash related to changes in working capital, particularly for the settlement of trade payables during this period. The decrease in cash related to changes in working capital consisted primarily of (i) a decrease of RMB40.2 million in trade and other payables as we settled a large amount of our trade payables from late 2015, (ii) an increase of RMB22.2 million in restricted cash used for collateral for our bank acceptance notes and (iii) an increase of RMB4.6 million in notes receivables as we held more bank acceptance notes as at 31 May 2016 compared to 31 December 2015. This was partially offset by increases in cash resulting from (i)

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a decrease of RMB32.0 million in trade and other receivables and prepayments as several customers settled their balances from the end of 2015; (ii) an increase of RMB24.7 million in notes payables as we utilised more bank acceptance notes to pay our suppliers; and (iii) a decrease of RMB6.0 million in inventories as we sought to reduce excessive inventory of finished goods.

For the year ended 31 December 2015, our net cash generated from operating activities was RMB36.4 million reflecting cash generated from operations of RMB41.1 million, interest and other finance costs paid of RMB1.2 million and income tax paid of RMB3.5 million. Cash generated from operations primarily reflected our profit before income tax of RMB25.5 million as positively adjusted for depreciation of RMB3.6 million and finance expenses of RMB1.6 million as well as an increase in cash of RMB10.1 million related to changes in working capital. The increase in cash related to changes in working capital consisted primarily of (i) a decrease of RMB17.3 million in notes receivables because we held a smaller amount of bank acceptance notes at the end of 2015 compared to 2014; (ii) an increase of RMB13.6 million in trade and other payables, primarily attributable to an increase in purchases of raw materials to supply the increase in sales volume in 2015; and (iii) a decrease of RMB12.1 million in inventories due to a large delivery of goods just before the end of 2015. This was partially offset by (i) an increase of RMB38.7 million in trade and other receivables and prepayments resulting from the increase in sales in 2015 and (ii) an increase of RMB6.8 million in restricted cash as collateral for issuance of bank acceptance notes.

For the year ended 31 December 2014, our net cash generated from operating activities was RMB27.7 million reflecting cash generated from operations of RMB30.0 million, interest and other finance costs paid of RMB1.5 million and income tax paid of RMB0.8 million. Cash generated from operations primarily reflected our profit before income tax of RMB16.7 million as positively adjusted for depreciation of RMB3.0 million and finance expenses of RMB1.4 million as well as an increase in cash of RMB8.8 million related to changes in working capital. The increase in cash related to changes in working capital consisted primarily of (i) an increase of RMB33.9 million in trade and other payables as a result of a large amount of raw materials ordered near the end of 2014, in anticipation of high sales demand in early 2015 for Chinese New Year and (ii) an increase of RMB30.7 million in notes payables due to the increased purchase of raw materials. This was partially offset by (i) an increase of RMB20.7 million in trade and other receivables and prepayments resulting from a large number of orders received near the end of 2014; (ii) an increase of RMB16.4 million in notes receivables as we held more bank acceptance notes in 2014 compared to 2013; and (iii) an increase of RMB15.6 million in restricted cash for deposits used as collateral for issuance of bank acceptance notes.

For the year ended 31 December 2013, our net cash generated from operating activities was RMB6.3 million reflecting cash generated from operations of RMB14.0 million, interest and other finance costs paid of RMB2.4 million and income tax paid of RMB5.3 million. Cash generated from operations primarily reflected our profit before income tax of RMB19.5 million as positively adjusted for depreciation of RMB2.8 million and finance expenses of RMB2.6 million as well as a decrease in cash of RMB11.1 million related to changes in working capital. The decrease in cash related to changes in working capital consisted primarily of (i) an increase of RMB10.5 million in inventories in anticipation of high sales demand in early 2014 for Chinese New Year and (ii) a decrease of RMB4.8 million in notes payables as a large amount was settled in 2013. This was partially offset by a decrease of RMB4.7 million in notes receivables due to its settlement of a large amount in 2013.

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Cash flows from investing activities

For the five months ended 31 May 2016, our net cash used in investing activities amounted to RMB1.4 million, which was mainly attributable to purchases of property, plant and equipment amounting to RMB1.5 million relating to renovations of our staff dormitory and other facilities and purchases of new equipment, partially offset by government grants received amounting to approximately RMB25,000.

For the year ended 31 December 2015, our net cash used in investing activities amounted to RMB1.0 million, which was mainly attributable to (i) the purchase of property, plant and equipment amounting to RMB10.7 million, which consisted primarily of expenses for furnishings and renovation costs for our staff dormitory and (ii) payments for prepaid operating lease of RMB7.6 million relating to our staff dormitory. This was partially offset by a repayment of RMB8.5 million from Hengqin Jiachuang for a cash advance we made in 2014 and a repayment by a third party of RMB8.3 million for a short-term loan we made in 2014.

For the year ended 31 December 2014, our net cash used in investing activities amounted to RMB19.4 million, which was mainly attributable to (i) a cash advance made to Hengqin Jiachuang, the then owner of Hubei Mengke, of RMB8.5 million for general business purposes; (ii) a short-term loan made to a third party of RMB8.3 million; and (iii) purchase of plant, property and equipment of RMB3.2 million mainly relating to completion of renovations to our new office building.

For the year ended 31 December 2013, our net cash used in investing activities amounted to RMB8.7 million, which was mainly attributable to the purchase of property, plant and equipment of RMB9.1 million relating to renovations to our production facilities and the purchase of various equipment including crosscutting machines, laminating machines and rewinding machines. This was partially offset by RMB0.5 million in government grants received.

Cash flows from financing activities

For the five months ended 31 May 2016, our net cash generated from financing activities amounted to RMB4.9 million, which was mainly attributable to net proceeds from borrowings of RMB12.0 million as we obtained new loans, partially offset by repayments of RMB6.2 million in amounts due to related parties in connection with cash advances received by the Company in 2015.

For the year ended 31 December 2015, our cash used in financing activities amounted to RMB28.1 million, which was mainly attributable to (i) dividends paid of RMB35.0 million and (ii) net repayment of borrowings of RMB5.1 million, which was partially offset by an increase in amounts due to related parties of RMB11.9 million resulting from cash advances from Yichang Kunxiang and Mr. Fu in connection with our business operations.

For the year ended 31 December 2014, our cash used in financing activities amounted to RMB10.7 million, which consisted of (i) net repayments of borrowings of RMB9.9 million and (ii) dividends paid of RMB0.8 million.

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For the year ended 31 December 2013, our cash generated from financing activities amounted to RMB2.9 million, which represented RMB30.0 million in net proceeds from borrowings, partially offset by net repayments of RMB20.0 million for a cash advance made by Hubei Golden, a former owner of Hubei Mengke, and payment of dividends of RMB7.1 million.

NET CURRENT ASSETS

The following table sets out our current assets and current liabilities as of the dates indicated.

	As at 31 December			As at	
	2013	2014	2015	31 May 2016	30 September 2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>
Current assets					
Inventories	57,073	60,671	48,566	42,559	47,672
Trade and other receivables and prepayments	88,081	116,255	146,693	115,596	122,794
Notes receivables	2,100	18,467	1,200	5,799	3,300
Amounts due from related parties	472	8,533	—	275	219
Restricted cash	15,175	30,800	37,565	59,765	30,135
Cash and cash equivalents	2,848	392	7,754	8,142	1,219
Total current assets	165,749	235,118	241,778	232,136	205,339
Current liabilities					
Borrowings	30,000	20,060	15,000	17,000	27,000
Trade and other payables	109,043	142,466	142,639	102,394	87,695
Notes payables	25,130	55,800	65,130	89,830	60,270
Amounts due to related parties	414	—	15,223	9,883	22,692
Current income tax liabilities	—	1,124	1,704	2,261	951
Total current liabilities	164,587	219,450	239,696	221,368	198,608
Net current assets	1,162	15,668	2,082	10,768	6,731

We had net current assets as at each of 31 December 2013, 2014, 2015, 31 May 2016 and 30 September 2016. Our net current assets positions as at each of these dates was primarily attributable to our trade and other receivables and prepayments, inventories and restricted cash, which were partially offset by our trade and other payables, notes payables and borrowings. Our net current assets decreased by RMB13.6 million, or 86.7%, between 31 December 2014 and 2015 primarily due to (i) the cash payments made in 2015 for prepaid operating lease of RMB7.6 million relating to our staff

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dormitory, which were one-time in nature, and (ii) the use of working capital to fund the new additions of property, plant and equipment (which include the upgrade of office utilities, an additional laminating machine and the renovation of the staff quarters) of RMB6.1 million. As such, these capital expenditures resulted in a decrease in our net current assets, together with an increase in our total non-current assets, as at 31 December 2015. As at 31 May 2016, we recorded net current assets of RMB10.8 million, which represented an increase of RMB8.7 million from 31 December 2015. This increase was primarily due to (i) a decrease in trade and other payables of RMB40.2 million as we settled a large amount of our payables from the end of 2015 and (ii) an increase in restricted cash of RMB22.2 million. As at 30 September 2016, we held a net current assets position at RMB6.7 million and the decrease in net current assets from 31 May 2016 was primarily due to an increase in current borrowings of RMB10 million as the relevant loan was due to mature in July 2017 and was re-classified from non-current borrowings to current borrowings.

We have the following measures designed to maintain effective liquidity and cash flow management:

- (i) We have internal guidelines on various cash flow and liquidity management functions, including cash management, budgeting, capital planning, credit control, fixed assets management and cost control.
- (ii) The finance department is responsible for the implementation of these internal guidelines and the efficiency management department conducts periodic assessment of the effectiveness of these measures.
- (iii) The finance department conducts regular analysis and reporting on our financial performance and analyses the key financial metrics and any variances identified from the financial reports.

During the period from 19 October 2015 to 30 October 2015 and from 4 January 2016 to 15 January 2016, our internal control advisor conducted two phases of internal control review on the Group's credit control policy and liquidity and cash flow management measures and was of the view that they were not aware of any material deficiencies.

For each of 2013, 2014 and 2015, we were able to generate net cash from operating activities. Although cash flow from operating activities will be significantly affected for the year ending 31 December 2016 mainly due to the payments and expected payment of listing expenses, our Directors expect that we will have an overall net increase in cash and cash equivalents for the year ending 31 December 2016 assuming the Share Offer will be completed in 2016. In addition, as at each of 31 December 2013, 2014, 2015, 31 May 2016 and 30 September 2016, we recorded net current assets.

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Having considered the liquidity and cash flow performance as described above, the Directors are of the view that our liquidity and cash flow measures are effective and adequate. Based on, among others, (i) due diligence interviews with our management and customers on credit control terms; (ii) discussion with our management regarding the liquidity and cash flow management policies and measures, (iii) the review of the internal control report prepared by an independent internal control adviser in relation to credit control policy and liquidity and cash flow management measures; (iv) the Directors' view on the effectiveness of our liquidity and cash flow measures; and (v) the historical and expected liquidity and cash flow performance of the Group as described above, the Sponsor is of the view that our liquidity and cash flow measures are adequate and effective.

CERTAIN BALANCE SHEET ITEMS

Inventories

Our inventories comprise raw materials, work in progress and finished goods. We typically manage our inventories of raw materials on a weighted average price basis so that cost of each supply is determined based on the weighted average of the cost of similar supplies at the beginning of the period and the cost of similar supplies purchased or produced during the period.

The following table is a summary of our balance of inventories as at the dates indicated:

	As at 31 December			As at 31 May
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	37,088	30,098	32,811	36,400
Work in progress	2,045	3,767	2,523	1,425
Finished goods	17,940	26,806	13,232	4,734
Total	<u>57,073</u>	<u>60,671</u>	<u>48,566</u>	<u>42,559</u>

Inventories increased from RMB57.1 million as at 31 December 2013 to RMB60.7 million as at 31 December 2014 due to an increase in work in progress and finished goods to accommodate a larger number of orders which came in at the end of 2014. Inventories decreased from RMB60.7 million as at 31 December 2014 to RMB48.6 million as at 31 December 2015 as we delivered a large amount of orders shortly before the end of 2015. Inventories further decreased to RMB42.6 million as at 31 May 2016 as we made greater efforts to reduce our excess inventory of finished goods in anticipation of a new regulation on cigarette packaging that came into effect in October 2016, which might have changed the specification requirements of the paper our customers would order.

During the Track Record Period, we did not record provisions for impairment of inventories. The Directors are of the view that our inventories are generally not subject to any high risk of obsolescence because of the nature of our raw materials and all our products are made to orders.

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The following table sets out our average inventory turnover days for the periods indicated:

	Year ended 31 December			Five months ended 31 May
	2013	2014	2015	2016
	<i>Days</i>	<i>Days</i>	<i>Days</i>	<i>Days</i>
Average inventory turnover days ⁽¹⁾	87	97	79	90

Note:

- (1) Average inventory turnover days were calculated as the average of the beginning and ending of inventories balance of the respective period divided by cost of sales of the respective period and multiplied by the number of days in the relevant period.

The increase in average inventory turnover days between 2013 and 2014 was primarily due to the increased inventories at the end of 2014 to accommodate the large amount of orders anticipated for early 2015. Average inventory turnover days decreased to 79 days in 2015 due to a decrease in inventories as at 31 December 2015 following a large shipment of orders, combined with increased cost of sales. Average inventory turnover days increased to 90 days for the five months ended 31 May 2016 primarily because the first half of the year was our low season.

As at 30 September 2016, approximately RMB21.4 million, or 50.2%, of our inventories as at 31 May 2016 were subsequently consumed or sold.

Trade and notes receivables

Our trade receivables represent the amounts receivable from customers in connection with our sales or service to customers. We generally provide customers a credit period of 30 to 120 days. The following table sets out our trade receivables as at the dates indicated:

	As at 31 December			As at 31 May
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	82,608	107,348	143,693	109,545
Less: allowance for doubtful debts	(45)	(45)	(28)	—
Net trade receivables	<u>82,563</u>	<u>107,303</u>	<u>143,665</u>	<u>109,545</u>

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The increase in trade receivables from RMB82.6 million as at 31 December 2013 to RMB107.3 million as at 31 December 2014 was mainly because we delivered a large amount of orders in late 2014. The increase in trade receivables from RMB107.3 million as at 31 December 2014 to RMB143.7 million as at 31 December 2015 was primarily due to the increase in sales volume in 2015. The decrease in trade receivables from RMB143.7 million as at 31 December 2015 to RMB109.5 million as at 31 May 2016 was mostly due to slower sales during the first half of the year which is our low season and because our customers settled a greater proportion of their trade receivables from the end of 2015.

The following table sets out the aging analysis of our trade receivables based on the invoice date as at the dates indicated:

	As at 31 December			As at 31 May
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Less than 30 days	40,240	48,560	66,115	77,507
31 to 60 days	24,793	28,019	34,538	7,885
61 to 90 days	4,466	13,592	20,901	2,092
91 to 120 days	2,682	9,698	18,019	4,551
121 to 180 days	5,168	2,105	4,100	11,097
Over 180 days	5,259	5,374	20	6,413
Total	82,608	107,348	143,693	109,545

As at 31 December 2013, 2014 and 2015 and 31 May 2016, we had trade receivables that were past due but not impaired amounting to RMB17.5 million, RMB23.1 million, RMB31.5 million and RMB20.7 million, respectively. These related to a number of independent customers for whom there was no recent history of default. Please see Note 18 of the Accountant's Report in Appendix I to this prospectus for an aging analysis of these amounts.

As at 30 September 2016, approximately RMB85.2 million, or 77.8%, of our trade receivables as at 31 May 2016 had been subsequently settled.

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The following table sets out the aging analysis of our trade receivables as at 31 May 2016 that remained outstanding as at 30 September 2016 based on the invoice date:

	As at 30 September 2016	
	<i>RMB'000</i>	%
31 days to 60 days.....	—	—
61 days to 90 days.....	20,127	82.8
91 days to 120 days.....	2,478	10.2
121 days to 180 days.....	889	3.7
Over 180 days.....	<u>802</u>	<u>3.3</u>
Total	<u><u>24,296</u></u>	<u><u>100.0</u></u>

Our Directors are of the view that the risk of impairment for the trade receivables as at 31 May 2016 is remote since the amount of trade receivables as at 31 May 2016 that were aged over 90 days had decreased by 81.0% from RMB22.1 million as at 31 May 2016 to RMB4.2 million as at 30 September 2016 and the vast majority of the outstanding balance as at 30 September 2016 was due from our major customers which have well-established business relationship with us.

During the year 2015 and the five months ended 31 May 2016, we experienced delays in settlement of trade receivables by one of our five largest customers, Wuhan Hongjinlong Packaging Company Limited (“**Wuhan Hongjinlong**”), which to our knowledge had experienced staff changes resulting in longer processing time for invoice settlement. Nevertheless, during the Track Record Period, all of this customer’s historical trade receivables for the years ended 31 December 2013 and 2014 had been subsequently settled. Based on our established relationship with this customer and its credit history, our Directors are of the view that the delay in settlement of its trade receivables did not expose us to significant risk of impairment. Our trade receivables from Wuhan Hongjinlong as at 31 December 2015 amounted to RMB11.9 million which had been fully settled as at the Latest Practicable Date; and the balance as at 31 May 2016 amounted to RMB9.8 million, of which RMB9.1 million or 92.5% had been subsequently settled as at the Latest Practicable Date.

Our Directors are of the view that the risk of impairment for the trade receivables due from other customers is remote because as at 30 September 2016, the subsequent settlement rate for trade receivables as at 31 December 2015 and 31 May 2016 was 99.98% and 77.8%, respectively. Furthermore, we have well-established business relationship with our top five customers, which account for the majority of our revenue. Additionally, we have an internal credit control policy to monitor our sales orders and recoverability of trade receivables to minimise risks.

Hubei Golden was the Group’s largest customer in 2013 and 2014 and the second largest customer in 2015. Our trade receivables from Hubei Golden amounted to RMB19.0 million as at 31 December 2015. As at 31 May 2016, all of the outstanding trade receivables as at 31 December 2015 had been subsequently settled.

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As at 31 December 2013, 2014, 2015 and 31 May 2016, the amount of provision for impairment of trade receivables was approximately RMB45,000, RMB45,000, RMB28,000 and nil, respectively. The provision as at 31 December 2013 and 2014 was attributable to a minor customer who no longer does business with us and such provision had been subsequently written off. The provision as at 31 December 2015 was attributable to a customer who only purchased a small amount from us. We generally implement policies to ensure that our sales are made to customers with good credit histories and our sales department regularly performs credit evaluations on our customers by assessing their current financial position, past experience and other factors. In considering whether impairment of receivables is required, we consider future cash flows, ageing status and the likelihood of collection.

Having considered (i) the continuous business relationship between us and our customers; (ii) our follow-up communications on settlement of invoices with our customers from time to time; and (iii) the subsequent settlements actually made by our customers, our Directors are of the view that there is no recoverability problem and we have made adequate provision for impairment of trade receivables during the Track Record Period.

The Sponsor is also of the view that the provision for impairment of trade receivables was adequate during the Track Record Period on the basis that it had (i) reviewed the internal control report prepared by an independent internal control adviser in relation to trade receivables treatment; (ii) reviewed the internal controls measures adopted by us in relation to trade receivables treatment; (iii) conducted independent due diligence interviews and background search on our major customers; (iv) examined sales agreements entered into between us and our major customers; (v) reviewed the subsequent settlements of trade receivables; and (vi) discussed with the Directors with their views on the adequacy of provision for impairment of trade receivables during the Track Record Period.

The following table sets out our average trade receivables turnover days for the periods indicated:

	Year ended 31 December			Five months
	2013	2014	2015	ended 31 May 2016
Average trade receivables turnover days ⁽¹⁾	111	128	143	194

Note:

- (1) Average trade receivables turnover days were calculated as the average of the beginning and ending of trade receivables balance of the respective period divided by revenue of the respective period and multiplied by the number of days in the relevant period.

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We record our trade receivables when our customers initially confirm receipt and acceptance of the goods. However, we only issue our invoice after our customers have conducted their internal control procedures and provided final confirmation that the delivery is in good order, which may take an extended period of time. During the Track Record Period, our trade receivables turnover days is typically longer than our credit periods of 30 to 120 days that we granted to our customers due to the following reasons:

- Time difference between initial acceptance and final acceptance: During the Track Record Period, the time taken between the initial acceptance of goods and final confirmation of acceptance by our customers was typically within 30 days for most of our orders. Since our credit periods begin on the invoice date which are after the final confirmation of acceptance, while our trade receivables were recorded on the initial acceptance date when the risks and rewards relating to the products are passed to the customer upon goods delivery and initially accepted by the customer, the time difference had lengthened our trade receivables turnover days.
- Seasonal factor: Due to the nature of the cigarette paper packaging industry, our peak season usually occurs during the second half of the year and most of our orders were received towards the end of the year. As a result, our trade receivables balance as at 31 December of each year is typically higher than the average monthly balances over the year; and
- Delays due to batch payment: We manufacture and deliver products to customers continuously which resulted in a large number of invoices throughout the year, our customers typically group the invoices that we issued to them and pay us in batches due to administrative convenience. Since we have good relationship with our major customers, we usually allow them to make their payments according to the above arrangement even if the credit period has passed for some of the invoices.

Our average trade receivables turnover days increased from 111 in 2013 to 128 in 2014 primarily due to an increase in trade receivables as at 31 December 2014 resulting from a large number of orders received near the end of 2014, driven by stronger demand for our products during the peak season. Our average trade receivables turnover days further increased to 143 in 2015 mainly because of a further increase in orders received near the end of 2015. As such, we added one more laminating machine to our production line at the end of 2015 to address the increase in our product demand. Our average trade receivables turnover days in 2015 were also affected by delays in settlement from Wuhan Hongjinlong, one of our major customers. Our average trade receivables turnover days for the five months ended 31 May 2016 increased to 194 days mainly because (i) the beginning trade receivables balance as at 31 December 2015 represented the high point of our trade receivables balance during the year and the revenue for the five months ending 31 May 2016 was relatively low due to slower sales during the low season and the combined effects of these seasonal factors have resulted in a higher trade receivables turnover days calculation; and (ii) during the five months ended 31 May 2016, we derived 33.4% of our revenue from Beijing Leigh-mardon Pacific Packaging Co. Ltd as compared to 10.1% of our revenue for the year ended 31 December 2015, which was granted a longer credit term of 120 days as compared to the other major customers. Furthermore, the increase in average trade receivables turnover days for the five months ended 31 May 2016 was also in part due to the delays

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in settlement by Wuhan Hongjinlong. Despite the increase in turnover days, our trade receivables balance decreased significantly by RMB34.1 million, or 23.8%, from RMB143.7 million as at 31 December 2015 to RMB109.5 million as at 31 May 2016. Furthermore, in comparison to the five months ended 31 May 2015, we recorded higher revenue for the five months ended 31 May 2016 and a greater percentage decrease in trade receivables balance between 31 December 2015 and 31 May 2016 than between 31 December 2014 and 31 May 2015.

While we generally settle invoices with our customers in cash, we also receive settlement from some customers in bank acceptance notes and commercial bills. These constitute our notes receivables, which amounted to RMB2.1 million, RMB18.5 million, RMB1.2 million and RMB5.8 million as at 31 December 2013, 2014, 2015 and 31 May 2016, respectively.

We have an internal credit control policy for our sales and finance departments to monitor the sales orders and recoverability of trade receivables. The policy covers standard procedures from signing contracts and delivery of goods to collection of trade receivables and overdue payments.

In order to strengthen the control of trade receivables, we have adopted the following measures:

- (i) Our sales department reviews and keeps record of the customer's information, including copies of the customer's business registration certificate, tax registration certificate and other documents.
- (ii) Our sales department assesses the creditworthiness of a customer by closely examining a number of indicators which include its financial and operational conditions, its credit rating and competitive landscape of the market. Based on such assessment and the value of the relevant contract, we set a maximum balance of amount due allowable for a customer.
- (iii) Our finance department monitors the overdue trade receivables and directs the sales personnel to follow up the collection of the trade receivables.
- (iv) Our sales department sets up a credit profile for each customer. Record relating to the transactions with the customer is updated monthly to monitor the amount of sales, payment, accumulated amount outstanding and amount overdue made as of the end of the month.
- (v) Our finance department monitors and updates the customer's trade receivables position from time to time, keep track of the movement of the trade receivables.
- (vi) At the beginning of the month, our finance department provides information on the customer's credit position up to the end of the previous month for the sales department to follow up. The finance department also provides an aging analysis on the customers' trade receivables to the sales manager periodically.
- (vii) For those long overdue trade receivables, our finance department collects all relevant information for the sales manager and the financial controller to follow up, and to closely monitor the outstanding trade receivables.

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During the period from 19 October 2015 to 30 October 2015 and from 4 January 2016 to 15 January 2016, our internal control advisor conducted two phases of internal control review on the Group's credit control policy and liquidity and cash flow management measures and was of the view that they were not aware of any material deficiencies.

The enhanced internal control measures in relation to trade receivables were implemented in December 2015.

Having considered the above improvement in our credit control management, as well as the amount of trade receivables as at 31 May 2016 subsequently settled as at 30 September 2016, the Directors are of the view that our control measures are adequate and sufficient. Based on, among others, (i) due diligence interviews with our management and customers on trade settlement terms; (ii) discussion with our management regarding the credit control policy, (iii) reviewed the internal control report prepared by an independent internal control adviser in relation to trade receivables treatment; (iv) reviewed the internal controls measures adopted by us in relation to trade receivables treatment; and (v) the Directors' view on the effectiveness of our credit control policy, the Sponsor is of the view that our credit control policy is effective.

Advances to employees and loan to a third party

We make advances to employees to facilitate the payment of various business expenses to be made by our employees on our behalf in connection with our normal business operations from time to time. These advances will be offset once we receive the invoices settled by the relevant amounts. The balance of advances to employees was RMB4.3 million, RMB0.2 million, RMB0.6 million and RMB1.3 million as at 31 December 2013, 2014, 2015 and 31 May 2016, respectively. The balance was reduced substantially from RMB4.3 million as at 31 December 2013 to RMB0.2 million as at 31 December 2014 primarily because of our enhanced efforts to increase our efficiency in managing expense payments. As advised by our PRC Legal Adviser, the above advances to employees were within the normal business operations of the Company, and therefore did not violate the General Lending Provisions (《貸款通則》) and other relevant PRC laws and regulations.

We had made a short-term loan to an Independent Third Party with an outstanding balance of RMB8.3 million as at 31 December 2014. This amount was to mature within one year and had an annual interest rate of 6.0%. It was subsequently repaid in 2015. According to the confirmation provided by the Yichang Branch of the People's Bank of China, this cash advance constituted "private lending" under the Provisions of the Supreme People's Court on Several Issues Concerning the Application of Law in Private Lending Cases (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》) which took into effect on 1 September 2015, and the General Lending Provisions promulgated by the People's Bank of China are not applicable to this cash advance. The Yichang Branch of the People's Bank of China confirmed that it had not previously imposed any penalty on similar cash advances between enterprises and would not impose any penalty on us as a result of this cash advance. Based on the confirmation provided by the Yichang Branch of the People's Bank of China, our PRC Legal Adviser is of the opinion that the Yichang Branch of the People's Bank of China is a competent authority to provide the confirmation, on the basis that: (i) pursuant to the General Lending Provisions, the People's Bank of China and its branch offices are the regulatory authorities for the implementation of the General Lending Provisions, and (ii) pursuant to the Provisions of the

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People's Bank of China on the Administrative Punishments Procedure, branch offices of the People's Bank of China, including the branches and sub-branches of the People's Bank of China, have jurisdiction over the illegal financial activities in their respective administrative region, and that the General Lending Provisions are not applicable to this cash advance and the cash advance complied with the applicable PRC laws and regulations.

Trade and notes payables

Trade payables represent the amounts due to our suppliers. We generally have credit terms of 30 to 90 days with our suppliers. The following table sets forth our trade payables as at the dates indicated:

	As at 31 December			As at 31 May
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	78,527	111,629	136,591	88,035

Our trade payables increased from RMB78.5 million as at 31 December 2013 to RMB111.6 million as at 31 December 2014 primarily due to increased purchases of raw materials to support production for the anticipated sales demand in early 2015. Our trade payables further increased to RMB136.6 million as at 31 December 2015 as we purchased more raw materials for production to support our increased sales volume in 2015. Our trade payables decreased to RMB88.0 million as at 31 May 2016 as we settled a large amount of our payables from the end of 2015.

The following table sets forth the ageing analysis of the trade payables based on the invoice date as at the dates indicated:

	As at 31 December			As at 31 May
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Less than 30 days	56,047	80,527	87,727	52,092
31 to 60 days	16,156	18,789	21,484	7,328
61 to 90 days	3,758	8,301	13,647	13,067
91 to 180 days	1,342	1,857	9,381	11,796
Over 180 days	1,224	2,155	4,352	3,752
	78,527	111,629	136,591	88,035

As at the 30 September 2016, approximately RMB71.3 million, or 81.0%, of our trade payables as at 31 May 2016 had been subsequently settled.

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The following table sets forth our average trade payables turnover days for the periods indicated:

	Year ended 31 December			Five months ended 31 May
	2013	2014	2015	2016
Average trade payables turnover days ⁽¹⁾	129	157	179	221

Note:

(1) Average trade payables turnover days were calculated as the average of the beginning and ending trade payables balances of the respective period divided by cost of sales of the respective period and multiplied by the number of days in the relevant period.

The trade payable turnover days was longer than our typical credit terms of 30 to 90 days primarily because of (i) the seasonal pattern where trade payables are typically higher at the beginning and the end of the year as production activities peaked before Chinese New Year, as a result of which the calculation of average trade payables turnover days based on the average of the beginning and ending trade payables balances would be higher than otherwise, and (ii) the time difference between the date of accepting delivery and the invoice date. We record the trade payable amount upon accepting delivery but our credit period begins as of the invoice date. The invoice may be issued days or weeks after acceptance depending upon the billing cycle of the supplier and the time required to process its billing. The usual period of time between our acceptance of raw materials and the date an invoice is issued to us is typically within 45 days. The following table sets out the credit period granted by our major suppliers during the Track Record Period:

Supplier (Ranked by purchase)	Credit period granted <i>(Days)</i>
Year ended 31 December 2013	
Supplier A	30
Supplier B	30
Supplier C	60
Supplier D	60
Supplier E	60
Year ended 31 December 2014	
Supplier F	60
Supplier G	30
Supplier B	30
Supplier H	30
Supplier I	60

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Supplier (Ranked by purchase)	Credit period granted
	(Days)
Year ended 31 December 2015	
Supplier F	60
Supplier B	30
Supplier G	30
Supplier H	30
Supplier J	60
Five months ended 31 May 2016	
Supplier F	60
Supplier H	60
Supplier G	60
Supplier B	60
Supplier K	60

The increases in average trade payables turnover days during the Track Record Period were mainly due to increases in purchases resulting from a large number of orders near the end of year. The increase in average trade payables turnover days from 129 days in 2013 to 157 days in 2014 was primarily due to the large trade payables balance at the end of 2014 as we increased purchases of raw materials in anticipation for higher sales demand in 2015. The further increase to 179 days in 2015 was primarily due to greater purchases of raw materials as our sales volume increased in 2015 and some of our major suppliers granted us extended credit periods. These suppliers have agreed to extend their credit periods without specifying any deadline for payment as these major suppliers who granted us extended credit period have had business relationship with us for 7 to 10 years and they are satisfied with our settlement history. The increase of trade payables turnover days to 221 days for the five months ended 31 May 2016 was primarily because the beginning trade payables balance as at 31 December 2015 represented the high point of our trade payables balance during the year while the cost of sales for the five months ending 31 May 2016 was relatively low due to slower sales during the low season and the combined effects of these seasonal factors have resulted in a higher trade payables turnover days calculation. Despite the increase in trade payables turnover days, our trade payables balance decreased significantly by RMB48.6 million, or 35.5%, from RMB136.6 million as at 31 December 2015 to RMB88.0 million as at 31 May 2016.

We utilise cash or bank acceptance notes to settle our trade payables. Bank acceptance notes constitute our notes payables, which amounted to RMB25.1 million, RMB55.8 million, RMB65.1 million and RMB89.8 million as at 31 December 2013, 2014, 2015 and 31 May 2016, respectively.

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INDEBTEDNESS

Borrowings

Our primary uses of cash are to satisfy our working capital and capital expenditure needs which have been primarily financed through cash generated from operations and borrowings. Our Directors confirmed that we did not experience any difficulty in obtaining financing during the Track Record Period.

Our borrowings during the Track Record Period consisted of interest-bearing bank borrowings provided by commercial banks in China and interest-free loans from a local government authority. As at 31 December 2013, 2014, 2015 and 31 May 2016, our outstanding borrowings amounted to RMB30.0 million, RMB20.1 million, RMB15.0 million and RMB27.0 million, respectively. All our borrowings as at 31 December 2013, 2014, 2015 and RMB17.0 million of our borrowings as at 31 May 2016 were repayable within one year. As at 31 May 2016, we had one long-term loan amounting to RMB10.0 million which was drawn from our banking facility, as discussed further below. The weighted average effective interest rates of the short-term borrowings were 5.9%, 6.4%, 6.3% and 4.79% as at 31 December 2013, 2014, 2015 and 31 May 2016, respectively. Our loans from a local government authority in 2014 and 2015 amounted to RMB5.0 million and RMB5.0 million, respectively, and were repayable within one year. Both loans from the local government in 2014 and 2015 were repaid in full during 2015. In addition, in April 2016, we obtained an interest-free loan of RMB2.0 million from a local government authority, which matured in November 2016.

As at 30 September 2016, we had outstanding bank borrowings amounting to RMB25.0 million consisting of (i) a short-term loan of RMB15.0 million with an interest rate of 4.7850%, due to mature in March 2017; and (ii) a loan of RMB10.0 million with an interest rate of 5.22%, due to mature in July 2017. The bank borrowings were obtained under a revolving credit facility from the Yichang branch of a domestic commercial bank for making short-term loans or notes payable with a total available credit line of RMB55.0 million. We used the remaining credit amount of RMB30.1 million under the above revolving credit facility, together with the restricted cash deposit of RMB30.1 million, to secure the outstanding notes payable of RMB60.3 million as at 30 September 2016. As at the Latest Practicable Date, we had renewed this revolving credit facility, which is our only banking facility, with an increased total available credit line of RMB60.0 million and RMB4.9 million remained unutilised under this banking facility. We are subject to certain covenants including an undertaking to notify the bank of certain events which may have a material adverse impact on our business and financial condition such as mergers, restructuring, transfers of equity or material legal actions and other such events so that we can coordinate with the bank to ensure performance of our payment obligations.

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Our borrowings were secured by our land use right, property, plant and equipment, notes receivables and trade receivables. The following table sets forth the carrying amounts of assets pledged to secure our borrowings as at the dates indicated:

	As at 31 December			As at 30 September
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepaid lease payments	6,009	5,859	12,778	12,526
Property, plant and equipment	14,432	13,787	19,693	18,111
Notes receivables	—	18,467	—	2,000
Trade receivables	—	—	18,763	19,067
Total	20,441	38,113	51,234	51,704

We currently have no plans to materially change our borrowing levels. However, we may seek additional bank borrowings in the future based on the implementation of our capital expenditures plan and availability of other funding sources.

Our Directors confirmed that we had no default in the payment of bank and other borrowings during the Track Record Period and up to the Latest Practicable Date.

Our Directors confirmed that, as at 30 September 2016, being the latest practicable date for the purpose of determining indebtedness, save as disclosed in this prospectus, we did not have any other borrowings, debt securities, indebtedness, mortgages, charges, contingent liabilities or guarantees. Our Directors also confirmed that, since 31 May 2016, there has been no material adverse change in our indebtedness.

SUFFICIENCY OF WORKING CAPITAL

We held net current assets as at 31 December 2013, 2014, 2015, 31 May 2016 and 30 September 2016. Our Directors are of the opinion that, taking into account the financial resources available to us including internally generated funds, existing borrowings, the available banking facilities and the estimated net proceeds from the Share Offer, we have sufficient working capital for our present requirements and for the next 12 months from the date of this prospectus.

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RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions

The following table sets out the transactions we had with related parties during the period these parties were our related parties:

	Year ended 31 December			Five months ended 31 May
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Sales of goods to:				
Hubei Golden ⁽¹⁾⁽²⁾	<u>10,476</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Purchase of goods from:				
Hubei Golden ⁽¹⁾	<u>17</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Interest expense paid to:				
Hubei Golden ⁽¹⁾	<u>103</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Transportation expenses paid to:				
Yichang Hongyi Logistics Co., Ltd. (“Hongyi”) ⁽³⁾ . .	<u>1,047</u>	<u>4,285</u>	<u>4,634</u>	<u>969</u>

Note:

- (1) Hubei Golden is a cigarette package manufacturer and was a former shareholder of Hubei Mengke. Hubei Golden ceased to be our related party in February 2013 when Hubei Golden disposed of its 70% interest in Hubei Mengke to Hengqin Jiachuang with a loss of control and agreed to give up any significant influence over Hubei Mengke.
- (2) This amount represents the sales of metallised paper from 1 January 2013 to 1 February 2013 to Hubei Golden in which Hubei Golden was a related party of the Group.
- (3) This amount represents the transportation expenses from 1 January 2016 to 16 March 2016 in which Hongyi was a related party of the Group.

Our sales to Hubei Golden during the period in which it was our related party constituted 3.9% of our revenue in 2013. Hubei Golden has purchased products from us in 2014 and 2015 and is expected to continue to be our customer after the Listing.

We also purchased a small amount of goods from Hubei Golden. These were mostly certain raw materials of which we typically only need a small amount. Our purchases from Hubei Golden during the period in which it was our related party constituted less than 0.01% of our total costs of sales in 2013.

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In November 2012, we received an interest-bearing cash advance from Hubei Golden amounting to RMB20.0 million which was repaid in full in 2013. During the period in which Hubei Golden was our related party in 2013, we incurred interest of RMB0.1 million in respect of such cash advance.

We paid transportation expenses of RMB1.0 million, RMB4.3 million, RMB4.6 million and RMB1.0 million in the years ended 31 December 2013, 2014, 2015 and from 1 January 2016 to 16 March 2016, respectively, to Hongyi, a logistics company which is jointly controlled by a close family member of one of our Directors. The relevant family member resigned from his position in Hongyi and disposed of his entire interest in Hongyi on 14 March 2016 and this transfer was approved by the relevant government authority on 16 March 2016. As such, Hongyi is no longer our related party.

These related party transactions were conducted in accordance with the terms as agreed between us and the respective related parties. Our Directors confirmed that all related party transactions during the Track Record Period were conducted on an arm's length basis and on normal commercial terms that are reasonable and in the interest of our Group as a whole. Our Directors further confirmed that these related party transactions would not distort our results of operations for the Track Record Period or make our historical results not reflective of our future performance. For further details regarding our transactions with related parties, please see Note 28 of the Accountant's Report in Appendix I to this prospectus.

Related party balances

Our amounts due from related parties amounted to RMB0.5 million, RMB8.5 million, nil and RMB0.3 million as at 31 December 2013, 2014, 2015 and 31 May 2016, respectively. In 2013, our amounts due from related parties consisted of cash advances to a key member of our management personnel for business expenses; the amounts due from related parties in 2014 consisted of a cash advance of RMB8.5 million made to Hengqin Jiachuang for general business expenses; and the amounts due from our related parties as at 31 May 2016 consisted of a cash advance to a key member of our management personnel for business expenses. All of these outstanding cash advances due from our related parties will be settled prior to or upon the Listing.

Our amounts due to related parties amounted to RMB0.4 million, nil, RMB15.2 million and RMB9.9 million as at 31 December 2013, 2014, 2015 and 31 May 2016, respectively. The amounts due to related parties as at 31 December 2013 consisted of RMB0.3 million due to Hengqin Jiachuang for dividends payable and RMB69,000 due to Hongyi as outstanding payment for logistics services provided. The amounts due to related parties as at 31 December 2015 consisted of (i) cash advances of RMB6.4 million made by Yichang Kunxiang; (ii) cash advances of RMB5.5 million made by Mr. Fu; and (iii) cash advances of RMB3.3 million from Mr. Zhang related to listing expenses paid on behalf of the Group. The amounts due to related parties as at 31 May 2016 consisted of (i) an amount due to Yichang Kunxiang of RMB0.2 million as the remaining consideration payable in relation to the acquisition of certain equity interest in Hubei Mengke by Mengke (Hong Kong), which has been subsequently settled; (ii) cash advances of RMB5.7 million made by Yichang Kunxiang; and (iii) cash advances of RMB3.9 million from Mr. Zhang mainly related to listing expenses paid on behalf of the Group. Our amounts due to related parties increased to RMB22.7 million as at 30 September 2016 mainly due to an increase in (i) cash advances from Yichang Kunxiang and Mr. Fu; and (ii) cash advances from Mr. Zhang for further listing expenses paid on behalf of the Group after 31 May 2016.

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All of these outstanding cash advances due to Yichang Kunxiang, Mr. Fu and Mr. Zhang will be settled prior to or upon the Listing by funds from a combination of sources including our cash and bank balance, cash generated from operations including cash collected from our trade receivables and unutilised credit facility.

COMMITMENTS

Operating leases

The following table sets out our operating lease commitments as at the dates indicated.

	As at 31 December			As at 30 September
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	—	38	35	228
1 to 2 years	—	35	—	84
	—	73	35	312
	—	73	35	312

Capital commitment

The following table sets out our capital commitments as at the dates indicated:

	As at 31 December			As at 30 September
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Capital expenditures in respect of acquisition of property and equipment and land use right contracted for but not provided	8,396	8,999	—	415
	8,396	8,999	—	415
	8,396	8,999	—	415

As at 30 September 2016, we did not have any authorised planned capital expenditures that were not contracted for.

The capital commitment as at 30 September 2016 was low because the planned capital expenditures in relation to our expansion plan will be financed primarily by the net proceeds from the Share Offer and our relevant internal authorisation or approval procedures for these capital expenditure plans have not been obtained nor completed until recently in November 2016.

CAPITAL EXPENDITURES

During the Track Record Period, our capital expenditures consisted primarily of expenditures on buildings, plant and machinery, furniture, fixtures and equipment, motor vehicles and construction in progress.

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The following table sets out our historical capital expenditures for the periods indicated:

	Year ended 31 December			Five months ended 31 May
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Additions of property, plant and equipment	22,591	3,325	6,101	927
Additions of prepaid operating lease payments.	—	—	7,220	—
Total	<u>22,591</u>	<u>3,325</u>	<u>13,321</u>	<u>927</u>

As at 31 December 2013, 2014, 2015 and 31 May 2016 the carrying amount of our property, plant and equipment was RMB35.9 million, RMB36.2 million, RMB38.7 million and RMB38.1 million respectively, which consisted mainly of plant and buildings with carrying amounts of RMB21.6 million, RMB26.3 million, RMB28.6 million and RMB28.7 million, respectively.

During the Track Record Period, most of our capital expenditures were on (i) plant and buildings which were purchases of properties for our production facilities, staff dormitory and other facilities and (ii) production equipment.

We currently plan to make new capital expenditures in the amount of RMB5.7 million for the year ending 31 December 2016, which will be mainly used for improving our production and supporting facilities. Our Directors confirmed that the capital requirement for the future plans for capital expenditures will be financed primarily by the net proceeds from Share Offer. Please see the section headed “Future Plans and Use of Proceeds” in this prospectus for further details.

KEY FINANCIAL RATIOS

Set out below is the summary of our key financial ratios during the Track Record Period:

	As at/year ended 31 December			As at/five months ended 31 May
	2013	2014	2015	2016
	Return on equity ⁽¹⁾ (%)	40.0	25.5	41.3
Return on assets ⁽²⁾ (%)	8.2	5.2	7.4	N/A
Current ratio ⁽³⁾	1.01	1.07	1.01	1.05
Quick ratio ⁽⁴⁾	0.66	0.79	0.81	0.86
Gearing ratio ⁽⁵⁾ (%)	71.4	35.1	57.0	71.1
Debt to equity ratio ⁽⁶⁾ (%)	64.7	34.4	42.3	55.4

FINANCIAL INFORMATION

Notes:

- (1) Return on equity was calculated by dividing profit for the year by total equity as at the closing of the year and multiplied by 100%.
- (2) Return on assets was calculated by dividing profit for the year by total assets as at the closing of the year and multiplied by 100%.
- (3) Current ratio was calculated by dividing total current assets by total current liabilities as at the date indicated.
- (4) Quick ratio was calculated by dividing the difference of current assets and inventories by total current liabilities as at the date indicated.
- (5) Gearing ratio was calculated by dividing total debt (which consists of borrowings and amounts due to related parties) by total equity as at the date indicated and multiplied by 100%.
- (6) Debt to equity ratio was calculated by dividing the difference of total debt (which consists of borrowings and amounts due to related parties) and cash and cash equivalents by total equity as at the date indicated and multiplied by 100%.

Our return on equity was 40.0%, 25.5% and 41.3% for the years ended 31 December 2013, 2014 and 2015. Our return on equity decreased between 2013 and 2014, primarily due to the decrease in profit for the year in 2014 combined with an increase in equity in 2014 resulting from an increase in retained earnings. Our return on equity increased in 2015 mainly due to an increase in profit for the year combined with a decrease in equity due to a decrease in retained earnings. This calculation is not applicable for the five months ended 31 May 2016 as (i) a calculation using profit for the period is not comparable to using profit for the year; and (ii) the profit for the period cannot be meaningfully annualised due to seasonal factors and the incurrence of one-off Listing expenses during the five months ended 31 May 2016.

Our return on assets decreased from 8.2% in 2013 to 5.2% in 2014 because of a decrease in profit for the year along with an increase in total assets, mainly resulting from an increase in trade and other receivables and prepayments resulting from the large number of orders received at the end of 2014. Our return on assets increased to 7.4% in 2015 because of an increase in profit for the year. This calculation is not applicable for the five months ended 31 May 2016 as (i) a calculation using profit for the period is not comparable to using profit for the year; and (ii) the profit for the period cannot be meaningfully annualised due to seasonal factors and the incurrence of one-off Listing expenses during the five months ended 31 May 2016.

The current ratio increased from 1.01 in 2013 to 1.07 in 2014 due to a greater percentage increase in current assets compared to current liabilities, which was mainly the result of a significant increase in trade and other receivables and prepayments. Our current ratio decreased to 1.01 in 2015 due to a greater percentage increase in current liabilities compared to current assets, which was mainly the result of an increase in trade and other payables due to greater purchases made to support production of our increased sales volume. Our current ratio increased to 1.05 in 31 May 2016 due to a greater percentage decrease in current liabilities compared to the decrease in current assets, which was mainly the result of a decrease in trade and other payables.

FINANCIAL INFORMATION

Our gearing ratio decreased from 71.4% in 2013 to 35.1% in 2014 due to a decrease in total debt as we reduced our bank borrowings in 2014 combined with an increase in total equity resulting from an increase in retained earnings. Our gearing ratio increased to 57.0% in 2015 due to an increase in amounts due to related parties as we received cash advances from related parties for settling business and listing expenses, combined with a decrease in total equity resulting from a decrease in retained earnings. Our gearing ratio increased to 71.1% as at 31 May 2016 mostly due to an increase in borrowings as we obtained new loans during the five months ended 31 May 2016.

Our debt to equity ratio decreased from 64.7% in 2013 to 34.4% in 2014 primarily due to a decrease in total debt resulting from a decrease in bank borrowings in 2014, combined with an increase in total equity. Our debt to equity ratio increased to 42.3% in 2015 mainly due to an increase in amounts due to related parties combined with a decrease in total equity. Our debt to equity ratio increased to 55.4% as at 31 May 2016 primarily due to the increase in our borrowings.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTINGENT LIABILITIES

During the Track Record Period and as at the Latest Practicable Date, we had not entered into any off-balance sheet arrangements.

Save as disclosed herein, and apart from intra-group liabilities, we did not have any outstanding mortgages, charges, debentures, loan capital issued or agreed to be issued, bank overdrafts, loans and advances, debt securities borrowing or other similar indebtedness, finance lease commitments, hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as at the Latest Practicable Date.

As at the Latest Practicable Date, we did not have any significant contingent liabilities or outstanding guarantees in respect of payment obligations of any third parties.

DISTRIBUTABLE RESERVES

As at 31 May 2016, our Company had reserves in the amount of RMB45.7 million available for distribution to our shareholders.

DIVIDEND

In 2015, we declared dividends of RMB11.2 million and RMB15.4 million for the years ended 31 December 2013 and 2014 to our then shareholders, respectively.

We do not have a fixed dividend policy. The form, frequency and amount of future dividends on the Shares will be at the discretion of the Board and will depend on factors such as our results of operations, cash flows, financial conditions, future prospects and regulatory restrictions on the payment of dividends by us or our operating subsidiaries. There can be no assurance that any dividends will be paid. Investors should consider the risk factors affecting our Group as set forth in the section headed “Risk Factors” in this prospectus and the cautionary notice regarding forward-looking statements contained in the section headed “Forward-looking Statements” in this prospectus.

FINANCIAL INFORMATION

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

In the normal course of business, we are exposed to various types of market risks including credit risk and liquidity risk. Our Directors review and agree on policies for managing each of these risks.

Credit risk

Our maximum exposure to credit risk in relation to financial assets in the carrying amounts of trade and other receivables, notes receivables, amounts due from related parties, cash and cash equivalents and restricted cash.

As at 31 December 2013, 2014, 2015 and 31 May 2016, substantially all of our bank deposits are deposited with major financial institutions incorporated in China and Hong Kong, which management believes are of high credit quality without significant credit risk.

Our notes receivables represent bank acceptance notes and commercial bills. The bank acceptance notes were issued by either state-owned banks with investment grade ratings or local banks with good reputations. Our management believes that these financial institutions are of high credit quality and there is no significant credit risk of our bank deposits and bank acceptance notes.

Our trade receivables, commercial bills, other receivables and amounts due from related parties have no collateral. However, we have policies to ensure that our sales are to customers with appropriate credit history and we perform period credit evaluations on our customers and counter parties. We assess the credit quality by considering their financial position, past experience and other factors. Credit limits are also reviewed on a periodic basis and our finance department is responsible for such monitoring procedures. In considering where impairment of receivables is required, we consider future cash flows, ageing status and the likelihood of collection.

Our Directors are satisfied that the risks are minimal and adequate provision has been made after assessing the collectability of individual debts. For further discussion of credit risk, please see Note 3.1.2 in the Accountant's Report in Appendix I.

Liquidity risk

To manage liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance our operations and mitigate the effects of fluctuations in cash flows. We expect that we will be able to fund our future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions. For more analysis of the maturity profile of our financial liabilities, please see Note 3.1.3 in the Accountant's Report in Appendix I.

PROPERTY INTERESTS

For details of our properties as at 31 August 2016 and the text of the valuation certificates of these property interests prepared by DTZ Cushman & Wakefield Limited, please refer to Appendix III to this prospectus.

FINANCIAL INFORMATION

The statement below shows the reconciliation of the aggregate amounts of properties as reflected in the consolidated financial information as at 31 May 2016 as set out in Appendix I to this prospectus with the valuation of these properties as at 31 August 2016 as set out in Appendix III to this prospectus.

	<i>RMB'000</i>
Carrying amounts of the following properties as at 31 May 2016	
Buildings included in property, plant and equipment	28,656
Land included in prepaid leases payments under non-current portion	<u>12,637</u>
	41,293
Less: Movements for the three months ended 31 August 2016	
Depreciation	(440)
Amortisation	(84)
Carrying amounts of the properties as at 31 August 2016	40,769
Revaluation surplus	<u>20,631</u>
Market value of the properties interest as at 31 August 2016	<u><u>61,400</u></u>

RECENT DEVELOPMENTS

In December 2015, we installed a new laminating machine and our estimated annual production capacity has increased to 222.3 million m. for the year ending 31 December 2016. With this new laminating machine, we will be able to increase our production output during peak seasons if required by potential increases in purchase orders, and thus further increase our revenue.

Subsequent to the Track Record Period, based on our unaudited management accounts, our revenue for the four months ended 30 September 2016 increased slightly compared to the four months ended 30 September 2015. Our cost of sales remained relatively stable for the four months ended 30 September 2016, as compared to the four months ended 30 September 2015 due to our continued efforts to control costs. As a result, our gross profit also increased for the four months ended 30 September 2016 as compared to the four months ended 30 September 2015.

Despite the increase in gross profit for the nine months ended 30 September 2016 and the absence of any material adverse change in our business as described below, we expect our net profit for the year ending 31 December 2016 to decrease significantly as compared to the year ended 31 December 2015 and we may even record a net loss for the year ending 31 December 2016, primarily due to a significant increase in administrative expenses, in particular the listing expenses to be charged to our profit or loss and the maintenance and compliance costs to be incurred after the Listing. We estimate total payments of listing expenses of approximately RMB31.7 million to be made for the year ending 31 December 2016, the majority of which will constitute cash outflows from operating activities and consequently have a negative impact on our cash flows from operating activities for the year ending 31 December 2016.

FINANCIAL INFORMATION

LISTING EXPENSES

Assuming an Offer Price of HK\$0.60 per Share (being the mid-point of the indicative Offer Price range), the total underwriting commission and estimated expenses in relation to the Share Offer are estimated to be approximately HK\$38.2 million. These consist of (i) HK\$19.4 million incurred during the Track Record Period, of which HK\$14.7 million was charged to our profit or loss and HK\$4.7 million was directly attributable to the issue of new Shares in the Share Offer and will be deducted from equity upon the Listing, and (ii) estimated listing expenses of HK\$18.8 million to be incurred for the seven months ending 31 December 2016, of which HK\$12.1 million is expected to be charged to our profit or loss and HK\$6.7 million is expected to be deducted from equity upon listing.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of our Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Share Offer on the net tangible assets of our Group attributable to owners of our Company as at 31 May 2016 as if the Share Offer had taken place on 31 May 2016.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of our Group as at 31 May 2016 or at any future dates following the Share Offer. It is prepared based on the consolidated net assets of our Group as at 31 May 2016 as set out in the Accountant's Report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountant's Report.

	Audited consolidated net tangible assets of our Group attributable to owners of our Company as at 31 May 2016	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company	Unaudited pro forma adjusted consolidated net tangible assets per Share	
	<i>(Note 1)</i> RMB'000	<i>(Note 2)</i> RMB'000	RMB'000	<i>(Note 3)</i> RMB	<i>(Note 5)</i> HK\$
Based on an Offer Price of HK\$0.5 per Share	<u>51,782</u>	<u>34,207</u>	<u>85,989</u>	<u>0.17</u>	<u>0.20</u>
Based on an Offer Price of HK\$0.7 per Share	<u>51,782</u>	<u>54,548</u>	<u>106,330</u>	<u>0.21</u>	<u>0.25</u>

Notes:

- (1) The audited consolidated net tangible assets attributable to owners of our Company as at 31 May 2016 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of our Group attributable to owners of our Company as at 31 May 2016 of RMB51,911,000, with an adjustment for the intangible assets as at 31 May 2016 of RMB129,000.

FINANCIAL INFORMATION

- (2) The estimated net proceeds from the Share Offer are based on the indicative Offer Price of HK\$0.50 and HK\$0.70 per Share after deduction of the underwriting commission and other related expenses (excluding listing expenses of approximately RMB12,675,000 which have been accounted for in the consolidated statements of comprehensive income for the year ended 31 December 2015 and the five months ended 31 May 2016) payable by our Company but takes no account of any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme and any Share which may be issued or repurchased by our Company pursuant to the general mandate to issue Shares or the general mandate to repurchase Shares.
- (3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 500,000,000 Shares were in issue assuming that the Share Offer has been completed on 31 May 2016 but takes no account of any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme and any Share which may be issued or repurchased by our Company pursuant to the general mandate to issue Shares or the general mandate to repurchase Shares.
- (4) No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to 31 May 2016.
- (5) For the purpose of this unaudited pro forma adjusted net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at a rate of RMB0.86 to HK\$1.00. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that, since 31 May 2016 and up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects and no event has occurred that would materially and adversely affect the information shown in our consolidated financial statements set out in the Accountant's Report included in Appendix I to this prospectus.

NO ADDITIONAL DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirmed that, as at the Latest Practicable Date, there were no circumstances which would have given rise to any disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules had the Shares been listed on the Stock Exchange on that date.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Future Plans

In order to become one of the most competitive metallised paper manufacturers in the PRC packaging industry, we intend to strengthen our marketing effort and make significant investments in enhancing our product research and development capabilities. Furthermore, we plan to increase our production capacity and expand into new markets. We intend to build a new production facility and currently plan to add two production lines on our existing land parcels within the next 12 months as our Group expects further demand in our products after the implementation of our expansion plan and therefore we will require additional production capacity.

Although our Group had not experienced any major breakdown of production equipment during the Track Record Period, we consider that it will be desirable and prudent to purchase new production equipment which can serve the secondary purpose of being the substitute contingency machines in any unanticipated event that any of the existing production equipment fails to operate properly. The new machines could therefore help avoid major business disruption and severe impact on production caused by any unanticipated breakdown of principal equipment.

Following the purchase of the two production lines, we expect our annual production capacity to reach 285.8 million m. per year, an increase of 28.6% from 2016. The total capital expenditure for the new facility and production lines is estimated to be approximately RMB18.3 million which we intend to finance by the net proceeds from the Share Offer. The additional depreciation for the new facility and production lines is expected to be approximately RMB1.3 million per year.

Please refer to the section headed “Business — Business Strategies” in this prospectus for a detailed description of our future plans.

Market outlook

As disclosed in the section headed “Industry Overview”, the sales value of the cigarette packaging paper manufacturing industry in Hubei Province and China are expected to decrease in 2016 but return to an upward trend from 2017 to 2020.

It is estimated that the decrease in sales volume and revenue of cigarettes in China and Hubei Province in 2016 was due to several reasons, such as the increase in the specific tax of cigarette in 2015, the economic slowdown of Chinese economy and the launch of tightening regulations in China which discourage cigarette consumption in the public area. Please refer to the section headed “Industry Overview - Cigarette Packaging Paper Manufacturing Industry in China and Hubei Province” for details.

FUTURE PLANS AND USE OF PROCEEDS

Nevertheless, as confirmed by Ipsos, it is anticipated that the sales volume of cigarettes is likely to grow from 2017 to 2020 in China due to the following:

- the negative impacts mentioned above are expected to reduce in the long term as people will get used to the above changes in the cigarette market, and hence the demand for cigarette is anticipated to recover;
- it is expected that the smoking population in China during the period of 2017 to 2020 will grow as it is anticipated that the population in China will increase by 0.4% during the period of 2016 and 2020;
- in the coming five years, the registered residents' average income growth should be no less than 6.5% until 2020 as estimated in the economic development goal of the 18th National People's Congress of the PRC. With the rising average income, people are likely to spend more on mid to high-end cigarettes and thus increase the demand of the cigarettes; and
- with the continued effort on increasing the urbanization rate by the PRC government, it is expected that more people who used to live in the countryside is likely to relocate to the urban area, and potentially increase the income level of these people. Hence, it may serve as a growth driver of the cigarette market in the long run, mitigating the recent negative impacts.

Despite the decrease in sales volume in the 2016 cigarette packaging market in China, our Directors believe that by continuing our strength on implementing our business strategies and future plans, our sales revenue will continue to grow.

USE OF PROCEEDS

The net proceeds from the Share Offer, after deducting underwriting commission and estimated expenses in relation to the Share Offer, are estimated to be approximately HK\$36.8 million, assuming an Offer Price of HK\$0.60 per Share, being the mid-point of the indicative Offer Price range of HK\$0.50 to HK\$0.70 per Share. We intend to use such net proceeds for the purposes:

1. Approximately HK\$22.8 million (approximately 62% of our total estimated net proceeds) for the purchase and upgrade of production equipment, as well as expansion and maintenance of our production facility;

The expansion plan includes:

- Purchasing two new production lines and other ancillary production equipment;
- Expanding our production facility;
- Purchasing new quality control equipment;
- Upgrading the electricity system; and

FUTURE PLANS AND USE OF PROCEEDS

- Upgrading the existing production facilities;

We expect the upgrade of the existing production facility to be completed by December 2016 and the expansion of our production facility and purchase of new production lines to be completed by September 2017.

2. Approximately HK\$5.5 million (approximately 15% of our total estimated net proceeds) for the expansion and upgrade of our non-production facilities, including but not limited to warehouse and other supporting facilities;

The expansion and upgrade includes:

- Expanding and upgrading the existing warehouse and office building;
- Expanding and upgrading the existing research and development centre; and
- Purchasing transportation vehicles for the sales department.

We expect the above would be completed by March 2017.

3. Approximately HK\$4.8 million (approximately 13% of our total estimated net proceeds) for (i) business development expenditures, including expanding the geographical coverage of our sales network e.g key provinces which have large cigarette markets such as Yunnan Province and Hunan Province. We intend to develop new customers in these markets by the end of December 2017 and (ii) research and development expenditures relating to the purchase of research and development equipment and to future research and development projects; and
4. Approximately HK\$3.7 million (approximately 10% of our total estimated net proceeds) for working capital and general corporate purposes.

The following set out key expected completion time for our key projects:

<u>Expected completion time</u>	<u>Key projects</u>
December 2016	• Upgrade of existing production facility
January 2017	• Purchase of transportation vehicles
March 2017	• Expansion and upgrade of existing office building
	• Upgrade of research and development centre
September 2017	• Expansion of production facility
	• Purchase of two new production lines and other ancillary equipment

FUTURE PLANS AND USE OF PROCEEDS

If the Offer Price is set at the high end or low end of the indicative Offer Price range, the estimated net proceeds from the Share Offer will increase to approximately HK\$48.6 million or decrease to approximately HK\$25.0 million, respectively. In such event, we will adjust the intended use of the net proceeds for the above purposes on a pro-rata basis.

To the extent that the net proceeds from the Share Offer are not immediately used for the above purposes and to the extent permitted by the relevant laws and regulations, we intend to deposit such net proceeds into interest bearing bank accounts with licensed banks or financial institutions.

REASONS FOR THE LISTING

We aim to be one of the most competitive paper products manufacturers in China. With a view to further developing our business, our Directors believe the Listing would be instrumental in enabling us to achieve the following:

Broader access to capital for future growth

The Listing can provide access for our Company to raise fund not only initially from the Share Offer but also potentially from future issuances of equity or debt securities after the Listing. As disclosed in the section headed “Business — Business Strategies” in this prospectus, we intend to increase our production capacity, expand into new markets such as Yunnan Province and Hunan Province, strengthen our business relationship with existing customers and consider any potential acquisition opportunities, and all of the above expansion plans require heavy capital investment and resources. In view of the high degree of leverage (our gearing ratio was 71.1% as at 31 May 2016), we seek to explore more financing sources beyond obtaining bank facilities, as it would be more difficult and expensive for us to obtain further bank financing and equity financing will enable our Group to seek an alternative source of funding to lower the gearing ratio. In order to generate funds to finance our further expansion while maintaining sufficient working capital for our Group’s operations, our Directors are therefore of the view that equity financing, which is interest free, will provide a better channel for us to raise additional capital.

Based on our management estimates, the average level of monthly cash outflow for our Group’s daily operations is approximately RMB30.0 million, which includes costs for raw materials and consumables used, staff costs, transportation costs and utilities. Although we currently have sufficient internal cash inflow to maintain our Group’s daily operations, it would be difficult for us to utilise our existing internal cash inflow generated from our sales revenue to fund any further expansion plans. Our directors are of the view that since it may take an extended period of time to generate additional cash internally, the flexibility of being able to use a wider range of financing sources will benefit our Group and will enable us to implement any future expansion plans more readily and in a timely manner.

FUTURE PLANS AND USE OF PROCEEDS

Enhanced brand profile, visibility and market presence

A number of our competitors within the same industry are listed companies or have sought listing in other exchanges, including the Shenzhen Stock Exchange and the Shanghai Stock Exchange. We believe that the Listing can generate a better corporate profile, create greater assurance to our customers and suppliers and thus enhance our competitiveness within this industry.

In addition, the enhanced corporate profile can potentially lead to more business opportunities to the Group as our brand will be more visible to potential customers. This is of significant importance since we intend to expand our sales network and geographical presence in China. Since we obtain most of our sales contracts through tender, reputation and brand profile are often one of the selection criteria in the scoring system of our customers. We therefore consider an enhanced brand profile and visibility are important factors to succeed in the cigarette packaging paper industry.

Increased competitiveness supported by better corporate governance and greater efficiency

As a listed company, we will strive to maintain high standards of corporate governance and continually improve our internal control, management efficiency and risk management. By improving the efficiency of the Group, we believe we can give better assurance and confidence to our customers and business partners and hence attract more business opportunities and potential customers.

Stronger ability to attract talent and retain existing staff

We believe the Listing will allow us to enhance our market profile and recognition so that we will be more successful in attracting talent. In addition, we believe our business development plan and the Listing will potentially give rise to more career advancement opportunities and will allow us to attract and retain our employees more successfully.

Based on the above, our Directors believe that the Listing will benefit the Group as a whole.

UNDERWRITING

PUBLIC OFFER UNDERWRITERS

RaffAello Securities (HK) Limited
Rooms 2002 and 2002B, 20/F
Tower Two, Lippo Centre
89 Queensway
Hong Kong

First Shanghai Securities Limited
1903, Wing On House
71 Des Voeux Road Central
Hong Kong

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer Underwriting Agreement

The Public Offer Underwriting Agreement was entered into on 14 November 2016 among our Company, our executive Director, our Controlling Shareholders, the Sole Sponsor, the Joint Bookrunners and the abovementioned Public Offer Underwriters. Pursuant to the Public Offer Underwriting Agreement, our Company is offering the Public Offer Shares under the Public Offer at the Offer Price 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, amongst other matters, (i) the Listing Committee granting the listing of, and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus; and (ii) certain other conditions set out in the Public Offer Underwriting Agreement (including our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the other Underwriters) agreeing on the Offer Price and the Placing Underwriting Agreement becoming unconditional and not having been terminated), the Public Offer Underwriters have severally agreed to subscribe for or procure subscribers to subscribe for the Public Offer Shares, subject to the terms and conditions of the Public Offer Underwriting Agreement.

Grounds for termination

The 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 by notice in writing issued by the Joint Bookrunners (for themselves and on behalf of the other Public

UNDERWRITING

Offer Underwriters) to our Company, which may be given at the sole and absolute discretion of the Joint Bookrunners (for themselves and on behalf of the other Public Offer Underwriters) at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date upon the occurrence of any of the following events:

- (a) there shall develop, occur, exist or come into effect:
 - (i) any event, or series of events, in the nature of force majeure beyond the reasonable control of the Public Offer Underwriters (including, without limitation, acts of government or orders of any courts, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, earthquake, nuclear leakage, volcanic eruption, civil commotion, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, acts of terrorism, declaration of a national or international emergency, riot, public disorder, economic sanctions, outbreaks of diseases or epidemics (including, without limitation, Severe Acute Respiratory Syndrome, avian influenza (H5N1), swine influenza (H1N1) or such related/mutated forms) or interruption or delay in transportation); or
 - (ii) any change or development involving a prospective change, or any event or series of events likely to result in or representing any change or development or a prospective change or development, in local, regional, national, international, financial, economic, political, military, industrial, fiscal, regulatory, currency or market conditions (including, without limitation, conditions in any stock or bond markets, money and foreign exchange markets and inter-bank markets, in or affecting Hong Kong, the PRC, Cayman Islands, Singapore, the United States, the United Kingdom, the European Union (or any member thereof) or any other jurisdictions relevant to any member of the Group (the “**Relevant Jurisdictions**”), or a material fluctuation in the exchange rate or development of the Hong Kong dollar or Renminbi against any foreign currencies); or
 - (iii) any new laws, rules, statutes, ordinances, regulations, guidelines, opinions, notices, circulars, orders, judgments, decrees, or rulings of any governmental authority (the “**Laws**”) or change or development involving a prospective change in existing Laws or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any of the Relevant Jurisdictions; or
 - (iv) any moratorium, restrictions, suspension or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Shanghai Stock Exchange or Tokyo Stock Exchange, or minimum or maximum prices for trading having been fixed, or maximum ranges for prices having been required, by any of the said exchanges or by such system or by order of any regulatory or government authority, or if disruption has occurred in monetary, trading, securities settlement or clearance services or procedures in any of the Relevant Jurisdictions; or

UNDERWRITING

- (v) any general moratorium on commercial banking activities in any of the Relevant Jurisdictions declared by relevant authorities, or a material disruption in commercial banking services in any of the Relevant Jurisdictions; or
- (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions; or
- (vii) any change or development involving a prospective change in taxation, exchange control (or the implementation of any exchange control), currency exchange rates or foreign investments Laws in any of the Relevant Jurisdictions; or
- (viii) any change or development involving a prospective change in, or a materialization of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (ix) any litigation or claim being threatened or instigated against any member of our Group or any contravention of any applicable Law or any provision of Listing Rules by any member of our Group; or
- (x) any of our Directors being charged with an indictable offence or prohibited by the operation of Law or otherwise disqualified from being a director of our Company; or
- (xi) the chairman or chief executive officer of our Company vacating his office; or
- (xii) the commencement by any governmental, regulatory or political body or organization of any public action against a Director in his capacity as such, or an announcement by any governmental, regulatory or political body or organization that it intends to take any such action; or
- (xiii) a government or regulatory prohibition on our Company for whatever reason from allotting or selling the Offer Shares pursuant to the terms of the Share Offer; or
- (xiv) non-compliance of this prospectus (and/or any other documents used in connection with the Share Offer) or any aspect of the Share Offer with the Listing Rules or any other applicable Laws; or
- (xv) a valid demand by any creditor for repayment or payment of any indebtedness of our Company or any member of our Group or in respect of which our Company or any member of our Group is liable prior to its stated maturity is made; or
- (xvi) a petition or an order is presented for the winding-up or liquidation of our Company or any member of our Group, or our Company or any member of our Group makes any composition or arrangement with its creditors or enters into any scheme of arrangement or any resolution is passed for the winding-up or liquidation of our Company or any member of our Group, or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of our Company or any member of our Group or anything analogous thereto occurs in respect of our Company or any member of our Group,

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which in each case or in the aggregate in the sole and absolute opinion of the Joint Bookrunners (for themselves and on behalf of the other Public Offer Underwriters):

- (1) is or will or is likely to have a material adverse effect in, or affecting, the assets, business, results of operations, prospects, position or condition, financial or otherwise of our Company or our Group taken as a whole; or
 - (2) has or will have or is likely to have a material adverse effect on the success of the Share Offer or the level of Public Offer Shares being applied for or accepted or the distribution of the Public Offer Shares; or
 - (3) makes or will make or is likely to make it impracticable, inadvisable or inexpedient for the Share Offer to proceed or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus and other offer documents to be made; or
 - (4) has or will have or is likely to have the effect of making any part of the Public Offer Underwriting Agreement (including underwriting) incapable of performance or implementation as envisaged.
- (b) there comes to the notice of the Joint Bookrunners that:
- (i) any statement contained in this prospectus, the Application Forms, the formal notice of our Company, any notices, announcements or other offer documents issued, given or used in connection with the Share Offer (including any amendment or supplement thereto) was when it was issued, has or may become untrue, incorrect or misleading in any material respect, including where any forecasts, estimates, expressions of opinion, intention or expectation expressed in this prospectus, the Application Forms, the formal notice of our Company and any notices, announcements or other offer documents issued, given or used in connection with the Share Offer (including any amendment or supplement thereto) is not, in the sole and absolute opinion of the Joint Bookrunners, fair and honest in any material respect and based on reasonable assumptions, when taken as a whole; or
 - (ii) any event, act or omission which gives or is likely to show that any of the warranties given by our Company, our executive Director or our Controlling Shareholders under the Public Offer Underwriting Agreement is untrue, inaccurate or misleading in any respect or which gives or is likely to give rise to any material liability of our Company, our executive Director or our Controlling Shareholders under the Public Offer Underwriting Agreement; or
 - (iii) any breach of any of the obligations imposed upon any party to the Public Offer Underwriting Agreement (in each case, other than the Sole Sponsor, the Joint Bookrunners or any of the Public Offer Underwriters); or

UNDERWRITING

- (iv) any matter has arisen or been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission of this prospectus; or
- (v) any change or development, or prospective change or development, in the conditions, assets, liabilities, business affairs, prospects, profits, losses or the financial or trading position or performance of our Company or any member of our Group, which would have a material adverse impact on our Company or our Group as a whole; or
- (vi) our Company withdraws any of this prospectus or the Application Forms or the Share Offer; or
- (vii) any person (other than the Sole Sponsor, the Joint Bookrunners or any of the Public Offer Underwriters) has withdrawn or sought to withdraw its consent to being named in any of this prospectus or the Application Forms or to the issue of this prospectus or the Application Forms; or
- (viii) approval by the Listing Committee for the listing of, and permission to deal in, our Shares in issue and to be issued (including any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme) under the Share Offer is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld.

UNDERTAKINGS

Undertakings by our Company to the Stock Exchange pursuant to the Listing Rules

Pursuant to Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange that no further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued by us 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 will be completed within six months from the Listing Date), except in certain prescribed circumstances prescribed under Rule 10.08 of the Listing Rules which includes the issue of Shares pursuant to the Share Option Scheme.

Undertakings by our Controlling Shareholders to the Stock Exchange pursuant to the Listing Rules

Pursuant to Rule 10.07(1) of the Listing Rules, each of the Controlling Shareholders (namely, Happily Soar and Mr. Zhang) has undertaken to each of the Stock Exchange and our Company that, save as permitted under the Listing Rules:

- (a) in the period commencing on the date by reference to which disclosure of its/his shareholding is made in this prospectus and ending on the date which is six months from

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the Listing Date, it/he shall not dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it/he is shown by this prospectus to be the beneficial owner; and

- (b) in the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, it/he shall not dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it/he is shown by this prospectus to be the beneficial owner if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it/he would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company.

Pursuant to Note (3) of Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders has further undertaken to each of the Stock Exchange and our Company that within the period commencing on the date by reference to which disclosure of its/his shareholding is made in this prospectus and ending on the date which is twelve months from the Listing Date, it/he shall:

- (a) when he/it pledges/charges any Shares beneficially owned by it/him in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform our Company in writing of such pledge/charge together with the number of Shares so pledged/charged; and
- (b) when he/it receives indications, whether verbal or written, from the pledgee/chargee that any of the pledged/charged Shares will be disposed of, immediately inform our Company in writing of such indications.

Our Company shall inform the Stock Exchange as soon as it has been informed of matters referred to above by our Controlling Shareholders and disclose such matters by way of an announcement as soon as possible.

Undertakings pursuant to the Public Offer Underwriting Agreement

Undertaking by our Company

Pursuant to the Public Offer Underwriting Agreement, we have undertaken to the Sole Sponsor, the Joint Bookrunners and the Public Offer Underwriters that, except pursuant to the Share Offer, the Capitalisation Issue, the grant or exercise of options which may be granted under the Share Option Scheme, during the period commencing on the date of the Public Offer Underwriting Agreement and ending on, and including the date that is six months after the Listing Date (the “**First Six-Month Period**”), not to, and to procure each other member of our Group not to, without the prior written consent of the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option,

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warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any shares, capital or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any debt capital or securities 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 other securities of our Company or any shares, capital or other securities of such other member of our Group, as applicable), or deposit any Shares or other securities of our Company or any shares, capital or other securities of such other member of our Group, as applicable, with a depository in connection with the issue of depository receipts; or

- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any shares, capital or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any debt capital or securities 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 other securities of our Company or any shares or capital of such other member of our Group, as applicable); or
- (iii) enter into any transaction with the same economic effect as any transaction set out in paragraphs (i) or (ii) above; or
- (iv) offer to or agree to or announce any intention to effect any transaction set out in paragraphs (i), (ii) or (iii) above,

in each case, whether any of the transactions set out in paragraphs (i), (ii) or (iii) above is to be settled by delivery of Shares or other securities of our Company or shares, capital or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-Month Period), provided that the above undertaking shall not prevent any member of our Group from issuing, allotting, accepting subscription for, offering to allot or issue, agreeing to allot or issue or granting any option, warrant, contract or right to subscribe for, allot or issue any shares or capital or increasing its registered capital following which the percentage interest of our Company (directly or indirectly) in such member of our Group will not be less than that before such transaction.

In the event that, during the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), our Company enters into any of the transactions set out in paragraphs (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

UNDERWRITING

Our executive Director and our Controlling Shareholders have undertaken to the Sole Sponsor, the Joint Bookrunners and the Public Offer Underwriters to procure our Company to comply with the above undertakings.

Undertaking by our Controlling Shareholders

Each of our Controlling Shareholders undertakes to each of our Company, the Sole Sponsor, the Joint Bookrunners and the Public Offer Underwriters that, without the prior written consent of the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) he/it will not, at any time during the First Six-Month Period, (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including, without limitation, any debt capital or securities 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 deposit any Shares or other securities of our Company with a depository in connection with the issue of depository receipts, or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any interest therein in (including, without limitation, any debt capital or securities 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 (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above, or (iv) offer to or agree to or announce any intention to effect any transaction specified in (i), (ii) or (iii) above, in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);
- (b) he/it will not, during the Second Six-Month Period, enter into any of the transactions specified in (a)(i), (ii) or (iii) above or offer to or agree 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 will cease to be a controlling shareholder (as the term is defined in the Listing Rules) 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 (a)(i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, he/it will take all reasonable steps to ensure that he/it will not create a disorderly or false market in the securities of our Company,

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provided that the above undertaking shall not prevent our Controlling Shareholders (i) from purchasing additional Shares, and disposing of such additional Shares so purchased, subject to compliance with the requirements of Rule 8.08 of the Listing Rules to maintain an open market in the securities and a sufficient public float; or (ii) from using the Shares beneficially owned by any of them as security (including a charge or a pledge) in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, subject to compliance with the requirements of Rule 10.07 of the Listing Rules.

Our Controlling Shareholders have further undertaken to our Company, the Sponsor, the Joint Bookrunners and the Public Offer Underwriters that he/it will, at any time within the period commencing on the date of the Public Offer Underwriting Agreement and ending on the date which is twelve months after the Listing Date:

- (i) upon any pledge or charge in favour of any person, entity or institution of any Shares or securities or interests in the Shares or securities of our Company beneficially owned by him/it for a bona fide commercial loan, immediately inform our Company and the Joint Bookrunners in writing of such pledge or charge together with the number of Shares or securities so pledged or charged; and
- (ii) upon any indication received by him/it, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities or interests in the Shares or securities of our Company will be disposed of, immediately inform our Company and the Joint Bookrunners in writing of such indications,

and our Company agrees and undertakes to the Joint Bookrunners, the Sponsor and each of the Public Offer Underwriters, that, upon receiving such information in writing from our Controlling Shareholders, it will, as soon as practicable, notify the Stock Exchange and make an announcement in accordance with the Listing Rules.

Indemnity

Each of our Company, our executive Director and our Controlling Shareholders has agreed to jointly and severally indemnify, amongst others, the Sole Sponsor, the Joint Bookrunners and the Public Offer Underwriters for certain losses which they may suffer, including losses arising from or in connection with their performance of their obligations under the Public Offer Underwriting Agreement and any breach by our Company, our executive Director and our Controlling Shareholders of any provision in the Public Offer Underwriting Agreement.

PLACING

Placing Underwriting Agreement

In connection with the Placing, our Company expects to enter into the Placing Underwriting Agreement with, among others, the Sole Sponsor, the Joint Bookrunners and the Placing Underwriters on or around the Price Determination Date. Under the Placing Underwriting Agreement, the Placing Underwriters would, subject to certain conditions set out therein, severally agree to purchase the

UNDERWRITING

Placing Shares or procure purchasers for the Placing Shares. The Placing Underwriting Agreement is expected to provide that it may be terminated on grounds similar to those provided in the Public Offer Underwriting Agreement. Potential investors are reminded that in the event that the Placing Underwriting Agreement is not entered into, the Share Offer will not proceed.

It is expected that, pursuant to the Placing Underwriting Agreement, our Company, our executive Director and our Controlling Shareholders will give undertakings similar to those given pursuant to the Public Offer Underwriting Agreement, as described in the paragraph headed “Underwriting Arrangements and Expenses — Undertaking — Undertakings pursuant to the Public Offer Underwriting Agreement” in this section.

It is expected that each of our Controlling Shareholders will undertake to the Placing Underwriters not to dispose of, or enter into any agreement to dispose of, or otherwise create any options, rights, interest or encumbrances in respect of any of our Shares held by them in our Company for a period similar to that given by them pursuant to the Public Offer Underwriting Agreement as described in the paragraph headed “Underwriting Arrangements and Expenses — Undertakings — Undertakings Pursuant to the Public Offer Underwriting Agreement” in this section.

UNDERWRITING COMMISSION AND EXPENSES

According to the Public Offer Underwriting Agreement, the Public Offer Underwriters will receive an underwriting commission of 5.0% of the aggregate Offer Price payable for the Public Offer Shares initially offered under the Public Offer. The Placing Underwriters are expected to receive similar underwriting commission on the aggregate Offer Price payable for the Placing Shares subject to the terms and conditions of the Placing Underwriting Agreement.

The Sole Sponsor also received a sponsor fee of HK\$6.0 million from our Company for acting as the sole sponsor in the Share Offer.

Based on the Offer Price of HK\$0.60 per Offer Share (being the mid-point of the indicative Offer Price range between HK\$0.50 and HK\$0.70), such underwriting commissions, together with the Stock Exchange listing fee, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees, printing, and other expenses relating to the Share Offer which are estimated to be approximately HK\$38.2 million in aggregate, are payable by the Company.

UNDERWRITERS' INTERESTS IN OUR COMPANY

The Joint Bookrunners and the Underwriters will receive underwriting commissions pursuant to the Underwriting Agreements. Particulars of the said underwriting commissions and expenses relating to the Share Offer are set forth in the paragraph headed “Underwriting Arrangements and Expenses — Underwriting Commission and Expenses” in this section. Following the completion of the Share Offer, the Underwriters and their affiliated companies may hold a certain portion of our Shares as a result of fulfilling their obligations under the Underwriting Agreements.

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Save as disclosed in this prospectus and other than pursuant to the Share Offer and the Underwriting Agreements, none of the Joint Bookrunners and the Underwriters is, or is expected to be, interested legally or beneficially in the Shares or shares and other securities of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for any Shares or purchase shares and other securities in any member of our Group nor any interest in the Share Offer.

MINIMUM PUBLIC FLOAT

Our Directors and the Joint Bookrunners will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules immediately after completion of the Share Offer.

INDEPENDENCE OF THE SOLE SPONSOR

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

DETERMINING THE OFFER PRICE

The Offer Price is expected to be fixed by the Price Determination Agreement to be entered into among our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the other Underwriters) on or before the Price Determination Date, when market demand for the Share Offer will be determined. The Price Determination Date is expected to be on or about Friday, 18 November 2016 but in any event, no later than Wednesday, 23 November 2016. If, for any reason, our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the other Underwriters) are unable to reach an agreement on the Offer Price on or before such date, the Share Offer will not proceed and will lapse.

Prospective investors should be aware that the Offer Price to be determined on or before the Price Determination Date may be, but not expected to be, lower than the indicative Offer Price range as stated in this prospectus. The Offer Price will not be more than HK\$0.70 per Share and is currently expected to be not less than HK\$0.50 per Share. If, based on the level of interest expressed by prospective investors during the book-building process, the Joint Bookrunners (for themselves and on behalf of the other Underwriters) and with the consent of our Company and the Sole Sponsor (for instance, if the level of interest expressed by prospective investors is below the indicative Offer Price range as stated in this prospectus), the number of Offer Shares and/or the indicative Offer Price range may be reduced below that as stated in this prospectus at any time no later than the morning of the day which is 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 reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Public Offer, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on our Company's website at www.mengkeholdings.com and the website of the Stock Exchange at www.hkexnews.hk notice of such reduction. Upon issue of such a notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed among the Joint Bookrunners (for themselves and on behalf of the other Underwriters), the Sole Sponsor and our Company, will be fixed within such revised Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Share Offer statistics as currently set out in the section headed "Summary" in this prospectus, the use of proceeds from the Share Offer as set out in the section headed "Future plans and use of proceeds" in this prospectus and any other financial information which may change as a result of such reduction.

In the absence of any notice being published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on our Company's website at www.mengkeholdings.com and the website of the Stock Exchange at www.hkexnews.hk of a reduction in the number of Offer Shares and/or 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 among the Joint Bookrunners (for themselves and on behalf of the other Underwriters), the Sole Sponsor and our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

In the event of a reduction in the number of Offer Shares, the Joint Bookrunners may, at its discretion, reallocate the number of Offer Shares to be offered in the Public Offer and the Placing, provided that the number of Offer Shares comprised in the Public Offer shall not be less than 10% of the total number of Offer Shares available under the Share Offer. The Offer Shares to be offered in the Public Offer and the Offer Shares to be offered in the Placing may, in certain circumstances, be reallocated between these offerings at the discretion of the Joint Bookrunners.

Our Company expects to announce the final Offer Price, the level of indication of interests under the Placing, the basis of allotment of the Public Offer Shares and results of application under the Public Offer on or before Thursday, 24 November 2016 on our Company's website at www.mengkeholdings.com and the website of the Stock Exchange at www.hkexnews.hk. Results of allocations in the Public Offer, including the Hong Kong identity card/passport/Hong Kong business registration certificate numbers of successful applicants (where supplied) and the number of Public Offer Shares successfully applied for will be made available as described under the section headed "How to Apply for the Public Offer Shares" in this prospectus.

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$0.70 per Offer Share and is expected to be not less than HK\$0.50 per Offer Share, unless otherwise announced by no later than the morning of the last day for lodging applications under the Public Offer as set out above. You must pay the maximum Offer Price of HK\$0.70 per Offer Share plus a brokerage of 1%, a SFC transaction levy of 0.0027% and a Stock Exchange trading fee of 0.005%, amounting to a total of HK\$2,828.22 per a board lot of 4,000 Offer Shares. The Application Forms have tables showing the exact amount payable for multiple board lots of Offer Shares.

If the Offer Price, as finally determined in the manner as set out above, is lower than the maximum Offer Price of HK\$0.70 per Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application money) will be made to applicants, without interest. Further details in this regard are set out in the section headed "How to Apply for the Public Offer Shares" in this prospectus.

CONDITIONS OF THE SHARE OFFER

Acceptance of your application for the Offer Shares is conditional upon:

- (i) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued under the Share Offer, the Capitalisation Issue and any Shares which may fall to be allotted and issued 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);
- (ii) the Price Determination Agreement being entered into among our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the other Underwriters) on or about the Price Determination Date;

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

- (iii) the execution and delivery of the Placing Underwriting Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated, on or before 8:00 a.m. on the Listing Date. Details of the Underwriting Agreements and its conditions and grounds for termination are set out in the section headed “Underwriting” in this prospectus.

If the above conditions are not fulfilled or waived prior to the times specified, the Share Offer will lapse. Notice of the lapse of the Share Offer will be published by our Company in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on our Company’s website at www.mengkeholdings.com and the website of the Stock Exchange at www.hkexnews.hk on the next day following such lapse. In such event, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for the Public Offer Shares” in this prospectus. In the meantime, your money will be held in one or more separate bank accounts with the receiving banker licensed under the Banking Ordinance (Chapter 155 of the laws of Hong Kong).

Share certificates will only become valid at 8:00 a.m. on the Listing Date, provided that the Share Offer has become unconditional and right of termination described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Public Offer Underwriting Agreement — Grounds for Termination” in this prospectus has not been exercised.

ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between Exchange Participants (as defined in the 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 advisor for details of the settlement arrangements as such arrangements will affect their rights and interests.

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

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

OFFER MECHANISM

This prospectus is published in connection with the Share Offer, which comprises the Placing and the Public Offer. Initially, 112,500,000 Shares (subject to re-allocation as mentioned below), representing 90% of the Offer Shares available under the Share Offer, are to be offered pursuant to the Placing to professional, institutional and other investors, and initially 12,500,000 Shares (subject to re-allocation as mentioned below), representing 10% of the Offer Shares available under the Share Offer, are to be offered to the public in Hong Kong under the Public Offer. References to applications, Application Forms, application monies or to the procedure for application in this prospectus relate solely to the Public Offer. The Offer Shares will represent 25% of our Company's enlarged issued share capital immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme).

The Public Offer is fully underwritten by the Public Offer Underwriters, subject to the terms and conditions of the Public Offer Underwriting Agreement which include, among others, our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the other Underwriters) agreeing on the Offer Price. Information relating to the underwriting arrangements in respect of the Share Offer is set out in the section headed "Underwriting — Underwriting Arrangements and Expenses" in this prospectus. The Share Offer is sponsored by the Sole Sponsor and managed by the Joint Bookrunners.

Investors may apply for Public Offer Shares under the Public Offer or indicate an interest for Placing Shares under the Placing, but may not do both. Investors who have not received Shares in the Public Offer tranche may receive Shares in the Placing tranche.

PLACING

Our Company is initially offering, subject to possible reallocation on the basis discussed below, 112,500,000 new Shares, representing 90% of the total number of Shares being offered under the Share Offer, for subscription by way of the Placing.

Under the Placing, the Placing Underwriters, on behalf of our Company, will conditionally place the Placing Shares with professional, institutional and other investors at the Offer Price. 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 pursuant to the Placing is 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 buy 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 our Shareholders as a whole. Investors allocated with the Placing Shares cannot apply for the Public Offer Shares under the Public Offer.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

The Placing is subject to the conditions stated in the paragraph headed “Conditions of the Share Offer” above. If the Public Offer is not fully subscribed for, the Joint Bookrunners may reallocate all or any unsubscribed Shares originally included in the Public Offer to the Placing. The total number of Placing Shares to be allotted and issued pursuant to the Placing may change as a result of any reallocation of unsubscribed Shares originally included in the Public Offer as described in the paragraph headed “Reallocation of the Offer Shares between the Public Offer and the Placing” in this section.

PUBLIC OFFER

Our Company is initially offering 12,500,000 Shares at the Offer Price under the Public Offer, representing 10% of the total number of Shares being offered under the Share Offer for subscription in Hong Kong, subject to reallocation as mentioned in the paragraph headed “Reallocation of the Offer Shares between the Public Offer and the Placing” in this section. The Public Offer is managed by the Joint Bookrunners and is fully underwritten by the Public Offer Underwriters, subject to the terms and conditions of the Public Offer Underwriting Agreement which include, among others, our Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the other Underwriters) agreeing on the Offer Price.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

The Public Offer is open to all members of the public in Hong Kong as well as to institutional and professional 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. Applicants for the Public Offer Shares under the Public Offer may not apply for Placing Shares under the Placing. An applicant for the Public Offer Shares will be required to give an undertaking and confirmation in the Application Form that he/she/it has not taken up and will not indicate an interest to take up any Placing Shares. Applicants should note that if such undertaking and/or confirmation given by the applicant is breached and/or untrue (as the case may be), such applicant’s application under the Public Offer is bound to be rejected. The Public Offer will be subject to the conditions stated in the paragraph headed “Conditions of the Share Offer” in this section.

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. Where 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. If the Public Offer is not fully subscribed for, the Joint Bookrunners may reallocate all or any of the unsubscribed Public Offer Shares originally included in the Public Offer to the Placing as described in the paragraph headed “Reallocation of the Offer Shares between the Public Offer and the Placing” in this section.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

REALLOCATION OF THE OFFER SHARES BETWEEN THE PUBLIC OFFER AND THE PLACING

The allocation of the Offer Shares between the Placing and the Public Offer is subject to reallocation under the Listing Rules in accordance with the clawback requirements set out in paragraph 4.2 of Practice Note 18 to the Listing Rules as follows:

- (a) if the number of Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of Shares initially available for subscription under the Public Offer, then Shares will be reallocated to the Public Offer from Placing so that, the total number of Shares available for subscription under the Public Offer will be increased to 37,500,000 Shares, representing 30% of the Offer Shares;
- (b) if the number of Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of Shares initially available for subscription under the Public Offer, then Shares will be reallocated to the Public Offer from Placing so that, the number of Shares available for subscription under the Public Offer will be increased to 50,000,000 Shares, representing 40% of the Offer Shares; and
- (c) if the number of Shares validly applied for under the Public Offer represents 100 times or more the number of Shares initially available for subscription under the Public Offer, then Shares will be reallocated to the Public Offer from Placing so that, the number of Shares available for subscription under the Public Offer will be increased 62,500,000 Shares, representing 50% of the Offer Shares.

In each case, the number of Offer Shares allocated to the Placing will be correspondingly reduced in such manner as the Joint Bookrunners deem appropriate. In addition, the Joint Bookrunners shall have the discretion to reallocate Offer Shares from the Placing to the Public Offer to satisfy valid applications under the Public Offer, regardless of whether any reallocation pursuant to paragraph 4.2 of Practice Note 18 of the Listing Rules is triggered.

If the Public Offer is not fully subscribed, the Joint Bookrunners will have the discretion to reallocate all or any of the unsubscribed Public Offer Shares originally included in the Public Offer to the Placing in such number as it deems appropriate to satisfy the demand under the Placing. If the Placing is not fully subscribed, the Joint Bookrunners will have the discretion to reallocate all or any unsubscribed Placing Shares originally included in the Placing to the Public Offer in such number as it deems appropriate should there be sufficient demand under the Public Offer to take up such unsubscribed Placing Shares.

DEALING ARRANGEMENTS

Assuming that the Share Offer becomes unconditional, it is expected that dealings in the Shares on the Main Board will commence at 9:00 a.m. (Hong Kong time) on Friday, 25 November 2016. The Shares will be traded in board lots of 4,000 Shares each.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for Placing Shares.

To apply for Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at www.hkeipo.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Bookrunners, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- 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, the Joint Bookrunners may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

HOW TO APPLY FOR THE 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 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 its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Share Offer; and
- have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

3. APPLYING FOR 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 Tuesday, 15 November 2016 until 12:00 noon on Friday, 18 November 2016 from:

- (i) the following address of the Public Offer Underwriters:

RaffAello Securities (HK) Limited
Rooms 2002 and 2002B, 20/F
Tower Two, Lippo Centre
89 Queensway
Hong Kong

First Shanghai Securities Limited
1903, Wing On House
71 Des Voeux Road Central
Hong Kong

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

(ii) any of the following branches of Wing Lung Bank Limited:

District	Branch Name	Address
Hong Kong Island	Head Office	45 Des Voeux Road Central
	Johnston Road Branch	118 Johnston Road
	North Point Branch	361 King's Road
Kowloon	Mongkok Branch	B/F Wing Lung Bank Centre, 636 Nathan Road
	Tsim Sha Tsui Branch	4 Carnarvon Road
	Sham Shui Po Branch	111 Tai Po Road
New Territories	Tsuen Wan Branch	251 Sha Tsui Road
	Sheung Shui Branch	128 San Fung Avenue

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 15 November 2016 until 12:00 noon on Friday, 18 November 2016 from:

- the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong; or
- your stockbroker.

Time for lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Wing Lung Bank (Nominees) Limited — Mengke Holdings Limited 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:

Tuesday, 15 November 2016 — 9:00 a.m. to 5:00 p.m.
Wednesday, 16 November 2016 — 9:00 a.m. to 5:00 p.m.
Thursday, 17 November 2016 — 9:00 a.m. to 5:00 p.m.
Friday, 18 November 2016 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 18 November 2016, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Application Lists" in this section.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Joint Bookrunners (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;
- (ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Articles;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Share Offer in this prospectus;
- (vi) agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, agents, affiliates or advisers or any other party involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) 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;
- (viii) agree to disclose to our Company, the Hong Kong Branch Share Registrar, receiving bank, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective directors, officers, employees, agents, affiliates or advisers or any other party involved in the Share Offer any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) 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

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

respective directors, officers, employees, agents, affiliates or advisers or any other party involved in the Share Offer 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;

- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) 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) and are not a U.S. person (as defined in Regulation S);
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) 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 have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) 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;
- (xvii) understand that our Company and the Joint Bookrunners 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;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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 “Who can apply” in this section, may apply through the **HK eIPO White Form** service for the 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 to the HK eIPO White Form Service Provider at www.hkeipo.hk (24 hours daily, except on the last application day) from 9.00 a.m. on Tuesday, 15 November 2016 until 11:30 a.m. on Friday, 18 November 2016 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 18 November 2016 or such later time under “Effect of Bad Weather on the Opening of the Application Lists” in this section.

No multiple applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **HK eIPO White Form** service to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **HK eIPO White Form** more than once and obtaining different 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).

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the money 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 (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square,
8 Connaught Place, Central, Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Bookrunners and our Hong Kong Branch Share Registrar.

GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
- agree to accept the Public Offer Shares applied for or any lesser number allocated;
- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;
- (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 and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise 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 Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and 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, receiving bank, the Joint Bookrunners, the Underwriters and/or its respective advisers and agents;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is 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 Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;
- 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 the giving **electronic application instructions** to apply for 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 the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Articles; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

EFFECT OF GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to 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 the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum purchase amount and permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 4,000 Public Offer Shares. Instructions for more than 4,000 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:

Tuesday, 15 November 2016 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, 16 November 2016 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
Thursday, 17 November 2016 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
Friday, 18 November 2016 — 8:00 a.m.⁽¹⁾ to 12:00 noon

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, 15 November 2016 until 12:00 noon on Friday, 18 November 2016 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, 18 November 2016, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Application Lists” in this section.

No multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, 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 banker, the Joint Bookrunners, 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 the **HK eIPO White Form** service is also only a facility provided by the **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 Sole Sponsor, the Joint Bookrunners and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Public Offer Shares.

HOW TO APPLY FOR THE 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 Friday, 18 November 2016.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- 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).

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 4,000 Public Offer Shares. Each application or **electronic application instruction** in respect of more than 4,000 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 at www.hkeipo.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, please refer to the section headed “Structure and Conditions of the Share Offer — Determining the Offer Price”.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 18 November 2016. 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 Friday, 18 November 2016 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce 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 on Thursday, 24 November 2016 on our Company’s website at www.mengkeholdings.com and the website of the Stock Exchange at www.hkexnews.hk.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at www.mengkeholdings.com and the Stock Exchange's website at www.hkexnews.hk by no later than 9:00 a.m., Thursday, 24 November 2016;
- 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 Thursday, 24 November 2016 to 12:00 midnight on Wednesday, 30 November 2016;
- by telephone enquiry line by calling (852) 3691 8488 between 9:00 a.m. and 6:00 p.m. from Thursday, 24 November 2016 to Tuesday, 29 November 2016 (excluding Saturday, Sunday and Hong Kong public holiday);
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 24 November 2016 to Monday, 28 November 2016 at all the receiving bank branches and sub-branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. For further details, please refer to "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 OFFER SHARES

You should note the following situations in which the Public Offer shares will not be allotted to you:

(i) **If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **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 Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Joint Bookrunners, 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.

(iii) If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or 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;

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- 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 believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Public Offer Shares initially offered under the Public Offer.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$0.70 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with "Structure and Conditions of the Share Offer — Conditions of the Public Offer" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Thursday, 24 November 2016.

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:

- 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

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- 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 Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque(s), if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of Share certificates and refund cheques as mentioned below, any refund cheques and Share certificates are expected to be posted on or around Thursday, 24 November 2016. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Friday, 25 November 2016 provided that the Share Offer has become unconditional and the right of termination described in the section headed “Underwriting” 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

(i) *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 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 Thursday, 24 November 2016 or such other date as notified by us in the newspapers.

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.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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 Thursday, 24 November 2016, by ordinary post and at your own risk.

(ii) *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 Thursday, 24 November 2016, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, 24 November 2016, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *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.

- *If you are applying as a CCASS Investor Participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offering 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., Thursday, 24 November 2016 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.

(iii) **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 Thursday, 24 November 2016, or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates and refund cheques/e-Auto Refund payment instructions.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

If you apply for less than 1,000,000 Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Thursday, 24 November 2016 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.

(iv) *If you apply via electronic application instructions to HKSCC*

Allocation of Public Offer Shares

For the purposes of allocating 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 Thursday, 24 November 2016, 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 Offering in the manner specified in "Publication of Results" above on Thursday, 24 November 2016. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 24 November 2016 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 24 November 2016. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 24 November 2016.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares and we comply 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 date of commencement of dealings in our Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the 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 our Shares to be admitted into CCASS.

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

15 November 2016

The Directors
Mengke Holdings Limited

RaffAello Capital Limited

Dear Sirs,

We report on the financial information of Mengke Holdings Limited (the "Company") and its subsidiaries (together, the "Group"), which comprises the consolidated balance sheets as at 31 December 2013, 2014 and 2015 and 31 May 2016, the balance sheet of the Company as at 31 May 2016, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2016 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated 15 November 2016 (the "Prospectus") in connection with the proposed offering of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in the Cayman Islands on 8 January 2016 as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands. Pursuant to a group reorganisation as described in Note 1(b) of Section II headed "Reorganisation" below, which was completed on 8 March 2016, the Company became the holding company of the subsidiaries now comprising the Group (the "Reorganisation").

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 1(b) of Section II below. All of these companies are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

No audited financial statements have been prepared by the Company as it is newly incorporated and has not involved in any significant business transactions since its date of incorporation, other than the Reorganisation. The audited financial statements of the other companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their places of incorporation. The details of the statutory auditors of these companies are set out in Note 1(b) of Section II.

The directors of the Company have prepared the consolidated financial statements of the Company and its subsidiaries now comprising the Group for the Relevant Periods, in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with HKFRSs. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the “HKSAs”) issued by the HKICPA pursuant to separate terms of engagement with the Company.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

Directors’ Responsibility for the Financial Information

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with HKFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Reporting Accountant’s Responsibility

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

Opinion

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the financial position of the Company as at 31 May 2016 and of the financial position of the Group as at 31 December 2013, 2014 and 2015 and 31 May 2016 and of the Group’s financial performance and cash flows for the Relevant Periods.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information set out in Sections I to II below included in Appendix I to the Prospectus which comprises the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the five months ended 31 May 2015 and a summary of significant accounting policies and other explanatory information (the “Stub Period Comparative Financial Information”).

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the accounting policies set out in Note 2 of Section II below.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review of the Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with HKSAs and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report is not prepared, in all material respects, in accordance with the accounting policies set out in Note 2 of Section II below.

I FINANCIAL INFORMATION

The following is the financial information of the Group prepared by the directors of the Company as at 31 December 2013, 2014 and 2015 and 31 May 2016 and for each of the years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2015 and 2016 (the "Financial Information"):

(a) Consolidated statements of comprehensive income

	Note	Year ended 31 December			Five months ended 31 May	
		2013	2014	2015	2015	2016
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)	
Revenue	6	268,655	269,903	319,273	94,219	98,997
Cost of sales	8	(217,627)	(220,580)	(252,900)	(74,271)	(77,281)
Gross profit		51,028	49,323	66,373	19,948	21,716
Other income and other expenses - net	7	345	(212)	1,481	370	325
Distribution expenses	8	(12,271)	(13,360)	(17,225)	(6,311)	(6,074)
Administrative expenses	8	(17,554)	(18,689)	(24,201)	(6,021)	(15,463)
Operating profit		21,548	17,062	26,428	7,986	504
Finance income		595	1,059	718	369	244
Finance expenses		(2,605)	(1,386)	(1,629)	(551)	(524)
Finance expenses - net	10	(2,010)	(327)	(911)	(182)	(280)
Profit before income tax		19,538	16,735	25,517	7,804	224
Income tax expense	11	(2,500)	(2,156)	(3,625)	(1,127)	(1,382)
Profit/(loss) for the year/period		17,038	14,579	21,892	6,677	(1,158)
Other comprehensive income		—	—	—	—	—
Total comprehensive income/(loss) for the year/period		17,038	14,579	21,892	6,677	(1,158)
Earnings/(losses) per share (expressed in RMB thousand per share)						
- Basic and diluted	12	170.4	145.8	218.9	66.8	(11.6)

(b) Consolidated balance sheets

	Note	31 December			31 May
		2013	2014	2015	2016
		RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Prepaid operating lease	14	6,009	5,859	12,778	12,637
Property, plant and equipment	15(a)	35,859	36,191	38,698	38,123
Intangible assets		166	151	135	129
Prepayments	18	—	—	—	485
Deferred income tax assets	16	—	424	867	1,236
		<u>42,034</u>	<u>42,625</u>	<u>52,478</u>	<u>52,610</u>
Current assets					
Inventories	17	57,073	60,671	48,566	42,559
Trade and other receivables and prepayments	18	88,081	116,255	146,693	115,596
Notes receivables	18	2,100	18,467	1,200	5,799
Amounts due from related parties	28(d)	472	8,533	—	275
Restricted cash	19	15,175	30,800	37,565	59,765
Cash and cash equivalents	20	2,848	392	7,754	8,142
		<u>165,749</u>	<u>235,118</u>	<u>241,778</u>	<u>232,136</u>
Total assets		<u>207,783</u>	<u>277,743</u>	<u>294,256</u>	<u>284,746</u>
Equities and liabilities					
Equity					
Share capital	21	—	—	—	—
Other reserves	22	30,902	32,622	35,929	35,940
Retained earnings		11,712	24,571	17,129	15,971
Total equity		<u>42,614</u>	<u>57,193</u>	<u>53,058</u>	<u>51,911</u>
Liabilities					
Non-current liabilities					
Borrowings	23	—	—	—	10,000
Deferred government grants	15(b)	500	1,100	1,502	1,467
Deferred income tax liabilities	16	82	—	—	—
		<u>582</u>	<u>1,100</u>	<u>1,502</u>	<u>11,467</u>
Current liabilities					
Borrowings	23	30,000	20,060	15,000	17,000
Trade and other payables	24	109,043	142,466	142,639	102,394
Notes payables	24	25,130	55,800	65,130	89,830
Amounts due to related parties	28(d)	414	—	15,223	9,883
Current income tax liabilities		—	1,124	1,704	2,261
		<u>164,587</u>	<u>219,450</u>	<u>239,696</u>	<u>221,368</u>
Total liabilities		<u>165,169</u>	<u>220,550</u>	<u>241,198</u>	<u>232,835</u>
Total equity and liabilities		<u>207,783</u>	<u>277,743</u>	<u>294,256</u>	<u>284,746</u>

(c) Balance sheet

	<u>Note</u>	<u>31 May 2016</u>
		<i>RMB'000</i>
Non-current assets		
Investment in a subsidiary	29	<u>56,538</u>
Current assets		
Prepayments	18	<u>4,074</u>
Total assets		<u><u>60,612</u></u>
Equities and liabilities		
Equity		
Share capital	21	—
Other reserves	22	56,341
Accumulated losses		<u>(10,676)</u>
Total equity		<u>45,665</u>
Current liabilities		
Other payables	24	9,277
Amounts due to subsidiaries	24	1,911
Amount due to the controlling shareholder	24	<u>3,759</u>
Total liabilities		<u>14,947</u>
Total equity and liabilities		<u><u>60,612</u></u>

(d) Consolidated statements of changes in equity

	Share capital	Other reserves	Retained earnings	Total
	<i>RMB'000</i> <i>(Note 21)</i>	<i>RMB'000</i> <i>(Note 22)</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 1 January 2013	—	29,661	5,802	35,463
Profit and total comprehensive income for the year	—	—	17,038	17,038
Appropriation to statutory reserves	—	1,241	(1,241)	—
Transaction with owners:				
- Distributions to the then owners of a group company	—	—	(9,887)	(9,887)
Balance at 31 December 2013	<u>—</u>	<u>30,902</u>	<u>11,712</u>	<u>42,614</u>
Balance at 1 January 2014	—	30,902	11,712	42,614
Profit and total comprehensive income for the year	—	—	14,579	14,579
Appropriation to statutory reserves	—	1,720	(1,720)	—
Balance at 31 December 2014	<u>—</u>	<u>32,622</u>	<u>24,571</u>	<u>57,193</u>
Balances at 1 January 2015	—	32,622	24,571	57,193
Profit and total comprehensive income for the year	—	—	21,892	21,892
Appropriation to statutory reserves	—	2,807	(2,807)	—
Share-based compensation reserve (Note 22(b))...	—	500	—	500
Transaction with owners:				
- Distributions to the then owners of a group company	—	—	(26,527)	(26,527)
Balance at 31 December 2015	<u>—</u>	<u>35,929</u>	<u>17,129</u>	<u>53,058</u>
Balance at 1 January 2016	—	35,929	17,129	53,058
Loss and total comprehensive loss for the period .	—	—	(1,158)	(1,158)
Share-based compensation reserve (Note 22(b))...	—	208	—	208
Transactions with owners:				
- Capital contributions from the shareholders of the Company (Note 22(c))	—	62,803	—	62,803
- Deemed distributions to the then owners of a group company (Note 22(d))	—	(63,000)	—	(63,000)
Balance at 31 May 2016	<u>—</u>	<u>35,940</u>	<u>15,971</u>	<u>51,911</u>

	<u>Share capital</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total</u>
	<i>RMB'000</i> <i>(Note 21)</i>	<i>RMB'000</i> <i>(Note 22)</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unaudited:				
Balance at 1 January 2015	—	32,622	24,571	57,193
Profit and total comprehensive income for the period	—	—	6,677	6,677
Share-based compensation reserve (Note 22(b))...	—	208	—	208
Transaction with owners:				
- Distributions to the then owners of a group company	—	—	(26,527)	(26,527)
Balance at 31 May 2015	<u>—</u>	<u>32,830</u>	<u>4,721</u>	<u>37,551</u>

(e) Consolidated statements of cash flow

	Note	Year ended 31 December			Five months ended	
					31 May	
		2013	2014	2015	2015	2016
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>(Unaudited)</i>						
Cash flows from operating activities						
Cash generated from/(used in) operations	25	13,998	29,987	41,141	14,226	(1,407)
Interest and other finance costs paid		(2,400)	(1,507)	(1,233)	(365)	(474)
Income tax paid		(5,265)	(784)	(3,488)	(1,484)	(1,194)
Net cash generated from/(used in) operating activities		<u>6,333</u>	<u>27,696</u>	<u>36,420</u>	<u>12,377</u>	<u>(3,075)</u>
Cash flows from investing activities						
Payments for prepaid operating lease		—	—	(7,608)	(388)	—
Purchase of property, plant and equipment		(9,073)	(3,215)	(10,681)	(10,611)	(1,463)
Purchase of intangible assets		(171)	(3)	—	—	—
(Increase)/decrease in amount due from a related party		—	(8,533)	8,533	8,533	—
(Increase)/decrease in loan to a third party		—	(8,271)	8,271	8,000	—
Proceeds from disposal of property, plant and equipment		—	—	29	—	—
Government grants received		500	600	500	—	25
Net cash (used in)/generated from investing activities		<u>(8,744)</u>	<u>(19,422)</u>	<u>(956)</u>	<u>5,534</u>	<u>(1,438)</u>
Cash flows from financing activities						
Proceeds from borrowings		49,978	20,060	26,250	11,520	53,494
Repayments of borrowings		(19,978)	(30,000)	(31,310)	(5,820)	(41,494)
Payments of listing expenses		—	—	—	—	(929)
Repayment of loan from a former owner of a group company		(20,000)	—	—	—	—
Changes in amounts due to related parties		—	—	11,919	10,500	(6,179)
Dividends paid to the then owners of a group company		(7,070)	(790)	(34,961)	(31,966)	—
Net cash generated from/(used in) financing activities		<u>2,930</u>	<u>(10,730)</u>	<u>(28,102)</u>	<u>(15,766)</u>	<u>4,892</u>
Net increase/(decrease) in cash and cash equivalents		<u>519</u>	<u>(2,456)</u>	<u>7,362</u>	<u>2,145</u>	<u>379</u>
Cash and cash equivalents at beginning of the year/period		2,329	2,848	392	392	7,754
Exchange gains on cash and cash equivalents		—	—	—	—	9
Cash and cash equivalents at end of the year/period	20	<u>2,848</u>	<u>392</u>	<u>7,754</u>	<u>2,537</u>	<u>8,142</u>

II NOTES TO THE FINANCIAL INFORMATION**1 General information, reorganisation and basis of presentation****(a) General information**

The Company was incorporated in the Cayman Islands on 8 January 2016 as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands. The address of the Company's registered office is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands.

The Company is an investment holding company and its subsidiaries (together, the "Group") are principally engaged in the manufacturing and sale of cigarette packing materials in the People's Republic of China (the "PRC") (the "Listing Business"). The ultimate holding company of the Company is Happily Soar Limited, a company incorporated in British Virgin Islands ("BVI"). The ultimate controlling party of the Group is Mr. Zhang Weixiang ("Mr. Zhang", or "the Controlling Shareholder").

(b) Reorganisation

Prior to the reorganisation as described below (the "Reorganisation"), the Listing Business was carried out by Hubei Mengke Paper Co., Ltd. ("Hubei Mengke"), a limited liability company incorporated in the PRC. Hubei Mengke was primarily owned as to 75% and 25% by Yichang Kunxiang Trading Co., Ltd. and Prime Vantage International Limited ("Prime Vantage"), respectively. Yichang Kunxiang is a limited liability company incorporated in the PRC and 76%, 18% and 6% of its equity interests are owned by Mr. Zhang, Mr. Fu Mingping ("Mr. Fu") and Mr. Chen Yongqiao ("Mr. Chen"), respectively. Prime Vantage is a limited liability company incorporated in Hong Kong and is 100% owned by Mr. Shiu Kwok Kuen ("Mr. Shiu").

In preparation of the proposed offering and listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing"), the Company and other companies now comprising the Group have undergone the Reorganisation pursuant to which the Company has become the holding company of the Listing Business. The major steps which have been undertaken to effect the Reorganisation are as follows:

- (1) On 1 September 2015, Happily Soar Limited ("Happily Soar") was incorporated in BVI with authorised ordinary shares of 50,000 at par value of US\$1 each. On 22 December 2015, 76, 18 and 6 ordinary shares of US\$1 each were issued to Mr. Zhang, Mr. Fu and Mr. Chen, respectively.
- (2) On 9 November 2015, Lucky Glorious Limited ("Lucky Glorious") was incorporated in BVI with authorised ordinary shares of 50,000 at par value of US\$1 each. On 19 January 2016, 1 ordinary share of US\$1 was issued to the Company. Since then, Lucky Glorious became a wholly owned subsidiary of the Company.
- (3) On 11 November 2015, Liberal Rite Limited ("Liberal Rite") was incorporated in BVI with authorised ordinary shares of 50,000 at par value of US\$1 each. On 22 December 2015, 1 ordinary share of US\$1 was issued to Mr. Shiu.
- (4) On 8 January 2016, the Company was incorporated in Cayman Islands with authorised ordinary shares of 38,000,000 at par value of HK\$0.01 each. On the same date, 75 and 25 ordinary shares of HK\$0.01 each were issued to Happily Soar and Liberal Rite, respectively.

- (5) On 25 January 2016, Mengke (Hong Kong) Company Limited (“Mengke (Hong Kong)”) was incorporated in Hong Kong. On the same date, 1 ordinary share was issued to Lucky Glorious Limited. Since then, Mengke (Hong Kong) became a wholly owned subsidiary of the Company.
- (6) On 8 March 2016, 75% and 25% equity interest of Hubei Mengke were transferred by its then shareholders (Yichang Kunxiang and Prime Vantage) to Mengke (Hong Kong) at considerations of RMB47,250,000 and RMB15,750,000, respectively. Since then, Hubei Mengke became a wholly-owned subsidiary of the Company.

Upon completion of the Reorganisation, the Company become the holding company of the companies comprising the Group.

As of the date at this report, the Company has direct and indirect interests in the following subsidiaries:

<u>Name of company</u>	<u>Place and date of incorporation/ establishment</u>	<u>Registered and paid-up capital</u>	<u>Equity interest held by the Company</u>	<u>Principal activities and place of operation</u>	<u>Note</u>
Directly held:					
Lucky Glorious	BVI/9 November 2015	US\$1	100%	Investment holding	(i)
Indirectly held:					
Mengke (Hong Kong)	Hong Kong/25 January 2016	HK\$1	100%	Investment holding	(i)
Hubei Mengke	PRC/13 June 2005	RMB24,000,000	100%	Manufacturing and sale of cigarette packing materials	(ii)

Notes:

- (i) No audited financial statements were issued for these companies as they are either newly incorporated or not required to issue audited financial statements under the statutory requirements of their respective places of incorporation.
- (ii) The statutory financial statements of this company for the years ended 31 December 2013, 2014 and 2015 were prepared in accordance with Accounting Standards for Business Enterprises applicable to the enterprises in the PRC and were audited by 湖北同興會計師事務所有限公司, certified public accountants in the PRC.

(c) ***Basis of presentation***

Immediately prior to and after the Reorganisation, the Listing Business is controlled by Mr. Zhang. The Listing Business is conducted through Hubei Mengke which is ultimately controlled by

Mr. Zhang. Pursuant to the Reorganisation, Hubei Mengke and the Listing Business were transferred to and held by Mengke (Hong Kong) which is an intermediate wholly owned subsidiary of the Company. The Company has not been involved in any other business prior to the Reorganisation and does not meet the definition of a business. The steps as described in Note 1(b) above are merely a reorganisation of the Listing Business with no change in management of such business and the ultimate owners of the Listing Business remain the same. Accordingly, the Group resulting from the Reorganisation is regarded as a continuation of the Listing Business under Hubei Mengke and, for the purpose of this report, the Financial Information has been prepared and presented as a continuation of the financial statements of Hubei Mengke, with the assets and liabilities of the Group recognised and measured at the carrying amounts of the Listing Business under the financial statements of Hubei Mengke for all the years and periods presented.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to all the years and periods presented.

2.1 Basis of preparation

The Financial Information of the Company has been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA are set out below. The Financial Information has been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 4.

The following new standards and amendments to standards which are effective for accounting periods beginning after 1 January 2016 and have not been early adopted:

	Effective for financial year beginning on or after
HKFRS 15 Revenue from contracts with customers	1 January 2018
HKFRS 9 Financial instruments	1 January 2018
HKAS 12 (Amendment) Recognition of deferred tax assets for unrealised losses	1 January 2018
HKAS 7 (Amendment) Changes in liabilities arising from financing activities	1 January 2018
HKFRS 2 (Amendment) Classification and measurement of share-based payment transactions	1 January 2018
HKFRS 16 Leases	1 January 2019
HKFRS 10 and HKAS 28 (Amendments) Sale or contribution of assets between an investor and its associate or joint venture	Effective date to be determine

Management is in the process of making an assessment of the impact of the above new standards and amendments to standards and considered on a preliminary basis that these new standards and amendments to standards will not result in any substantial changes to the Group's existing accounting policies and presentation of the Financial Information.

2.2 *Subsidiaries*

2.2.1 *Consolidation*

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2.2.2 *Separate financial statement*

Investment in a subsidiary is accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of the subsidiary are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investment in a subsidiary is required upon receiving a dividend from the investment if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statement exceeds the carrying amount in the consolidated financial statement of the investee's net assets including goodwill.

2.3 *Segment reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker ("CODM"), who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic decisions.

2.4 *Foreign currency translation*

(a) *Functional and presentation currency*

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated Financial Information are presented in RMB, which is the Company's functional currency and the Group's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statements of comprehensive income within "finance income" and "finance expenses", respectively. All other foreign exchange gains and losses are presented in profit or loss within other gains/(losses) — net.

2.5 *Prepaid operating lease*

Prepaid operating leases represent prepaid operating lease payments for land less accumulated amortisation and any impairment losses. Amortisation is calculated using the straight-line method to allocate the prepaid operating lease payments for land over the lease term of 41-45 years.

2.6 *Property, plant and equipment*

All property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Plant and buildings	5-20 years
Machinery	10 years
Motor vehicles	5 years
Office equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Assets under construction represent buildings and ancillary facilities under construction, and are stated at cost. Costs include construction and acquisition costs. No depreciation is made on assets under construction until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other gains/(losses) — net in profit or loss.

2.7 *Intangible assets*

Intangible assets represent computer software purchased by the Group. Computer software are stated at cost less accumulated amortisation and accumulated impairment losses. Cost represents consideration paid for the rights to use the computer software for periods of 5 years. Amortisation of computer software is calculated on the straight-line method over the period of 5 years.

2.8 *Research and development*

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as expenses as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

2.9 *Impairment of non-financial assets*

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 *Financial assets*

(a) *Classification*

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "notes receivables", "amounts due from related parties", "restricted cash" and "cash and cash equivalents" in the consolidated balance sheets (Notes 2.13 and 2.15).

(b) *Recognition and measurement*

Regular way purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.11 *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheets when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.12 *Impairment of financial assets*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit

or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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 (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the profit or loss.

2.13 Trade and other receivables, notes receivables and amounts due from related parties

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables, notes receivables and amounts due from related parties are expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables, notes receivables and amounts due from related parties are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable distribution costs.

2.15 Cash and cash equivalents and restricted cash

In the consolidated statements of cash flows, cash and cash equivalents includes cash in hand and deposits held at call with banks. Bank deposits which are restricted to use are included in "restricted cash". Restricted cash are excluded from cash and cash equivalents in the consolidated statements of cash flows.

2.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade and other payables, notes payables and amounts due to related parties

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables, notes payables and amounts due to related parties are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables, notes payables and amounts due to related parties are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.19 Current and deferred income tax

The tax expense for the year/period comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.20 *Employee benefits and share base payments*

(a) *Social security obligations*

Pursuant to the relevant regulations of the PRC governments, the subsidiary of the Group that was established in the PRC (the “PRC Subsidiary”) has participated in employee social security plans, including pension, medical, housing and other welfare benefits, organised and administered by the governmental authorities (the “Schemes”), whereby the PRC Subsidiary is required to contribute a certain percentage of the salaries of their employees to the Schemes to fund their social security benefits. The local municipal government undertakes to assume the social security benefits of those employees of the Group. Contributions under the Schemes are charged to profit or loss as incurred.

(b) *Bonus plan*

Provisions for bonus plan due wholly within twelve months after the end of the reporting period is recognised where contractually obliged or where there is a past practice that has created a constructive obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(c) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(d) *Equity-settled share-based payment transactions*

The Group receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions (for example, an entity’s share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and

- including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the statements of comprehensive income, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

2.21 *Provisions*

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.22 *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied or services rendered, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

(a) *Sales of goods*

Sales of goods are recognised when a group entity has delivered products to the customer; the customer has initially accepted the products; the risks and rewards relating to the products are passed to the customer and collectability of the related receivables is reasonably assured.

(b) *Processing service income*

The Group provides processing services to certain customers. Processing service income is recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of actual services provided as a proportion of the total service to be provided.

2.23 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the profit or loss on a straight-line basis over the expected lives of the related assets.

2.24 Interest income and rental income

(a) *Interest income*

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognized using the original effective interest rate.

(b) *Rental income*

Rental income on assets leased out under operating leases is recognised on the straight-line basis over the lease periods.

2.25 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(a) *The Group as lessee*

Payments made under operating leases (net of any incentives received from the lessor) by the Group are charged to the profit or loss on a straight-line basis over the period of the lease.

(b) *The Group as lessor*

Assets leased out under operating leases by the Group are included in the Group's consolidated balance sheets in accordance with their nature and where applicable, and are depreciated in accordance with the Group's depreciation policy as set out in Note 2.6. Rental income arising from assets leased out under operating leases is recognised in accordance with the Group's income recognition policy as set out in Note 2.24(b) above.

2.26 Dividend distribution

Dividend distribution to the group company's owners is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are approved by the group company's owners or directors, where appropriate.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the financial department under policies approved by the board of directors.

3.1.1 Market risk

(a) Foreign exchange risk

The Group operates in the PRC with most transactions being settled in RMB, while certain transactions are settled in foreign currencies. The Group currently does not have a foreign currency hedging policy, and manages its foreign currency risk by closely monitor the movement of the foreign currency rates.

At 31 December 2013, 2014 and 2015, the Group had no foreign currency denominated assets and liabilities and accordingly, no significant foreign currency risk existed.

At 31 May 2016, the Group's cash at bank of RMB564,000 was denominated in Hong Kong dollar ("HK\$") which exposed the Group to foreign currency risk. If RMB had weakened/strengthened by 5% against HK\$, with all other variables held constant, the loss for the five months ended 31 May 2016 would have been RMB28,000 lower/higher, mainly as a result of net foreign exchange gains/losses on the translation of HK\$ denominated cash at bank into RMB.

(b) Cash flow and fair value interest rate risk

The Group's interest bearing assets and liabilities are summarised as follows:

	As at 31 December			As at
				31 May
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Restricted cash (Note 19)	15,175	30,800	37,565	59,765
Cash and cash equivalents (Note 20)	2,848	392	7,754	8,142
Loan to a third party (Note 18(g))	—	8,271	—	—
Borrowings (Note 23)	(30,000)	(20,060)	(15,000)	(27,000)
Net exposure of interest bearing (liabilities)/assets	<u>(11,977)</u>	<u>19,403</u>	<u>30,319</u>	<u>40,907</u>

The annual interest rates of the Group's deposits held in banks during the years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2016 ranged from 0.35% to 3.80%, 0.35% to 3.05%, 0.30% to 2.05%, and 0.30% to 2.05% respectively. The Group's restricted cash and borrowings as of 31 December 2013, 2014 and 2015 and 31 May 2016 were held at fixed rates and exposed the Group to fair value interest rate risk. The Group's loan to a third party as at 31 December 2014 was held at fixed interest rate of 6.0% per annum and exposed the Group to fair value interest rate risk. The Group's cash at banks were held at variable rates and exposed the Group to cash flow interest rate risk. The Group currently did not use any interest rate swaps to hedge its exposure to interest rate risks as either cash flow or fair value interest rate risk was not significant due to their short-term maturities.

The analysis below is prepared assuming the amount of assets/liabilities outstanding at the end of the relevant year/period was outstanding for the whole year/period. A 25 basis points increase or decrease is used as it represents management's assessment of the reasonably possible range of changes in interest rates.

	For the year ended 31 December			For the five months ended
				31 May
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Impacts to the profit or loss for the year/period (Note*)				
- 25 basis points increase in interest rates . .	<u>(30)</u>	<u>49</u>	<u>76</u>	<u>102</u>
- 25 basis points decrease in interest rates . .	<u>30</u>	<u>(49)</u>	<u>(76)</u>	<u>(102)</u>

*Note**: Negative amount represents decrease of profit or increase of loss for the relevant year/period, positive amount represents increase of profit or decrease of loss for the relevant year/period.

3.1.2 Credit risk

The Group's maximum exposure to credit risk in relation to financial assets is the carrying amounts of trade and other receivables, notes receivables, amounts due from related parties, cash and cash equivalents and restricted cash.

As at 31 December 2013, 2014 and 2015 and 31 May 2016, substantially all of the Group's bank deposits are deposited with major financial institutions incorporated in the PRC and Hong Kong, which management believes are of high credit quality without significant credit risk. The Group's bank deposits as at 31 December 2013, 2014 and 2015 and 31 May 2016 are as follows:

	31 December			31 May
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash at banks:				
- Big four commercial banks (Note (i))	1,399	266	4,409	3,912
- Other listed banks	1,449	126	3,345	4,230
	<u>2,848</u>	<u>392</u>	<u>7,754</u>	<u>8,142</u>
Restricted cash:				
- Big four commercial banks (Note (i))	940	—	—	—
- Other listed banks	14,235	30,800	37,565	59,765
	<u>15,175</u>	<u>30,800</u>	<u>37,565</u>	<u>59,765</u>

(i) Big four commercial banks include Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China and Bank of China.

Notes receivables represent bank acceptance notes and commercial bills. The issuing banks of bank acceptance notes are either state-owned banks with investment grade rating or local banks with good reputation. Management believes that these financial institutions are of high credit quality and there is no significant credit risk on the Group's bank deposits and bank acceptance notes.

As at 31 December 2013, 2014 and 2015 and 31 May 2016, approximately 83.2%, 79.9%, 85.6% and 85.5% of the Group's trade receivables were due from the top five largest customers, while 4.9%, 11.5%, 42.2% and 39.2% of the Group's trade receivables were due from the largest customer.

All of the Group's trade receivables, commercial bills, other receivables and amounts due from related parties have no collateral. However, the Group has policies in place to ensure that sales are made to customers or counter parties with appropriate credit history and the Group performs periodic credit evaluations of its customers or counter parties. The Group assesses the credit quality of each customer or counter party by taking into account its financial position, past experience and other factors. Credit limits are reviewed on periodic basis, and the finance department is responsible for such monitoring procedures. In determining whether provision for impairment of receivables is required, the Group takes into consideration the future cash flows, ageing status and the likelihood of collection. In this regard, the directors of the Company are satisfied that the risks are minimal and adequate provision, if any, has been made in the Financial Information after assessing the collectability of individual debts. Further quantitative disclosures in respect of trade receivables, commercial bills and other receivables are set out in Note 18.

3.1.3 Liquidity risk

To manage the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group expects to fund its future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group	Less than 1 year
	<i>RMB'000</i>
31 December 2013	
Borrowings	31,268
Trade and other payables	103,042
Notes payables	25,130
Amounts due to related parties	414
	<u>159,854</u>
31 December 2014	
Borrowings	20,981
Trade and other payables	135,040
Notes payables	55,800
	<u>211,821</u>
31 December 2015	
Borrowings	15,307
Trade and other payables	138,795
Notes payables	65,130
Amounts due to related parties	15,223
	<u>234,455</u>

	Less than 1 Year	Between 1 and 2 years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
31 May 2016			
Borrowings	17,870	10,055	27,925
Trade and other payables	99,943	—	99,943
Notes payables	89,830	—	89,830
Amounts due to related parties	9,883	—	9,883
	<u>217,526</u>	<u>10,055</u>	<u>227,581</u>

Company	Less than 1 year
	<i>RMB'000</i>
31 May 2016	
Other payables	9,277
Amounts due to subsidiaries	1,911
Amount due to the Controlling Shareholder	<u>3,759</u>
	<u>14,947</u>

3.2 *Capital management*

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to owners, return capital to owners, or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total equity. Total debt are calculated as total borrowings and amounts due to related parties. Total equity represents the "total equity" shown in the consolidated balance sheets.

The gearing ratios at 31 December 2013, 2014 and 2015 and 31 May 2016 are as follows:

	31 December			31 May
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Borrowings (Note 23)	30,000	20,060	15,000	27,000
Amounts due to related parties (Note 28(d)) . .	414	—	15,223	9,883
Total debt	<u>30,414</u>	<u>20,060</u>	<u>30,223</u>	<u>36,883</u>
Total equity	<u>42,614</u>	<u>57,193</u>	<u>53,058</u>	<u>51,911</u>
Gearing ratio	<u>71%</u>	<u>35%</u>	<u>57%</u>	<u>71%</u>

3.3 *Fair value estimation*

Financial instruments carried at fair value or where fair value was disclosed can be categorised by level of the inputs to valuation techniques used to measure fair value. The inputs are categorised into three levels within a fair value hierarchy as follows:

- (i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- (ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- (iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group's financial assets include cash and cash equivalents, restricted cash, trade and other receivables, notes receivables, amounts due from related parties and the Group's financial liabilities include trade and other payables, notes payables and borrowings. Their carrying values approximated their fair values due to their short maturities.

4 Critical accounting estimates and judgements

Estimates and judgements used in preparing this Financial Information are evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that may have a significant effect on the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) *Income taxes and deferred taxation*

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provision in the year in which such determination is made.

(b) *Useful lives and residual values of property, plant and equipment*

The Group's management determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment, and reviews the useful lives and residual values periodically to ensure that the method and rates of depreciation are consistent with the expected pattern of realisation of economic benefits from property, plant and equipment. This estimate is based on the historical experience of the actual residual values and useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. If there are significant changes from previously estimated useful lives and residual values, the amount of depreciation expenses may change.

(c) *Estimated impairment of receivables*

The Group records impairment of receivables based on an assessment made by management on the recoverability of trade and other receivables, notes receivables and amounts due from related parties. Provisions are applied where events or changes in circumstances indicate that the balances may not be collectible. Impairment assessment requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact both the carrying value of trade and other receivables, notes receivables and amounts due from related parties and the impairment charge in the period in which such estimate has been changed.

(d) *Estimated impairment of inventories*

The Group estimates the net realisable value of inventories. Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes. Even if the Group has made stock provision for the expected impairment at its best estimate, there is a possibility that changes in market conditions will alter the result.

(e) *Estimated fair value of share-based payment transaction*

The fair value of the equity interest granted to Mr. Fu in December 2014 (Note 22(b)) is determined based on discounted cash flow model. The key assumptions adopted in the discounted cash flow model includes discount rate representing the estimated weighted average cost of capital of 15.0%, marketability discount of 20% representing the lack of liquidity of the equity interest, minority discount of 18.0% representing a discount applying to the non-controlling interest as well as estimated cash flows based on management's best estimates.

5 Segment information

Management has determined the operating segments based on the reports reviewed by CODM. The CODM, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive director of the Company.

The Group is principally engaged in the manufacture and sales of packing materials for cigarette in the PRC. Management reviews the operating results of the business as one operating segment to make decisions about resources to be allocated. Therefore, the CODM of the Company regards that there is only one operating segment which is used to make strategic decisions.

The major operating entity of the Group is domiciled in the PRC. Accordingly, all of the Group's revenue are derived in the PRC.

As at 31 December 2013, 2014 and 2015 and 31 May 2016, all of the non-current assets were located in the PRC.

6 Revenue

	Year ended 31 December			Five months ended 31 May	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Sales of cigarette packaging products:					
- transfer metallised paper	190,087	212,262	267,769	79,992	84,242
- laminated metallised paper	78,513	55,528	47,269	12,842	12,968
	268,600	267,790	315,038	92,834	97,210
Processing service income	55	2,113	4,235	1,385	1,787
	<u>268,655</u>	<u>269,903</u>	<u>319,273</u>	<u>94,219</u>	<u>98,997</u>

Revenues from transactions with external customers amounting to 10% or more of the Group's revenues are as follows:

	Year ended 31 December			Five months ended 31 May	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Customer A:	96,074	86,592	98,921	24,131	23,557
Customer B:	36,535	66,213	105,316	29,567	23,982
	Not		Not		Not
Customer C:	applicable*	49,053	applicable*	14,107	applicable*
		Not			
Customer D:	52,146	applicable*	32,111	10,971	33,053

Note:* The revenue of the particular customer for the particular year/period is less than 10% of the Group's revenue for the particular year/period.

7 Other income and other expenses - net

	Year ended 31 December			Five months ended 31 May	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Other income:					
Sales of raw material and waste material	349	4,313	2,298	1,438	—
Subsidy income	183	234	500	176	94
Rental income	—	—	982	163	389
	<u>532</u>	<u>4,547</u>	<u>3,780</u>	<u>1,777</u>	<u>483</u>
Other expenses:					
Cost of raw material and waste material sold.	(187)	(4,759)	(2,018)	(1,339)	—
Cost of rental.	—	—	(281)	(68)	(158)
	<u>(187)</u>	<u>(4,759)</u>	<u>(2,299)</u>	<u>(1,407)</u>	<u>(158)</u>
Other income and other expenses - net	<u>345</u>	<u>(212)</u>	<u>1,481</u>	<u>370</u>	<u>325</u>

8 Expenses by nature

	Year ended 31 December			Five months ended 31 May	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Raw materials and consumables used	218,269	226,180	230,933	64,164	64,054
Changes in inventories of finished goods and work in progress	(4,418)	(10,588)	14,818	6,245	9,596
Staff costs (including directors' emoluments) (Note 9)	11,381	11,692	13,409	5,106	5,905
Transportation expenses	7,522	8,344	12,790	4,448	3,943
Utilities	3,800	4,084	4,064	1,481	1,539
Entertainment expenses	3,314	3,918	3,037	1,393	1,418
Depreciation (Note 15(a))	2,759	2,993	3,281	1,422	1,391
Other taxes and surcharges	1,097	1,945	2,725	712	654
Maintenance expenses	1,169	728	1,724	424	154
Travelling expenses	571	713	720	202	234
Amortisation of prepaid operating lease (Note 14)	150	150	301	62	94
Auditor's remuneration	50	50	50	23	23
Professional fees in respect of listing	—	—	3,863	—	8,812
Impairment provision for trade and other receivables	—	—	25	—	—
Other expenses	1,788	2,420	2,586	921	1,001
Total cost of sales, distribution expenses and administrative expenses	<u>247,452</u>	<u>252,629</u>	<u>294,326</u>	<u>86,603</u>	<u>98,818</u>

Research and development expenses during the years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2015 and 2016, which mainly comprised materials consumed and staff costs, are as follows:

	Year ended 31 December			Five months ended 31 May	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Research and development expenses	<u>11,269</u>	<u>10,759</u>	<u>10,562</u>	<u>1,893</u>	<u>1,934</u>

No research and development expenses had been capitalised for the years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2015 and 2016.

9 Staff costs (including directors' emoluments)

	Year ended 31 December			Five months ended 31 May	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Salaries, wages, bonuses, welfare and other benefits	10,138	10,089	10,877	4,108	4,788
Contributions to employee social security plans (Note (c))	1,243	1,603	2,032	790	909
Share-based compensation expenses (Note 22(b))	—	—	500	208	208
	<u>11,381</u>	<u>11,692</u>	<u>13,409</u>	<u>5,106</u>	<u>5,905</u>

(a) Directors' emoluments

The emoluments of individual director of the Company paid/payable by companies comprising the Group during the years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2015 and 2016 are presented as below:

(i) For the year ended 31 December 2013:

	Fees	Salaries and allowances	Discretionary bonus	Contributions to employee social security plans	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Fu	—	154	—	23	177

(ii) For the year ended 31 December 2014:

	Fees	Salaries and allowances	Discretionary bonus	Contributions to employee social security plans	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Zhang	—	10	—	2	12
Mr. Fu	—	154	—	29	183
	<u>—</u>	<u>164</u>	<u>—</u>	<u>31</u>	<u>195</u>

(iii) For the year ended 31 December 2015:

	Fees	Salaries and allowances	Discretionary bonus	Contributions to employee		Total
				social security plans	Share-based compensation	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Zhang	—	130	—	32	—	162
Mr. Fu	—	154	—	32	500	686
	—	284	—	64	500	848

(iv) For the five months ended 31 May 2016:

	Fees	Salaries and allowances	Discretionary bonus	Contributions to employee		Total
				social security plans	Share-based compensation	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Zhang	—	50	—	13	—	63
Mr. Fu	—	64	—	13	208	285
	—	114	—	26	208	348

(v) For the five months ended 31 May 2015 (Unaudited):

	Fees	Salaries and allowances	Discretionary bonus	Contributions to employee		Total
				social security plans	Share-based compensation	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Zhang	—	60	—	13	—	73
Mr. Fu	—	64	—	13	208	285
	—	124	—	26	208	358

Mr. Zhang and Mr. Fu are directors of the Company. Mr. Fu is also the chief executive officer of the Company. Mr. Zhang took up director's role in a group company in December 2014, and did not receive emoluments from the Group for the year ended 31 December 2013.

During the years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2015 and 2016, the independent non-executive directors had not been appointed and therefore did not receive any remuneration in their capacity as the Company's directors.

During the years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2015 and 2016, none of the directors of the Company waived their emoluments nor has agreed to waive their emoluments.

During the years ended 31 December 2013, 2014, 2015 and the five months ended 31 May 2015 and 2016:

- no retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable;
- no consideration was provided to or receivable by third parties for making available directors' services;
- other than those disclosed in Note 28(d), there were no other loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities;
- other than those disclosed in Note 28(b), no other director of the Company had a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Company's business to which the Company was or is a party that subsisted at the end of each of the year/period or at any time during each of the year/period.

(b) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2015 and 2016 include 1, nil, 1, 1 and 1 director, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 4, 5, 4, 4 and 4 individuals during the years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2015 and 2016 are as follows:

	Year ended 31 December			Five months ended 31 May	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Salaries, wages, bonuses, welfare and other benefits	1,247	1,405	1,410	631	672
Contributions to employee social security plans (Note (c))	50	79	75	41	38
	<u>1,297</u>	<u>1,484</u>	<u>1,485</u>	<u>672</u>	<u>710</u>

The emoluments of these remaining individuals of the Group fall within the following bands:

	Year ended 31 December			Five months ended 31 May	
	2013	2014	2015	2015	2016
Number of individuals fell in the emolument bands from nil to HK\$1,000,000 (equivalent to nil to RMB838,000)	4	5	4	4	4

(Unaudited)

During the years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2015 and 2016, no emolument was paid by the Group to any of the above directors or the five highest paid individuals as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

(c) *Contribution to employee social security plans*

Employees in the Group's PRC subsidiary are required to participate in employee social security plans, including pension, medical, housing and other welfare benefits administrated and operated by the local municipal government (the "Schemes"). The Group's PRC subsidiary contributes funds which are calculated at fixed percentage of the social average employee salary, as agreed by local municipal government, to the Schemes as employee social security benefits of the employees for the years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2015 and 2016.

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme ("the MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, the group company in Hong Kong (the employer) and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The monthly contributions of each of the group company and its employees are subject to a cap of HK\$1,500 and thereafter contributions are voluntary.

10 Finance expenses - net

	Year ended 31 December			Five months ended 31 May	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Finance income					
- interest income	(595)	(1,059)	(718)	(369)	(235)
- exchange gains	—	—	—	—	(9)
	<u>(595)</u>	<u>(1,059)</u>	<u>(718)</u>	<u>(369)</u>	<u>(244)</u>
Finance expenses					
- interest expenses	1,808	1,386	1,225	551	524
- discount charges on bank acceptance notes	797	—	404	—	—
	<u>2,605</u>	<u>1,386</u>	<u>1,629</u>	<u>551</u>	<u>524</u>
Finance expenses - net	<u>2,010</u>	<u>327</u>	<u>911</u>	<u>182</u>	<u>280</u>

11 Income tax expense

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and accordingly, is exempted from Cayman Islands income tax. The Company's direct subsidiary in the BVI was incorporated under the International Business Companies Act of the BVI and, accordingly, is exempted from British Virgin Islands income tax.

No provision for Hong Kong profits tax was provided as the Group did not have assessable profit in Hong Kong for the years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2015 and 2016. The profit of the group entity in Hong Kong is mainly derived from dividend income from its subsidiary, which is not subject to Hong Kong profits tax.

The income tax provision of the Group in respect of its operations in Mainland China has been calculated at the applicable tax rate on the estimated assessable profits for the years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2015 and 2016.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "CIT Law"), which is effective from 1 January 2008. Under the CIT Law and the Implementation Rules of the CIT Law, the standard tax rate of the PRC entities was 25% during the years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2015 and 2016.

On 27 November 2013, the Group's subsidiary in the PRC was designated as High and New Technology Enterprise ("HNTE") which is effective for three years commencing on 1 January 2013. The applicable income tax rate was 15% for the years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2015.

The subsidiary will apply for the extension of HNTE-designation according to the relevant rules and regulations, and the directors of the Company are of the view that, upon completion of certain administrative procedures, it would be more likely than not that the designation of HNTE would be extended; hence the income tax rate of 15% was adopted for the five months ended 31 May 2016.

	Year ended 31 December			Five months ended 31 May	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Current income tax:					
- PRC corporate income tax	1,677	2,662	4,068	1,263	1,659
- Under-provision of PRC corporate income tax in prior year	—	—	—	—	92
Deferred income tax:					
- PRC corporate income tax	823	(506)	(443)	(136)	(369)
	<u>2,500</u>	<u>2,156</u>	<u>3,625</u>	<u>1,127</u>	<u>1,382</u>

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profit of the consolidated entities as follows:

	Year ended 31 December			Five months ended 31 May	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Profit before income tax	19,538	16,735	25,517	7,804	224
Calculated at applicable corporate income tax rates	2,931	2,510	3,828	1,171	29
Tax effect of:					
- additional deduction on research and development expenses	(744)	(794)	(787)	(141)	(143)
- expenses not deductible for tax purposes	313	440	584	97	1,404
- under-provision of PRC corporate income tax in prior year	—	—	—	—	92
Income tax expense	<u>2,500</u>	<u>2,156</u>	<u>3,625</u>	<u>1,127</u>	<u>1,382</u>

12 Earnings per share

(a) Basic

The basic earnings/(losses) per share is calculated on the profit/(loss) attributable to owners of the Company by the weighted average number of ordinary shares in issue during the years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2015 and 2016. In determining the weighted average number of ordinary shares in issue, the 100 shares issued during the Reorganisation were deemed to have been in issue since 1 January 2013. The earnings/(losses) per share has not taken into account the proposed capitalisation issue of 374,999,900 shares pursuant to the written resolution passed by the shareholders on 3 November 2016 as the capitalisation issue will not become effective until the Listing (Note 30(a)).

	Year ended 31 December			Five months ended 31 May	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit/(loss) attributable to owners of the Company (RMB'000)	17,038	14,579	21,892	6,677	(1,158)
Weighted average number of shares in issue	100	100	100	100	100
Basic earnings/(losses) per share (expressed in RMB thousand per share)	<u>170.4</u>	<u>145.8</u>	<u>218.9</u>	<u>66.8</u>	<u>(11.6)</u>

(Unaudited)

(b) Diluted

Diluted earnings/(losses) per share presented is the same as the basic earnings/(losses) per share as there were no potentially dilutive ordinary shares issued during the years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2015 and 2016.

13 Dividends

On 15 July 2013, Hubei Mengke declared a final dividend of RMB 9,887,000 in respect of its profit for the year ended 31 December 2012. On 31 March 2015, Hubei Mengke declared final dividends of RMB 11,163,000 and RMB15,364,000 in respect of its profits for the years ended 31 December 2013 and 2014 to its then owners, respectively.

The rates for dividend and the number of shares ranking for dividends are not presented as such information is not considered meaningful for the purpose of this report.

14 Prepaid operating lease — Group

The balance represented prepaid operating lease payments for several pieces of land located in the PRC. The movements are as follows:

	Year ended 31 December			Five months ended 31 May	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
At beginning of the year/period					
Cost	6,759	6,759	6,759	6,759	13,979
Accumulated amortisation	(600)	(750)	(900)	(900)	(1,201)
Net book amount	6,159	6,009	5,859	5,859	12,778
Addition	—	—	7,220	—	—
Amortisation	(150)	(150)	(301)	(62)	(141)
Closing net book amount	6,009	5,859	12,778	5,797	12,637
At end of the year/period					
Cost	6,759	6,759	13,979	6,759	13,979
Accumulated amortisation	(750)	(900)	(1,201)	(962)	(1,342)
Net book amount	6,009	5,859	12,778	5,797	12,637

Amortisation of the Group's prepaid operating leases has been charged to profit or loss as follows:

	Year ended 31 December			Five months ended 31 May	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Costs of sales	63	63	63	26	49
Administrative expenses	87	87	238	36	45
Other expenses	—	—	—	—	47
	150	150	301	62	141

As at 31 December 2013, 2014 and 2015 and 31 May 2016, the prepaid operating lease was pledged as collaterals for the borrowings (Note 23) and bank acceptance notes payables (Note 24) of the Group.

15 Property, plant and equipment and deferred government grants — Group

(a) Property, plant and equipment

	Plant and buildings	Machinery	Motor vehicles	Office equipment	Assets under construction	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2013						
Cost	10,808	12,064	264	330	71	23,537
Accumulated depreciation	(1,994)	(5,185)	(123)	(208)	—	(7,510)
Net book amount	<u>8,814</u>	<u>6,879</u>	<u>141</u>	<u>122</u>	<u>71</u>	<u>16,027</u>
Year ended 31 December 2013						
Opening net book amount	8,814	6,879	141	122	71	16,027
Additions	13,882	3,577	564	318	4,250	22,591
Transfers	147	—	—	—	(147)	—
Depreciation charges	(1,209)	(1,366)	(104)	(80)	—	(2,759)
Closing net book amount	<u>21,634</u>	<u>9,090</u>	<u>601</u>	<u>360</u>	<u>4,174</u>	<u>35,859</u>
At 31 December 2013						
Cost	24,837	15,641	828	648	4,174	46,128
Accumulated depreciation	(3,203)	(6,551)	(227)	(288)	—	(10,269)
Net book amount	<u>21,634</u>	<u>9,090</u>	<u>601</u>	<u>360</u>	<u>4,174</u>	<u>35,859</u>
Year ended 31 December 2014						
Opening net book amount	21,634	9,090	601	360	4,174	35,859
Additions	38	51	684	329	2,223	3,325
Transfers	5,903	—	—	—	(5,903)	—
Depreciation charges	(1,226)	(1,503)	(134)	(130)	—	(2,993)
Closing net book amount	<u>26,349</u>	<u>7,638</u>	<u>1,151</u>	<u>559</u>	<u>494</u>	<u>36,191</u>
At 31 December 2014						
Cost	30,778	15,692	1,512	977	494	49,453
Accumulated depreciation	(4,429)	(8,054)	(361)	(418)	—	(13,262)
Net book amount	<u>26,349</u>	<u>7,638</u>	<u>1,151</u>	<u>559</u>	<u>494</u>	<u>36,191</u>

	Plant and buildings	Machinery	Motor vehicles	Office equipment	Assets under construction	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Year ended 31 December						
2015						
Opening net book amount	26,349	7,638	1,151	559	494	36,191
Additions	1,302	121	166	815	3,697	6,101
Transfers.	2,590	1,547	—	54	(4,191)	—
Disposals	—	(13)	(13)	(6)	—	(32)
Depreciation charges	(1,602)	(1,538)	(318)	(104)	—	(3,562)
Closing net book amount.	<u>28,639</u>	<u>7,755</u>	<u>986</u>	<u>1,318</u>	<u>—</u>	<u>38,698</u>
At 31 December 2015						
Cost.	34,670	17,228	1,414	1,775	—	55,087
Accumulated depreciation	(6,031)	(9,473)	(428)	(457)	—	(16,389)
Net book amount	<u>28,639</u>	<u>7,755</u>	<u>986</u>	<u>1,318</u>	<u>—</u>	<u>38,698</u>
Five months ended 31 May						
2016						
Opening net book amount	28,639	7,755	986	1,318	—	38,698
Additions	696	231	—	—	—	927
Depreciation charges	(679)	(582)	(113)	(128)	—	(1,502)
Closing net book amount.	<u>28,656</u>	<u>7,404</u>	<u>873</u>	<u>1,190</u>	<u>—</u>	<u>38,123</u>
At 31 May 2016						
Cost.	35,366	17,459	1,414	1,775	—	56,014
Accumulated depreciation	(6,710)	(10,055)	(541)	(585)	—	(17,891)
Net book amount	<u>28,656</u>	<u>7,404</u>	<u>873</u>	<u>1,190</u>	<u>—</u>	<u>38,123</u>
Five months ended 31 May						
2015 (Unaudited)						
Opening net book amount	26,349	7,638	1,151	559	494	36,191
Additions	—	23	—	46	984	1,053
Transfers.	536	—	—	—	(536)	—
Depreciation charges	(732)	(622)	(99)	(37)	—	(1,490)
Closing net book amount.	<u>26,153</u>	<u>7,039</u>	<u>1,052</u>	<u>568</u>	<u>942</u>	<u>35,754</u>
At 31 May 2015						
Cost.	31,314	15,715	1,512	1,023	942	50,506
Accumulated depreciation	(5,161)	(8,676)	(460)	(455)	—	(14,752)
Net book amount	<u>26,153</u>	<u>7,039</u>	<u>1,052</u>	<u>568</u>	<u>942</u>	<u>35,754</u>

- (i) Depreciation expenses have been charged to the profit or loss as follows:

	Year ended 31 December			Five months ended 31 May	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Costs of sales . . .	2,070	2,248	2,028	1,014	903
Administrative expenses	685	741	1,099	353	433
Other expenses . .	—	—	281	68	111
Distribution expenses	4	4	154	55	55
	<u>2,759</u>	<u>2,993</u>	<u>3,562</u>	<u>1,490</u>	<u>1,502</u>

- (ii) As at 31 December 2014 and 2015 and 31 May 2016, the Group is in the process of applying for or changing registration of the ownership certificates of certain properties with an aggregate carrying value of approximately RMB4,946,000, RMB4,752,000 and RMB4,658,000, respectively. The Directors are of the opinion that the Group is entitled to lawfully and validly occupy or use these properties.
- (iii) As at 31 December 2013, 2014 and 2015 and 31 May 2016, the costs of fully depreciated property, plant and equipment were RMB420,000, RMB446,000, RMB2,694,000 and RMB2,756,000, respectively.
- (iv) As at 31 December 2013, 2014 and 2015 and 31 May 2016, property, plant and equipment with carrying amounts of RMB14,432,000, RMB13,787,000, RMB19,693,000 and RMB18,897,000, respectively, were pledged as collaterals for the borrowings (Note 23) and bank acceptance notes payables (Note 24) of the Group.

(b) **Deferred government grants — Group**

	Year ended 31 December			Five months ended 31 May	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
At beginning of the year/period	—	500	1,100	1,100	1,502
Government grants received relating to property, plant and equipment	500	600	500	—	25
Amortisation	—	—	(98)	(39)	(60)
At end of the year/period . . .	<u>500</u>	<u>1,100</u>	<u>1,502</u>	<u>1,061</u>	<u>1,467</u>

- (i) During the years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2015 and 2016, the Group received subsidy income of RMB500,000, RMB600,000 and RMB500,000, nil and RMB25,000 from local governments for two technological transformation projects undertaken by the Group.

16 Deferred income tax - Group

	31 December			31 May
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deferred income tax assets:				
- to be recovered after more than 12 months . .	182	—	417	434
- to be recovered within 12 months	—	442	450	802
	<u>182</u>	<u>442</u>	<u>867</u>	<u>1,236</u>
Deferred income tax liabilities:				
- to be recovered after more than 12 months . .	(18)	—	—	—
- to be recovered within 12 months	(246)	(18)	—	—
	<u>(264)</u>	<u>(18)</u>	<u>—</u>	<u>—</u>
Deferred income tax (liabilities)/ assets - net . .	<u>(82)</u>	<u>424</u>	<u>867</u>	<u>1,236</u>

The gross movements on the deferred income tax are as follows:

	Year ended 31 December			Five months ended 31 May	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year/period . .	741	(82)	424	424	867
Tax (charged)/ credited to profit or loss	(823)	506	443	136	369
At end of the year/period	<u>(82)</u>	<u>424</u>	<u>867</u>	<u>560</u>	<u>1,236</u>

The movement in deferred income tax assets and liabilities for the years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2015 and 2016, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Deferred income tax assets			Deferred income tax liabilities	Total
	Timing difference on			accrued	
	bad debt provision	accrued expenses	depreciation	expenses	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013	7	706	28	—	741
Tax (charged)/credited to profit or loss	—	(706)	147	(264)	(823)
At 31 December 2013	<u>7</u>	<u>—</u>	<u>175</u>	<u>(264)</u>	<u>(82)</u>
At 1 January 2014	7	—	175	(264)	(82)
Tax credited to profit or loss	—	116	144	246	506
At 31 December 2014	<u>7</u>	<u>116</u>	<u>319</u>	<u>(18)</u>	<u>424</u>
At 1 January 2015	7	116	319	(18)	424
Tax (charged)/credited to profit or loss	(3)	334	94	18	443
At 31 December 2015	<u>4</u>	<u>450</u>	<u>413</u>	<u>—</u>	<u>867</u>
At 1 January 2016	4	450	413	—	867
Tax (charged)/credited to profit or loss	(4)	352	21	—	369
At 31 May 2016.	<u>—</u>	<u>802</u>	<u>434</u>	<u>—</u>	<u>1,236</u>
(Unaudited)					
At 1 January 2015	7	116	319	(18)	424
Tax credited to profit or loss	—	96	22	18	136
At 31 May 2015.	<u>7</u>	<u>212</u>	<u>341</u>	<u>—</u>	<u>560</u>

According to the CIT Law and the Implementation Rules, starting from 1 January 2008, a withholding tax of 10% is levied on the immediate holding companies outside the PRC when their PRC subsidiaries declare dividends out of profits earned after 1 January 2008. A lower 5% withholding tax rate may be applied when the immediate holding companies of the PRC subsidiaries are established in Hong Kong and fulfil requirements under the tax treaty arrangements between the relevant authorities of Mainland China and Hong Kong.

Deferred income tax liabilities of RMB2,697,000 as of 31 May 2016 have not been recognised for the withholding tax that would be payable on the unremitted earnings of the Group's PRC subsidiary as the Directors have confirmed that such earnings will not be distributed out of the PRC in the foreseeable future.

17 Inventories

	31 December			31 May
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	37,088	30,098	32,811	36,400
Finished goods	17,940	26,806	13,232	4,734
Work in progress	2,045	3,767	2,523	1,425
	<u>57,073</u>	<u>60,671</u>	<u>48,566</u>	<u>42,559</u>

The cost of inventories recognised as an expense and is included in the profit or loss as follows:

	Year ended 31 December			Five months ended 31 May	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Costs of sales	220,253	217,889	248,370	73,038	76,578
Administrative expenses	9,013	8,857	8,704	1,128	1,114
Other expenses	187	4,759	2,018	1,339	—
Distribution expenses	14	24	3	1	50
	<u>229,467</u>	<u>231,529</u>	<u>259,095</u>	<u>75,506</u>	<u>77,742</u>

18 Trade and other receivables and prepayments and notes receivables — Group and Company

	31 December			31 May
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Group:				
Trade receivables	82,608	107,348	143,693	109,545
Less: provision for impairment of trade receivables	(45)	(45)	(28)	—
Trade receivables - net	82,563	107,303	143,665	109,545
Loan to a third party (Note (g))	—	8,271	—	—
Advances to employees	4,328	249	599	1,324
Prepaid income tax	754	—	—	—
Other receivables	414	265	1,118	596
Prepaid listing expenses	—	—	1,257	4,074
Others	22	167	54	542
	88,081	116,255	146,693	116,081
Less: non-current portion of prepayments	—	—	—	485
Current portion of trade and other receivables and prepayments	88,081	116,255	146,693	115,596
Notes receivables	2,100	18,467	1,200	5,799
Company:				
Prepaid listing expenses				4,074

(a) Ageing analysis of trade receivables based on invoice date at respective balance sheet dates is as follows:

	31 December			31 May
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Less than 30 days	40,240	48,560	66,115	77,507
31 days to 60 days	24,793	28,019	34,538	7,885
61 days to 90 days	4,466	13,592	20,901	2,092
91 days to 120 days	2,682	9,698	18,019	4,551
121 days to 180 days	5,168	2,105	4,100	11,097
Over 180 days	5,259	5,374	20	6,413
	82,608	107,348	143,693	109,545

The Group's sales are usually made on credit terms of 30 to 120 days counting from the issuance of invoices. As at 31 December 2013, 2014 and 2015 and 31 May 2016, trade receivables of RMB65,033,000, RMB84,234,000, RMB112,213,000 and RMB88,855,000 were fully performing.

As at 31 December 2013, 2014 and 2015 and 31 May 2016, trade receivables of RMB17,530,000, RMB23,069,000, RMB31,452,000 and RMB20,690,000 were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	31 December			31 May
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
61 days to 90 days	4,466	10,952	15,191	1,765
91 days to 120 days	2,682	4,683	12,169	1,415
121 days to 180 days	5,168	2,105	4,092	11,097
Over 180 days	5,214	5,329	—	6,413
	<u>17,530</u>	<u>23,069</u>	<u>31,452</u>	<u>20,690</u>

As at 31 December 2013, 2014 and 2015 and 31 May 2016, trade receivables of RMB45,000, RMB45,000, RMB28,000 and nil were impaired. The amount of the provision was RMB45,000, RMB45,000, RMB28,000 and nil as of 31 December 2013, 2014 and 2015 and 31 May 2016. The ageing of these receivables is as follows:

	31 December			31 May
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
121 days to 180 days	—	—	8	—
Over 180 days	45	45	20	—
	<u>45</u>	<u>45</u>	<u>28</u>	<u>—</u>

- (b) As at 31 December 2015 and 31 May 2016, trade receivables with carrying amount of RMB18,763,000 and RMB18,808,000 was pledged as collaterals for the borrowings (Note 23) of the Group.
- (c) Notes receivables of the Group as at 31 December 2013 and 2015 and 31 May 2016 mainly represents bank acceptance notes issued by banks with maturity period of 180 days. Notes receivables as at 31 December 2014 represents the bank acceptance notes and commercial bills issued by a customer, which were pledged as collaterals for borrowings (Note 23) of the Group.

- (d) The carrying amounts of trade and other receivables and notes receivables are all denominated in RMB.
- (e) As at 31 December 2013, 2014 and 2015 and 31 May 2016, the Group's maximum exposure to credit risk was the carrying value of each class of trade and other receivables and notes receivables mentioned above. The Group does not hold any collateral as security.
- (f) The carrying amounts of each class of trade and other receivables and notes receivables mentioned above approximate to their fair value due to their short maturities as of 31 December 2013, 2014 and 2015 and 31 May 2016 respectively.
- (g) The loan to a third party as at 31 December 2014 represents the cash advance made to the third party and is matured within one year with annual interest rate of 6.0%. It was subsequently repaid in 2015.

19 Restricted cash — Group

	31 December			31 May
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deposits in designated banks as collateral for issuance of bank acceptance notes and denominated in RMB	15,175	30,800	37,565	59,765

20 Cash and cash equivalents - Group

	31 December			31 May
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash at banks and denominated				
- RMB	2,848	392	7,754	7,578
- HK\$	—	—	—	564
	<u>2,848</u>	<u>392</u>	<u>7,754</u>	<u>8,142</u>

The conversion of RMB denominated balances into foreign currencies and the remittance of such foreign currencies denominated bank balances and cash out of the PRC are subject to relevant rules and regulation of foreign exchange control promulgated by the PRC government.

21 Share capital — Group and Company

	Number of ordinary shares	Share capital <i>HK\$</i>
Authorised:		
Ordinary share of HK\$0.01 each at 8 January 2016 (date of incorporation of the Company) and 31 May 2016	38,000,000	380,000
Issued and fully paid:		
At 8 January 2016 (date of incorporation of the Company) and 31 May 2016	100	1

22 Other reserves — Group and Company

	Statutory reserves	Share-based compensation reserve	Merger reserve	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Group:				
At 1 January 2013	5,661	—	24,000	29,661
Appropriation to statutory reserves (Note (a))	1,241	—	—	1,241
At 31 December 2013	6,902	—	24,000	30,902
At 1 January 2014	6,902	—	24,000	30,902
Appropriation to statutory reserves (Note (a))	1,720	—	—	1,720
At 31 December 2014	8,622	—	24,000	32,622
At 1 January 2015	8,622	—	24,000	32,622
Appropriation to statutory reserves (Note (a))	2,807	—	—	2,807
Share-based compensation reserve (Note (b))	—	500	—	500
At 31 December 2015	11,429	500	24,000	35,929
At 1 January 2016	11,429	500	24,000	35,929
Share-based compensation reserve (Note (b))	—	208	—	208
Transactions with owners:				
- Capital contributions from the shareholders of the Company (Note (c))	—	—	62,803	62,803
- Deemed distributions to the then owners of a group company (Note (d))	—	—	(63,000)	(63,000)
At 31 May 2016	11,429	708	23,803	35,940
Unaudited:				
At 1 January 2015	8,622	—	24,000	32,622
Share-based compensation reserve (Note (b))	—	208	—	208
At 31 May 2015	8,622	208	24,000	32,830

	<u>Merger reserve</u>
	<i>RMB'000</i>
Company:	
At 8 January 2016 (date of incorporation of the company)	—
Transactions with owners:	
- Capital contributions from the shareholders of the Company (Note (c))	62,803
- Deemed distributions to the then owners of a group company (Note (d))	(63,000)
- Net asset value of the subsidiary acquired upon Reorganisation (Note 29)	<u>56,538</u>
At 31 May 2016	<u><u>56,341</u></u>

(a) *Statutory reserves — Group*

In accordance with the PRC Company Law and the articles of association of the Group's PRC subsidiary, the PRC subsidiary is required to appropriate 10% of their profits after tax, as determined in accordance with Accounting Standards for Business Enterprises and other applicable regulations, to the statutory surplus reserve until such reserve reaches 50% of its registered capital. The appropriation to the reserve must be made before any distribution of dividends to equity holders of the PRC subsidiary. The statutory surplus reserve can be used to offset previous years' losses, if any, and part of the statutory surplus reserve can be capitalised as the PRC subsidiary's capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of its capital.

(b) *Share-based compensation reserve — Group*

In December 2014, Mr. Zhang sold 13.5% equity interest of Hubei Mengke to Mr. Fu at a consideration of RMB4,500,000 in exchange for five years' consecutive services of Mr. Fu as key management personnel of the Listing Business. The equivalent fair value of the equity interest granted to Mr. Fu was RMB7,000,000. The difference between the consideration and the fair value of the equity interest granted to Mr. Fu is treated as share-based payments, and would be amortised and charged as staff costs into the profit and loss during the five years' service period using straight line method, with the corresponding credit to other reserves. As of 31 December 2015 and 31 May 2016, the share-based compensation reserve was RMB500,000 and RMB708,000 respectively.

(c) *Capital contributions from the shareholders of the Company — Group and Company*

During the five months ended 31 May 2016, the shareholders of the Company contributed cash of RMB62,803,000 in aggregate to the Company to finance its acquisition of Hubei Mengke.

(d) *Deemed distributions to the then owners of a group company — Group and Company*

During the five months ended 31 May 2016, cash consideration of RMB63,000,000 paid/payable to the then owners of Hubei Mengke for the acquisition of Hubei Mengke was treated as deemed distributions (Note 1(b)(6)).

23 **Borrowings — Group**

	31 December			31 May
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current:				
Short term bank borrowings - secured	30,000	15,060	15,000	15,000
Other borrowings - secured	—	5,000	—	2,000
	30,000	20,060	15,000	17,000
Non-current:				
Long term bank borrowings - secured	—	—	—	10,000
	<u>30,000</u>	<u>20,060</u>	<u>15,000</u>	<u>27,000</u>

The Group's short term bank borrowings were all repayable within one year and bear interest rate of 5.9%, 6.4%, 6.3% and 4.79% as at 31 December 2013, 2014 and 2015 and 31 May 2016, respectively. The Group's long term bank borrowings as at 31 May 2016 would be repayable in July 2017 and bears interest rate of 5.22%.

The Group's other borrowings as at 31 December 2014 and 31 May 2016 represents certain interest free loans obtained from a local government authority. Imputed interest expenses of RMB84,000, RMB396,000, RMB137,000 and RMB15,000 calculated at equivalent market interest rates of 6.0%, 5.1%, 6.4% and 5.0% were charged as interest expenses for the years ended 31 December 2014 and 2015 and the five months ended 31 May 2015 and 2016, respectively (Note 10). The exemption of these imputed interest expenses by the local government authority were in substance a subsidy income and were recognised as other income for the years ended 31 December 2014 and 2015 and the five months ended 31 May 2015 and 2016 (Note 7).

The borrowings were secured by prepaid operating lease (Note 14), property, plant and equipment (Note 15(b)), trade receivables (Note 18(b)) and notes receivables (Note 18(c)) of the Group as at 31 December 2013, 2014 and 2015 and 31 May 2016.

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates as at 31 December 2013, 2014, 2015 and 31 May 2016 is as follows:

	31 December			31 May
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
6 months or less	10,000	—	15,000	17,000
6 to 12 months	20,000	20,060	—	—
1 to 2 years	—	—	—	10,000
	<u>30,000</u>	<u>20,060</u>	<u>15,000</u>	<u>27,000</u>

The fair value of Group's borrowings equals their carrying amount, as the impact of discounting is not significant due to their short-term maturities. The carrying amounts of the Group's borrowings are denominated in RMB.

24 Trade and other payables and notes payables — Group and Company

	31 December			31 May
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Group:				
Trade payables (Note (a))	78,527	111,629	136,591	88,035
Payables for acquisition of property, plant and equipment (Note (d))	13,518	13,628	325	274
Dividends payables to former owner of a group company	8,879	8,435	—	—
Other tax payables	4,113	5,318	2,690	1,567
Accrual for staff costs and allowances	1,888	2,108	1,154	884
Accrual for listing expenses	—	—	659	9,277
Other payables	<u>2,118</u>	<u>1,348</u>	<u>1,220</u>	<u>2,357</u>
	<u>109,043</u>	<u>142,466</u>	<u>142,639</u>	<u>102,394</u>
Notes payables - bank acceptance notes (Note (e))	<u>25,130</u>	<u>55,800</u>	<u>65,130</u>	<u>89,830</u>
Company:				
Accrual for listing expenses				9,277
Amounts due to subsidiaries (Note (f))				1,911
Amount due to the Controlling Shareholder (Note (f))				<u>3,759</u>
				<u>14,947</u>

- (a) The ageing analysis of trade payables based on invoice date is as follows:

	31 December			31 May
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Less than 30 days	56,047	80,527	87,727	52,092
31 to 60 days	16,156	18,789	21,484	7,328
61 to 90 days	3,758	8,301	13,647	13,067
91 to 180 days	1,342	1,857	9,381	11,796
Over 180 days	1,224	2,155	4,352	3,752
	<u>78,527</u>	<u>111,629</u>	<u>136,591</u>	<u>88,035</u>

- (b) Other than the accrual for listing expenses amounted to RMB345,000 and RMB9,028,000 as at 31 December 2015 and 30 June 2016 which are denominated in HK\$, the carrying amounts of the remaining trade and other payables as at 31 December 2013, 2014 and 2015 and 31 May 2016 and notes payables were denominated in RMB.
- (c) The fair value of trade and other payables and notes payables approximate their carrying amounts at 31 December 2013, 2014 and 2015 and 31 May 2016 due to their short-term maturities.
- (d) As at 31 December 2013 and 2014, RMB13,382,000 and RMB13,382,000 were payables to a customer and former owner of Hubei Mengke for acquisition of a staff dormitory. It was subsequently settled in 2015 by cash of RMB4,334,000 and by offsetting the Group's trade receivables of RMB9,048,000 with the customer.
- (e) As at 31 December 2013, 2014 and 2015 and 31 May 2016, the ageing of all notes payables were within 6 months. The notes payables were secured by prepaid operating lease (Note 14), property, plant and equipment (Note 15(b)) and restricted cash (Note 19) of the Group as at 31 December 2013, 2014 and 2015 and 31 May 2016.
- (f) As at 31 May 2016, amounts due to subsidiaries and the Controlling Shareholder are interest-free and repayable on demand.

25 Cash generated from operations

Reconciliation of profit for the year/period to cash generated from operations is as follows:

	Year ended 31 December			Five months ended 31 May	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Profit before income tax	19,538	16,735	25,517	7,804	224
Adjustments for:					
- Depreciation (Note 15(a))	2,759	2,993	3,562	1,490	1,502
- Amortisation of prepaid operating lease (Note 14)	150	150	301	62	141
- Amortisation of intangible assets	15	18	16	6	6
- Finance expenses-net (Note 10) .	2,605	1,386	1,629	551	515
- Impairment provision for trade and other receivables (Note 8) .	—	—	(25)	—	—
- Losses from disposal of property, plant and equipment . .	—	—	3	—	—
- Share-based compensation expenses (Note 22(b))	—	—	500	208	208
- Government grants income	—	(84)	(494)	(176)	(75)
Changes in working capital:					
- Inventories	(10,543)	(3,598)	12,105	11,721	6,007
- Trade and other receivables and prepayments	(1,201)	(20,657)	(38,684)	7,431	32,026
- Notes receivables	4,730	(16,367)	17,267	(12,291)	(4,599)
- Amounts due from related parties	483	472	—	(6,879)	(275)
- Restricted cash	(730)	(15,625)	(6,765)	13,629	(22,200)
- Trade and other payables	883	33,894	13,575	12,128	(40,229)
- Notes payables	(4,760)	30,670	9,330	(21,458)	24,700
- Amounts due to related parties .	69	—	3,304	—	642
Cash generated from/(used in) operations	<u>13,998</u>	<u>29,987</u>	<u>41,141</u>	<u>14,226</u>	<u>(1,407)</u>

Non-cash transactions

- (a) Listing expenses of RMB3,304,000 and RMB452,000 were settled by related parties on behalf of the Group during the year ended 31 December 2015 and five months ended 31 May 2016.

- (b) Saved as disclosed in Note 24(d) and Note 25(a), no other non-cash transactions incurred during the year ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2015 and 2016.

26 Contingencies

As at 31 December 2013, 2014 and 2015 and 31 May 2016, the Group had no material contingencies.

27 Commitments

(a) Capital commitments

As at 31 December 2013, 2014 and 2015 and 31 May 2016, the Group had the following capital commitments:

	31 December			31 May
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Capital expenditure in respect of the acquisition of property and equipment and prepaid operating leases contracted for but not provided	8,396	8,999	—	488

(b) Operating leases commitments - group company as lessee

As at 31 December 2013, 2014 and 2015 and 31 May 2016, the Group's future minimum lease payments under a non-cancellable operating lease are as follows:

	31 December			31 May
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	—	38	35	261
1 to 2 years	—	35	—	158
	—	73	35	419

28 Related party transactions

- (a) The directors of the Company are of the view that the following parties that had transactions or balances with the Group are related parties:

Name	Relationship
Mr. Zhang	Controlling Shareholder
Mr. Fu	Director and key management personnel of the Company
Mr. Gong Longjie ("Mr. Gong").	Key management personnel of the Company
Mr. Yang Tao ("Mr. Yang")	Key management personnel of the Company
Hubei Golden Three Gorges Printing Industry Co., Ltd. ("Hubei Golden").	Former owner of Hubei Mengke from 1 January 2013 to 1 February 2013
Zhuhai Hengqin New District Jiachuang Investment Co., Ltd. ("Hengqin Jiachuang").	Ultimately controlled by Mr. Zhang
Yichang Kunxiang	Ultimately controlled by Mr. Zhang
Yichang Hongyi Logistics Co., Ltd. ("Hongyi").	A close family member of Mr. Fu had joint control from 18 June 2013 to 16 March 2016

(b) *Significant transactions with related parties*

During the years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2015 and 2016, the Group had the following significant transactions with related parties. The transactions amounts disclosed represent the transactions with relevant parties during the periods when those parties were related parties of the Group.

	Year ended 31 December			Five months ended 31 May	
	2013	2014	2015	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(Unaudited)</i>	
Sales of goods to:					
Hubei Golden (Note (i))	<u>10,476</u>	<u>Not applicable</u>	<u>Not applicable</u>	<u>Not applicable</u>	<u>Not applicable</u>
Purchase of goods from:					
Hubei Golden (Note (i))	<u>17</u>	<u>Not applicable</u>	<u>Not applicable</u>	<u>Not applicable</u>	<u>Not applicable</u>
Interest expense paid to:					
Hubei Golden (Note (i))	<u>103</u>	<u>Not applicable</u>	<u>Not applicable</u>	<u>Not applicable</u>	<u>Not applicable</u>
Transportation expenses paid to:					
Hongyi (Note (ii))	<u>1,047</u>	<u>4,285</u>	<u>4,634</u>	<u>2,071</u>	<u>969</u>

(i) Hubei Golden was no longer related party of the Group after 1 February 2013 when Hubei Golden disposed of its 70% interest in Hubei Mengke to Hengqin Jiachuang with loss of control and agreed to give up any significant influence over Hubei Mengke.

(ii) Hongyi was no longer related party of the Group after 16 March 2016 when the close family member of Mr. Fu disposed of his 50% interest in Hongyi with loss of the joint control.

In the opinion of the directors, these transactions were carried out on terms agreed with the related parties in the ordinary course of business.

(c) *Key management compensations*

Key management compensations for the years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2015 and 2016 are as follows:

	Year ended 31 December			Five months ended 31 May	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Salaries, wages, bonuses, welfare and other benefits	447	475	531	224	361
Contributions to pension plans . . .	86	110	153	63	68
	<u>533</u>	<u>585</u>	<u>684</u>	<u>287</u>	<u>429</u>

(d) *Balances with related parties*

	31 December			31 May
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from related parties (Note (i)):				
Hengqin Jiachuang	—	8,533	—	—
Key management personal	472	—	—	275
	<u>472</u>	<u>8,533</u>	<u>—</u>	<u>275</u>

	31 December			31 May
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due to related parties (Note (ii)):				
Hengqin Jiachuang	345	—	—	—
Hongyi	69	—	—	Not applicable
Yichang Kunxiang	Not applicable	—	6,390	5,937
Mr. Fu	—	—	5,529	—
Mr. Zhang	—	—	3,304	3,946
	<u>414</u>	<u>—</u>	<u>15,223</u>	<u>9,883</u>

(i) The amounts due from related parties were unsecured, interest-free and receivable on demand. The maximum outstanding amounts of the amounts due from Hengqin Jiachueng during the years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2015 and 2016 were RMB nil, RMB8,533,000, RMB8,533,000, RMB8,533,000 and nil.

(ii) The amounts due to related parties were unsecured and interest-free, and the amounts were repayable on demand.

29 Investment in a subsidiary - Company

	As at 31 May
	2016
	RMB'000
Investment in a subsidiary — at cost, unlisted (Note (a))	<u>56,538</u>

(a) It represents the aggregate net asset value of the subsidiary acquired pursuant to the Reorganisation.

30 Subsequent events**(a) Capitalisation issue**

Pursuant to the resolutions of the shareholders passed on 3 November 2016, subject to the share premium account of the Company being credited as a result of the share offer, the directors are authorised to allot and issue a total of 374,999,900 shares credited as fully paid at par to Happily Soar and Liberal Rite in proportion to their respective shareholdings by way of capitalisation of the sum of HK\$3,749,999 standing to the credit of the share premium account of the Company.

(b) Increase of authorised share capital

Pursuant to the resolutions of the shareholders passed on 3 November 2016, the authorised share capital of the Company was increased from HK\$380,000 to HK\$10,000,000 by the creation of an additional 962,000,000 shares of a par value of HK\$0.01 each.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 May 2016 and up to the date of this report. No dividend or distribution has been declared or made by the Company or any of the other companies comprising the Group in respect of any period subsequent to 31 May 2016.

Yours faithfully,
PricewaterhouseCoopers
Certified public accountants
Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following information does not form part of the Accountant's Report prepared by PricewaterhouseCoopers, Certified Public Accountants, the Reporting Accountant of the Company, as set forth in Appendix I to this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section entitled "Financial Information" in this prospectus and the Accountant's Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Share Offer on the net tangible assets of the Group attributable to owners of the Company as at 31 May 2016 as if the Share Offer had taken place on 31 May 2016.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at 31 May 2016 or at any future dates following the Share Offer. It is prepared based on the consolidated net assets of the Group as at 31 May 2016 as set out in the accountant's report of the Group, the text of which is set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountant's Report.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 May 2016	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company	Unaudited pro forma adjusted consolidated net tangible assets per Share	
	<i>(Note 1)</i>	<i>(Note 2)</i>		<i>(Note 3)</i>	<i>(Note 5)</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB</i>	<i>HK\$</i>
Based on an Offer Price of HK\$0.5 per Share	<u>51,782</u>	<u>34,207</u>	<u>85,989</u>	<u>0.17</u>	<u>0.20</u>
Based on an Offer Price of HK\$0.7 per Share	<u>51,782</u>	<u>54,548</u>	<u>106,330</u>	<u>0.21</u>	<u>0.25</u>

Notes:

- (1) The audited consolidated net tangible assets attributable to owners of the Company as at 31 May 2016 is extracted from the accountant's report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to owners of the Company as at 31 May 2016 of RMB51,911,000, with an adjustment for the intangible assets as at 31 May 2016 of RMB129,000.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

- 2) The estimated net proceeds from the Share Offer are based on the indicative Offer Price of HK\$0.5 and HK\$0.7 per Share after deduction of the underwriting fees and other related expenses (excluding listing expenses of approximately RMB12,675,000 which have been accounted for in the consolidated statements of comprehensive income for the year ended 31 December 2015 and five months ended 31 May 2016) payable by the Company but takes no account of any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme and any Share which may be issued or repurchased by the Company pursuant to the General Mandate to issue Shares or the General Mandate to repurchase Shares.
- 3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 500,000,000 Shares were in issue assuming that the Share Offer has been completed on 31 May 2016 but takes no account of any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme and any Share which may be issued or repurchased by the Company pursuant to the General Mandate to issue Shares or the General Mandate to repurchase Shares.
- 4) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 31 May 2016.
- 5) For the purpose of this unaudited pro forma adjusted net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at a rate of RMB0.86 to HK\$1.00. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

TO THE DIRECTORS OF MENGKE HOLDINGS LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Mengke Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 31 May 2016, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of the Company's prospectus dated 15 November 2016, in connection with the proposed offering of the shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2 of the Prospectus.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed offering of the shares of the Company on the Group's financial position as at 31 May 2016 as if the proposed offering of the shares of the Company had taken place at 31 May 2016. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial information for the five months ended 31 May 2016, on which an accountant's 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 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") 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 requirement of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA 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 Accountant’s Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the 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 accountant plans and perform procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the 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 a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity 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 proposed offering of the shares of the Company at 31 May 2016 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- 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 accountant’s judgment, having regard to the reporting accountant’s understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

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 by the directors of the Company 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 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 15 November 2016

The following is the text of a letter, summary of valuations and valuation certificates prepared for the purpose of incorporation in this prospectus and received from DTZ Cushman & Wakefield Limited, an independent property valuer, in connection with its opinion of value of the properties of the Group as at 31 August 2016.



16th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

15 November 2016

The Directors
Mengke Holdings Limited
No. 15 Shantou Road
Yichang High-tech Zone
Yichang
Hubei Province
The People's Republic of China

Dear Sirs,

Instructions, Purpose and Date of Valuation

In accordance with the instructions from Mengke Holdings Limited (the "Company") for us to value the properties in which the Company and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC") and Hong Kong (as more particularly described in the attached valuation certificates), we confirm that we have inspected the properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of such properties as at 31 August 2016.

Basis of Valuation

Our valuation of each property represents its market value which in accordance with The HKIS Valuation Standards 2012 Edition published by the Hong Kong Institute of Surveyors is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Valuation Basis and Assumptions

In valuing the properties, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities published by The Stock Exchange of the Hong Kong Limited and The HKIS Valuation Standards 2012 Edition published by the Hong Kong Institute of Surveyors.

Our valuations exclude any estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

In the course of our valuation of the property in the PRC, we have assumed that, unless otherwise stated, the transferable land use rights in respect of the property for a specific term at nominal annual land use fee has been granted and that any premium payable has already been fully paid. We have relied on the information and advice given by the Group and the Company's legal adviser, Beijing Jingtian & Gongcheng Law Firm, regarding the title to the property and the interests of the Group in the property. In valuing the property, we have assumed that the Group has an enforceable title to the property and has free and uninterrupted rights to use, occupy or assign the property for the whole of the respective unexpired land use term as granted.

In respect of the property situated in the PRC, the status of titles and grant of major certificates approvals and licences, in accordance with the information provided by the Group are set out in the notes of the valuation certificate.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. 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.

Method of Valuation

In the valuation of the property in Group I, due to the specific nature of the property and lack of sales transactions of properties of the same characteristics in the vicinity, we have adopted the Depreciated Replacement Costs ("DRC") Approach. The DRC Approach is based on an estimate of the market value of the land in its existing use, plus the current cost of replacement of the improvements, less allowance for physical deterioration and all relevant forms of obsolescence and optimisation. For the land portion, we have made reference to comparable land sales evidence as available in the relevant market. The DRC Approach is subject to service potential of the entity from the use of assets as a whole.

The market value arrived using the DRC Approach applies to the whole of the complex or development as a unique interest, and no piecemeal transaction of the complex or development is assumed.

The property in Group II is rented by the Group. It is considered to be of no commercial value due mainly to the prohibitions against assignment and subletting and the lack of substantial profit rent.

Source of Information

We have been provided by the Group with copies of documents in relation to the titles to the property in the PRC. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us.

In the course of our valuation, we have relied to a very considerable extent on the information given to us by the Group and the Company's legal adviser regarding the title to the property and the interests of the Group in the property. In respect of the property in the PRC, we have accepted advice given by the Group on matters such as planning approvals or statutory notices, easements, tenure, identification of land and buildings, completion date of buildings, number of car parking spaces, particulars of occupancy, site and floor areas, interest attributable to the Group and all other relevant matters.

Dimensions, measurements and areas included in the valuation certificates are based on information provided to us and are therefore only approximations. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuations. We were also advised by the Group that no material facts have been omitted from the information provided.

Title Investigation

We have been provided with copies of documents relating to the title to the property in the PRC, but no searches have been made in respect of the property. We have not searched the original documents to verify ownership or to ascertain any amendment which may not appear on the copies handed to us. We are also unable to ascertain the title of the property in the PRC and we have therefore relied on the advice given by the Group and the Company's legal adviser regarding the Group's interests in the PRC property.

Site Inspection

We have inspected the exterior and, wherever possible, the interior of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are, however, not able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out to any of the services. Moreover, we have not carried out any investigations on site to determine the suitability of the soil conditions and the services etc. for any future development. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary costs or delays will be incurred during the construction period.

Unless otherwise stated, we have not been able to carry out on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the documents handed to us are correct.

Currency

Unless otherwise stated, all monetary sums stated in our valuations are in Renminbi (“RMB”), the official currency of the PRC for the property interest situated in the PRC, and Hong Kong dollars (“HKD”) for the property interest situated in Hong Kong.

We enclose herewith a summary of valuations and our valuation certificates.

Yours faithfully,
for and on behalf of
DTZ Cushman & Wakefield Limited
Andrew K.F. Chan
Registered Professional Surveyor (General Practice)
Registered China Real Estate Appraiser
MSc, MHKIS
Regional Director, Valuation & Advisory Services, Greater China

Note: Mr. Andrew K.F. Chan is a Registered Professional Surveyor who has over 29 years’ experience in the valuation of properties in the PRC and Hong Kong.

SUMMARY OF VALUATIONS

Property	Market value in existing state as at 31 August 2016 (RMB)	Interest attributable to the Group (%)	Market value in existing state attributable to the Group as at 31 August 2016 (RMB)
Group I — Completed property held by the Group for owner occupation in the PRC			
1. No. 15 Shantou Road, Yichang High-Tech Zone, Yichang, Hubei Province, the PRC	61,400,000	100	61,400,000
Sub-total of Group I:			<u>61,400,000</u>
Group II — Property interest leased by the Group in Hong Kong			
2. Room A on 17th Floor of Capitol Centre Tower II, No. 28 Jardine's Crescent, Causeway Bay, Hong Kong	No commercial value	100	No commercial value
Sub-total of Group II:			<u>No commercial value</u>
Grand-total of Groups I and II:			<u><u>61,400,000</u></u>

VALUATION CERTIFICATE

Group I — Completed property held by the Group for owner occupation in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 August 2016																												
1. No. 15 Shantou Road, Yichang High-Tech Zone, Yichang, Hubei Province, the PRC	<p>The property comprises various buildings erected on two parcels of land with a total site area of 39,073.62 sq m.</p> <p>The property has a total gross floor area of 22,517.32 sq m and was completed in 2007 and 2012.</p> <p>The property is situated in Yichang High-Tech Zone. Developments in the vicinity comprise mainly industrial properties and residential properties. The property is served by public bus routes.</p> <p>The details of the gross floor area of the property are as follows:</p> <table border="1"> <thead> <tr> <th>Use</th> <th>Gross Floor Area (sq m)</th> </tr> </thead> <tbody> <tr> <td>Completed</td> <td></td> </tr> <tr> <td>Paper finishing workshop</td> <td>8,688.07</td> </tr> <tr> <td>Integrated building</td> <td>1,299.83</td> </tr> <tr> <td>Staff dormitory</td> <td>8,947.68</td> </tr> <tr> <td>Office building, laboratory, conference room and workshop</td> <td><u>2,310.25</u></td> </tr> <tr> <td>Sub-total</td> <td><u>21,245.83</u></td> </tr> <tr> <td>Defective title</td> <td></td> </tr> <tr> <td>Dining room and ancillary facilities</td> <td>1,023.08</td> </tr> <tr> <td>Tool room</td> <td>129.31</td> </tr> <tr> <td>Laundry room</td> <td>75.75</td> </tr> <tr> <td>Security office</td> <td><u>43.35</u></td> </tr> <tr> <td>Sub-total</td> <td><u>1,271.49</u></td> </tr> <tr> <td>Total</td> <td><u>22,517.32</u></td> </tr> </tbody> </table>	Use	Gross Floor Area (sq m)	Completed		Paper finishing workshop	8,688.07	Integrated building	1,299.83	Staff dormitory	8,947.68	Office building, laboratory, conference room and workshop	<u>2,310.25</u>	Sub-total	<u>21,245.83</u>	Defective title		Dining room and ancillary facilities	1,023.08	Tool room	129.31	Laundry room	75.75	Security office	<u>43.35</u>	Sub-total	<u>1,271.49</u>	Total	<u>22,517.32</u>	<p>As at the date of valuation, the property was occupied by the Group for industrial use.</p> <p>Parts of the staff dormitory with a total 120 rooms (approximately 4,770 sq m) were subject to a tenancy at a total monthly rent of RMB81,725 from 1 January 2016 with no fixed term.</p>	<p>RMB61,400,000</p> <p>(100% interest attributable to the Group: RMB61,400,000)</p>
Use	Gross Floor Area (sq m)																														
Completed																															
Paper finishing workshop	8,688.07																														
Integrated building	1,299.83																														
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Sub-total	<u>1,271.49</u>																														
Total	<u>22,517.32</u>																														
	<p>The land use rights of the property have been granted for terms due to expire on 17 January 2054 for industrial use.</p>																														

Notes:

- (1) According to two State-owned Land Use Rights Certificates, the land use rights of the property have been vested in Hubei Mengke Paper Co., Ltd. (湖北盟科紙業有限公司) with details as follows:

Site No.	Issue Date	Use	Expiry Date of Land Use Term	Site Area (sq m)
420502013009GB00086	8 September 2016	Industrial	17 January 2054	20,799.85
420502013009GB00087	17 April 2015	Industrial	17 January 2054	18,273.77
Total:				39,073.62

- (2) According to four Building Ownership Certificates, the building ownership with a total gross floor area of 21,245.83 sq m has been vested in Hubei Mengke Paper Co., Ltd. (湖北盟科紙業有限公司).

Certificate No.	Issue Date	No. of Storey	Gross Floor Area (sq m)	Use
0030474	18 August 2016	1	8,688.07	Paper finishing workshop
0030470	18 August 2016	1	1,299.83	Integrated building
0394137	19 December 2013	6	8,947.68	Dormitory
0027981	8 September 2016	3	2,310.25	Office building, laboratory, conference room and workshop
Total:			21,245.83	

- (3) According to Building Floor Plans (建築平面圖) provided by the Group, the construction works with a total gross floor area of 1,271.49 sq m belong to Hubei Mengke Paper Co., Ltd. (湖北盟科紙業有限公司).

No. of Storey	Gross Floor Area (sq m)	Use
1	1,023.08	Dining room and ancillary facilities
1	129.31	Tool room
1	75.75	Laundry room
1	43.35	Security office
Total:	1,271.49	

As advised by the Company, the buildings mentioned above are in the process of getting building ownership certificates and it is expected to obtain as early as Q4 2016.

- (4) According to Planning Permit for Construction Use of Land No. (2012)035 dated 14 June 2012, the construction project on the land for industrial use with a total site area of 20,799.89 sq m is in compliance with the urban planning requirements and has been approved.
- (5) According to Planning Permit for Construction Works No. (2012)430 dated 16 October 2012, the construction works with a total planned gross floor area of 1,860.6 sq m are in compliance with the urban planning requirements and have been approved.

- (6) According to Permit for Commencement of Construction Works No. (2012)41 dated 5 December 2012, the construction works with a total planned gross floor area of 1,860.6 sq m are in compliance with the requirements for works commencement and have been permitted.
- (7) According to Filing Certificate for construction Completion No. 2016-015 dated 22 June 2016, portions of the development with a total gross floor area of 2,369.72 sq m have been completed.
- (8) According to Business Licence No. 914205007739287082, Hubei Mengke Paper Co., Ltd. (湖北盟科紙業有限公司) is a limited company with a registered capital of RMB24,000,000 for a period from 13 June 2005 to 12 June 2035.
- (9) We have been provided with a legal opinion on the property prepared by the Company's PRC legal adviser, which contains, inter alia, the following information:
- (i) Hubei Mengke Paper Co., Ltd (湖北盟科紙業有限公司) is legally in possession of the land use rights of the property and within the land use rights term, Hubei Mengke Paper Co., Ltd has the rights to legally occupy, use, lease, transfer, mortgage or otherwise dispose of the land use rights of the property;
 - (ii) Hubei Mengke Paper Co., Ltd. (湖北盟科紙業有限公司) is the sole legal land user of the property and has obtained the relevant certificates and approval from the government in respect of the construction of the property except defective titles;
 - (iii) Hubei Mengke Paper Co., Ltd. (湖北盟科紙業有限公司) has the rights to lease, transfer, mortgage and dispose of the land use rights and building ownership of the property with title certificates; and
 - (iv) The property is subject to a mortgage.
- (10) The status of title and grant of major approvals and licences in accordance with the information provided by the Company are as follows:
- | | |
|--|------------|
| State-owned Land Use Rights Certificate | Yes |
| Building Ownership Certificate | Yes (part) |
| Planning Permit for Construction Use of Land | Yes (part) |
| Planning Permit for Construction Works | Yes (part) |
| Permit for Commencement of Construction Works | Yes (part) |
| Filing Certificate for Construction Completion | Yes (part) |
| Business Licence | Yes |
- (11) Jenny Yang, Valuer of our Wuhan office, inspected the property on 7 January 2016.

VALUATION CERTIFICATE

Group II — Property interest leased by the Group in Hong Kong

Property	Description and tenancy particulars	Market value in existing state as at 31 August 2016
2. Room A on 17th Floor of Capitol Centre Tower II, No. 28 Jardine's Crescent, Causeway Bay, Hong Kong	<p>The property comprises an office unit on the 17th Floor of a 26 storey commercial building completed in 1997.</p> <p>The property has a gross floor area of 779 sq ft (73.37 sq m).</p> <p>The locality of the property is well served by public transport and characterized by a mixture of office, commercial and composite developments of various ages.</p> <p>The property is leased to the Group for a term from 16 February 2016 to 15 February 2018 at a monthly rent of HKD19,475 exclusive of management fees, rates and cleaning services charges.</p>	No commercial value

Note: Shirley Kwong, valuer of our Hong Kong office, inspected the property on 7 November 2016.

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 8 January 2016 under the Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (**Memorandum**) and the Amended and Restated Articles of Association (**Articles**).

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and since the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) By special resolution the Company may alter the Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 3 November 2016. The following is a summary of certain provisions of the Articles:

(a) **Shares**

(i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(ii) *Share certificates*

Every person whose name is entered as a member in the register of members shall be entitled to receive a certificate for his shares. No shares shall be issued to bearer.

Every certificate for shares, warrants or debentures or representing any other form of securities of the Company shall be issued under the seal of the Company, and shall be signed autographically by one Director and the Secretary, or by two Directors, or by some other person(s) appointed by the Board for the purpose. As regards any certificates for shares or debentures or other securities of the Company, the Board may by resolution determine that such signatures or either of them shall be dispensed with or affixed by some method or system of mechanical signature other than autographic or may be printed thereon as specified in such resolution or that such certificates need not be signed

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

by any person. Every share certificate issued shall specify the number and class of shares in respect of which it is issued and the amount paid thereon and may otherwise be in such form as the Board may from time to time prescribe. A share certificate shall relate to only one class of shares, and where the capital of the Company includes shares with different voting rights, the designation of each class of shares, other than those which carry the general right to vote at general meetings, must include the words “restricted voting” or “limited voting” or “non-voting” or some other appropriate designation which is commensurate with the rights attaching to the relevant class of shares. The Company shall not be bound to register more than four persons as joint holders of any share.

(b) Directors

(i) 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 thereto 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 thereof, they are liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate thereof shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate thereof has been destroyed and the Company has received an indemnity in such form as the Board shall think 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.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(ii) *Power to dispose of the assets of the Company or any subsidiary*

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.

(iii) *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.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors and their close associates which are equivalent to provisions of Hong Kong law prevailing at the time of adoption of the Articles.

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 (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.

(v) *Disclosure of interest in contracts with the Company or with 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 therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other 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 thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

No Director or intended Director shall be disqualified by his office from contracting with the Company, either as vendor, purchaser or otherwise, 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 thereby established. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any Share by reason that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to the Company.

A Director shall not vote (nor shall he be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or other proposal in which he or his close associate(s) is/are materially interested, 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 namely:

- (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 or 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 its subsidiaries including (i) the adoption, modification or operation of 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) the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to Directors, his 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), as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; or

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(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 or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(vi) *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 amongst the Directors in such proportions and in such manner as they may agree or failing agreement, equally, except that in such event any Director holding office for only a portion of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he has held office. The Directors shall also be entitled to be repaid all travelling, hotel and other 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 (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be 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 (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) 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 other companies (being subsidiaries of the Company or with which the Company is associated in business), or may make contributions out of the Company's monies to, such 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.

In addition, 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

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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.

(vii) 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 appointed by the Board 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 appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. 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 will 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 who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (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 shall have been lodged at the head office or at the registration office. The period for lodgement of such notices will commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting and the minimum length of the period during which such notices to the Company may be given 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 the Board or retirement therefrom.

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 retirement by rotation provisions in the articles of association. The number of Directors shall not be less than two.

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In addition to the foregoing, the office of a Director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office or head office of the Company for the time being or tendered at a meeting of the Board;
- (bb) if he dies or becomes of unsound mind as determined pursuant to an order made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolves that his office be vacated;
- (cc) if, without special leave, he is absent from meetings of the Board for six (6) consecutive months, and the Board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles;
- (gg) if he has been validly required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director and the relevant time period for application for review of or appeal against such requirement has lapsed and no application for review or appeal has been filed or is underway against such requirement; or
- (hh) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) then in office.

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 or Directors and 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.

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(viii) *Borrowing powers*

Pursuant to the Articles, 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. The provisions summarized above, in common with the Articles of Association in general, may be varied with the sanction of a special resolution of the Company.

(ix) *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 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

(x) *Proceedings of the Board*

Subject to the Articles, the Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

(c) **Alterations to the constitutional documents**

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 by the Company by special resolution.

(d) **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. To every such separate general meeting the provisions of the Articles relating to general meetings shall mutatis mutandis apply, 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 authorized representative) or

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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.

(e) **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 thereto respectively 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; and (e) cancel shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorized and subject to any conditions prescribed by law.

Reduction of share capital — subject to the Companies Law and to confirmation by the court, a company limited by shares may, if so authorised by its Articles of Association, by special resolution, reduce its share capital in any way.

(f) **Special resolution — majority required**

In accordance with the Articles, 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 defined in the Articles to mean 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 not less than 14 clear days’ notice has been given and held in accordance with the Articles. 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.

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(g) Voting rights (generally and on a poll) 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 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 the foregoing purpose as paid up on the share, 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. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the 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:

- (i) at least two members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (ii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iii) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares 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.

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Where the Company has knowledge that any member is, under the Listing Rules, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(h) 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.

(i) 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 the matters in respect of which such receipt and expenditure take place, and of the assets and liabilities of the Company and of all other matters required by the Companies Law 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 or book or document of the Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory (as defined in the Articles), the Company may send summarized financial statements to shareholders who has, in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles), consented and elected to receive summarized financial statements instead of the full financial statements. The summarized financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory (as defined in the Articles), and must be sent to the shareholders not less than 21 days before the general meeting to those shareholders that have consented and elected to receive the summarised financial statements.

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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.

(j) Notices of meetings and business to be conducted thereat

An annual general meeting of the Company must be called by at least 21 days' notice in writing, and a general meeting of the Company, other than an annual general meeting, 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 either personally or by sending it through the post in a prepaid envelope or wrapper addressed to such member at his registered address as appearing in the Company's register of members or by leaving it at such registered address as aforesaid 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 for the purpose of service of notice shall be deemed to be his registered address. Where the registered address of the member is outside Hong Kong, notice, if given through the post, shall be sent by prepaid airmail letter where available. Subject to the Companies Law and the Listing Rules, a notice or document may be served or delivered by the Company to any member by electronic means to such address as may from time to time be authorised by the member concerned or by publishing it on a website and notifying the member concerned that it has been so published.

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 a meeting called as 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, being a majority together holding not less than 95% of the total voting rights at the meeting of all the members of the Company.

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All business transacted at an extraordinary general meeting shall be deemed special business and all business shall also be deemed special business where it is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
 - (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
 - (cc) the election of Directors in place of those retiring;
 - (dd) the appointment of auditors;
 - (ee) the fixing of the remuneration of the Directors and of the auditors;
 - (ff) the granting of any mandate or authority to the Board to offer, allot, grant options over, or otherwise dispose of the unissued shares of the Company representing not more than 20% in nominal value of its existing issued share capital (or such other percentage as may from time to time be specified in the rules of the Stock Exchange) and the number of any securities repurchased by the Company since the granting of such mandate; and
 - (gg) the granting of any mandate or authority to the Board to repurchase securities in the Company.
- (k) **Transfer of shares**

Subject to the Companies Law, 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 provided always that it shall be in such form prescribed by the Stock Exchange 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 in any case in which it in its discretion thinks fit to do so, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof.

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.

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Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share option scheme upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The Board may decline to recognize any instrument of transfer unless a fee of such maximum sum as the Stock Exchange may determine to be payable or such lesser sum as the Board may from time to time require is paid to the Company in respect thereof, 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 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 Listing Rules (as defined in the Articles), 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 with respect to the right of the holder thereof to transfer such shares (except when permitted by the Stock Exchange) and shall also be free from all liens.

(1) Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to 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, 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.

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(m) 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.

(n) 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 whereof 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; and
- (ii) all dividends shall be apportioned and paid pro rata in accordance with the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. 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 on the share capital of the Company, 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 thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (bb) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, but in the case of joint holders, shall be addressed to the holder whose name stands first in the register of members of the Company in respect of the shares at his address as appearing in the register, or addressed to such person and at such address as the holder or joint holders may in writing so direct. 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

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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 made use of 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.

(o) 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 authorized representative) or by proxy.

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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 an officer or attorney duly authorised. 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 use by him 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.

(p) Calls on shares and forfeiture of shares

The Board may from time to time make such calls as it may think 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 thereof 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 the payment thereof 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 thereof, the Board may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on him 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 will 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 it 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 time appointed, 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.

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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.

(q) Inspection of corporate records

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. However, the members of the Company will have such rights as may be set forth in the Articles. The Articles provide that 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 member is closed) without charge and require the provision to him of copies or extracts thereof in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as its directors may, from time to time, think fit.

(r) 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.

(s) 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.

**APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

(t) 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 shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, on the shares held by them respectively.

In the event that 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 shall consist of property of one kind or shall consist of properties of 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 divided as aforesaid 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 shall think fit, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(u) Untraceable members

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.

In accordance with the Articles, the Company is entitled to sell any of the shares of a member who is untraceable if:

- (i) all cheques or warrants, being not less than three in total number, for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years;

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- (ii) upon the expiry of the 12 years and three months period (being the three months' notice period referred to in sub-paragraph (iii)), the Company has not during that time received any indication of the existence of the member; and
- (iii) the Company has caused an advertisement to be published in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the stock exchange of the Relevant Territory (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(v) **Subscription rights reserve**

Pursuant to the Articles, 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 8 January 2016 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**

As an exempted company, the Company must conduct its operations mainly outside the Cayman Islands. Moreover, the Company is 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 authorized share capital.

(b) **Share capital**

In accordance with the Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. The Companies Law provides that 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

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or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

- (i) paying distributions or dividends to members;
- (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii) any manner provided in section 37 of the Companies Law;
- (iv) writing-off the preliminary expenses of the company; and
- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, the Companies Law provides that 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.

It is further provided by the Companies Law that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorized to do so by its articles of association, by special resolution reduce its share capital in any way.

The Articles include certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(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 acting in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

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(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 authorized 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 authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. Nonetheless, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares without the manner and terms of purchase first being authorized by an ordinary resolution of the company. 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.

Under Section 37A(1) the Companies Law, 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 (a) the memorandum and articles of association of the company do not prohibit it from holding treasury shares; (b) the relevant provisions of the memorandum and articles of association (if any) are complied with; and (c) the company is authorised in accordance with the company's articles of association or by a resolution of the directors to hold such shares in the name of the company as treasury shares prior to the purchase, redemption or surrender of such shares. Shares held by a company pursuant to section 37A(1) of the Companies Law shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

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(e) Dividends and distributions

With the exception of sections 34 and 37A(7) of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see sub-paragraph 2(n) of this Appendix for further details). Section 37A(7)(c) of the Companies Law provides that 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 to the company, 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 thereto) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge:

- (i) an act which is ultra vires the company or illegal;
- (ii) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and
- (iii) an irregularity in the passing of a resolution the passage of 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 thereof 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 thereon.

Moreover, 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 in the Companies Law on the power of directors to dispose of assets of a company, however the directors have certain duties of care, diligence and skill and also 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

Section 59 of the Companies Law provides that a company shall cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters with respect to which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Section 59 of the Companies Law further states that 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 the Company keeps its books of account at any place other than at its registered office or at 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:

- (i) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (ii) in addition, that 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).

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The undertaking for the Company is for a period of twenty 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 certain stamp duties which may be applicable, from time to time, on certain instruments.

(k) Stamp duty on transfers

There is no stamp duty 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

The Companies Law contains no express provision prohibiting the making of loans by a company to any of its directors. However, the Articles provide for the prohibition of such loans under specific circumstances.

(m) Inspection of corporate records

The members of the company have no general right under the Companies Law 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. The Companies Law contains no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2013 Revision) of the Cayman Islands.

(o) Winding up

A Cayman Islands company may be wound up either by (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

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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 occurs where the Company so 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; or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or where the event occurs on the occurrence of which the memorandum or articles provides that the company is to be wound up. In the case of a voluntary winding up, such 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 shall be 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 has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof.

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 shall take 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, there may be appointed one or more persons to be called an official liquidator or official liquidators; and the court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one persons are appointed to such office, the court shall declare whether any act required or authorized 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.

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(p) Reconstructions

Reconstructions and amalgamations are governed by specific statutory provisions under the Companies Law whereby such arrangements may be approved by a majority in number representing 75% in value of 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 would have 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, nonetheless 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.

(q) 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 the said four months, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the court of the Cayman Islands 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.

(r) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the 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 GROUP**1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 8 January 2016.

Our Company has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 2 March 2016 and our principal place of business in Hong Kong is Room A, 17th Floor, Capitol Centre Tower II, 28 Jardine's Crescent, Causeway Bay, Hong Kong. In connection with such registration, we have appointed Mr. Lau Ka Ming of Suite 1106, Tower E, Galaxia, Diamond Hill, Kowloon, Hong Kong as the authorised representative of our Company for the acceptance of service of process and notices on behalf of us in Hong Kong.

As our Company was incorporated in the Cayman Islands, it is subject to the Companies Law and its constitution, which comprises of the Memorandum and the Articles of Association. A summary of the relevant aspects of the Companies Law and certain provisions of the Articles is set out in Appendix IV to this prospectus.

2. Changes in the share capital of our Company

- (a) As at the date of incorporation, the authorised share capital of our Company was HK\$380,000 divided into 38,000,000 Shares with a par value of HK\$0.01 each. On the same date, 1 subscriber share was transferred to Liberal Rite and our Company allotted and issued 75 Shares and 24 Shares to Happily Soar and Liberal Rite, respectively. Happily Soar and Liberal Rite then legally and beneficially owned 75% and 25% of the issued share capital of our Company.
- (b) On 3 November 2016, our Company increased the authorised share capital from HK\$380,000 divided into 38,000,000 Shares to HK\$10,000,000 divided into 1,000,000,000 Shares by the creation of an additional 962,000,000 Shares.
- (c) On 3 November 2016, our Shareholders resolved that conditional upon the share premium account of our Company being credited as a result of the allotment and issue of the Offer Shares pursuant to the Share Offer, our Directors were authorised to capitalise an amount of HK\$3,749,999 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 374,999,900 Shares for allotment and issue to all members of our Company as of 3 November 2016, on a pro rata basis.

Immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme), the authorised share capital of our Company will be HK\$10,000,000 divided into 1,000,000,000 Shares, of which 500,000,000 Shares will be issued fully paid or credited as fully paid, and 500,000,000 Shares will remain unissued.

Other than the Capitalisation Issue, the Share Offer or the Share Option Scheme, our Directors do not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company. Save as disclosed in this prospectus, there has been no alteration in our Company's share capital within two years immediately preceding the date of this prospectus.

3. Reorganisation

Our Group underwent the Reorganisation in preparation for the Listing. Further details are set out in the paragraph headed "History, Development and Reorganisation — Reorganisation" in this prospectus.

4. Changes in the share capital of our subsidiaries

The subsidiaries of our Company are listed in the accountant's report, the text of which is set out in Appendix I to this prospectus. Save as disclosed in the paragraph headed "History, Development and Reorganisation - Reorganisation" in this prospectus and in paragraph 6 below, there has been no alteration in the share capital or registered capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

5. Further information about our Group's PRC establishment

We have interest in the registered capital of one PRC subsidiary. A summary of the corporate information of such PRC subsidiary as at the Latest Practicable Date is set out as follows:

- | | |
|---|--|
| (i) Name of the enterprise: | Hubei Mengke Paper Co., Ltd.
(湖北盟科紙業有限公司) |
| (ii) Date of establishment: | 13 June 2005 |
| (iii) Nature: | Wholly foreign-owned enterprise |
| (iv) Registered owners: | Mengke (Hong Kong) |
| (v) Total investment: | RMB34.3 million |
| (vi) Registered capital: | RMB24 million |
| (vii) Attributable interest to our Group: | 100% |
| (viii) Term of operation: | 13 June 2005 to 12 June 2035 |

6. Written resolutions of all Shareholders passed on 3 November 2016

Written resolutions of all Shareholders were passed on 3 November 2016 approving, amongst others, the following:

- (a) the Memorandum and the Articles were adopted as our articles of association, conditional upon the Listing;
- (b) the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each to HK\$10,000,000 divided into 1,000,000,000 Shares of HK\$0.01 each by the creation of additional 962,000,000 Shares, all of which shall rank equally in all respects with the existing Shares; and
- (c) conditional upon the same conditions to be satisfied and/or waived as stated in the section headed “Structure and Conditions of the Share Offer” in this prospectus:
 - (i) the Share Offer was approved and our Directors were authorised to (aa) allot and issue the Offer Shares on and subject to the terms and conditions stated in this prospectus and in the relevant Application Forms; (bb) implement the Share Offer and the listing of Shares on the Main Board; and (cc) do all things and execute all documents in connection with or incidental to the Share Offer and the Listing with such amendments or modifications (if any) as our Directors may consider necessary or appropriate;
 - (ii) conditional upon the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorised to capitalise the amount of HK\$3,749,999 from the amount standing to the credit of the share premium account of our Company by applying such sum to pay up in full at par a total of 374,999,900 Shares for allotment and issue to the holders of Shares whose names appear on the register of members of our Company at the close of business on 3 November 2016, or as each of them may direct in writing, in proportion (or as near as possible without involving the issue of fractions of Shares) to their then existing respective shareholdings in our Company and our Shares to be allotted and issued pursuant to this resolution shall rank equally in all respects with the then existing issued Shares;
 - (iii) the rules of the Share Option Scheme and our Board or any committee thereof established by our Board was authorised, at its sole discretion, to (aa) administer the Share Option Scheme; (bb) modify or amend the rules of the Share Option Scheme from time to time as may be acceptable or not objected to by the Stock Exchange; (cc) grant options to subscribe for Shares thereunder and to allot, issue and deal with our Shares pursuant to the exercise of subscription rights attaching to any option(s) granted thereunder; and (dd) take all such actions as it considers necessary or desirable to implement or give effect to the Share Option Scheme;

- (iv) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with (otherwise than pursuant to, or in consequence of, the Capitalisation Issue, the Share Offer, the exercise of any options which may be granted under the Share Option Scheme or any other share option scheme or similar arrangement for the time being adopted by our Company, or by way of rights issue, scrip dividend schemes or similar arrangements in accordance with the Articles, or a specific authority granted by our Shareholders in general meetings, or any issue of Shares upon exercise of rights of subscription or conversion attaching to warrants of our Company of any securities (if any) which are convertible into Shares), Shares with an aggregate nominal amount not exceeding 20% of the aggregate nominal amount of the share capital of our Company in issue immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme), until the conclusion of our next annual general meeting, or the date by which our next annual general meeting is required by the Articles or any applicable law(s) to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the mandate given to our Directors, whichever occurs first;
- (v) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to repurchase, on the Stock Exchange and/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 in accordance with all applicable laws and requirements of the Listing Rules (or of such other stock exchange), Shares in the number not exceeding 10% of the number of issued Shares of our Company in issue immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme), until the conclusion of our next annual general meeting, or the date by which our next annual general meeting is required by the Articles or any applicable law(s) to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the mandate given to our Directors, whichever occurs first; and
- (vi) a general unconditional mandate mentioned in sub-paragraph (iv) above was extended by the addition to the aggregate nominal amount of the share capital of our Company which may be allotted and issued or agreed (conditionally or unconditionally) to be allotted or issued by our Directors pursuant to such general mandate of an amount representing the aggregate nominal amount of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in sub-paragraph (v) above, provided that such extended amount shall not exceed 10% of the aggregate nominal amount of the share capital of our Company in issue immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme).

7. Repurchase of our Shares

This paragraph sets out information required by the Stock Exchange to be included in this prospectus concerning the repurchase by us of our own securities.

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies with a primary listing on the Stock Exchange to purchase their own securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) *Shareholders' approval*

All proposed repurchases of securities (which must be fully paid in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note:

Pursuant to the written resolutions of all Shareholders passed on 3 November 2016, conditional upon the same conditions to be satisfied and/or waived as stated in the section headed "Structure and Conditions of the Share Offer" in this prospectus, a general unconditional mandate (the "**Repurchase Mandate**") was given to our Directors to exercise all the powers of our Company to repurchase, on the Stock Exchange and/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 in accordance with all applicable laws and requirements of the Listing Rules (or of such other stock exchange), Shares in the number not exceeding 10% of the number of issued Shares of our Company in issue immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme). The Repurchase Mandate will remain effective until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable law(s) to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the mandate given to our Directors, whichever occurs first.

(ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Memorandum, the Articles, the Listing Rules and the applicable laws of Hong Kong and the Companies Law. A listed company must not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, any repurchases by us may be made out of profits of our Company, out of share premium, or out of the proceeds of a fresh issue of shares made for the purpose of the repurchase or, subject to the Companies Law, out of capital. Any amount of premium payable on the purchase over the par value of the shares to be repurchased must be paid out of profits of our Company, out of our Company's share premium account before or at the time our Shares are repurchased, or, subject to the Companies Law, out of capital.

(iii) *Trading restrictions*

A company is authorised to repurchase on the Stock Exchange or on any other stock exchange recognised by the SFC and the Stock Exchange the total number of shares which represent up to a maximum of 10% of the number of issued share capital of that company or warrants to subscribe for shares in that company representing up to 10% of the amount of warrants then outstanding at the date of the passing of the relevant resolution granting the repurchase mandate.

A company may not issue or announce an issue of new securities of the type that have been repurchased for a period of 30 days immediately following a repurchase of securities whether on the Stock Exchange or otherwise (except pursuant to the exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to the repurchase) without the prior approval of the Stock Exchange.

In addition, a company is prohibited from making securities repurchase on the Main Board if the result of the repurchase would be that the number of the listed securities in hands of the public would be below the relevant prescribed minimum percentage for that company as required and determined by the Stock Exchange.

A company shall not repurchase its shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange.

(iv) *Status of repurchased shares*

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed.

Under the Companies Law, a company's repurchased shares may be treated as cancelled and, if so cancelled, the amount of that company's issued share capital shall be reduced by the aggregate nominal value of the repurchased shares accordingly although the authorised share capital of the company will not be reduced.

(v) *Suspension of repurchase*

A listed company may not make any repurchase of securities after inside information has come to its knowledge until the inside information has been made publicly available. In particular, during the period of 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 Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (bb) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the

Listing Rules) and ending on the date of the results announcement, the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) *Reporting requirements*

Repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 9:00 a.m. on the following Business Day. In addition, a company's annual report and accounts are required to include a monthly breakdown of securities repurchases made during the financial year under review, showing the number of securities repurchased each month (whether on the Main Board or otherwise), the purchase price per share or the highest and lowest prices paid for all such repurchases and the total prices paid. The directors' report is also required to contain reference to the purchases made during the year and the directors' reasons for making such purchases. The company shall make arrangements with its broker who effects the purchase to provide the company in a timely fashion the necessary information in relation to the purchase made on behalf of the company to enable the company to report to the Stock Exchange.

(vii) *Connected parties*

A listed company is prohibited from knowingly repurchasing securities on the Stock Exchange from a "core connected person", which includes a director, chief executive or substantial shareholder of the company or any of its subsidiaries or an associate of any of them and a core connected person shall not knowingly sell his securities to the company.

(b) *Reasons for repurchase*

Our Directors believe that it is in the best interests of us and our Shareholders for our Directors to have a general authority from our Shareholders to enable us to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit us and our Shareholders.

(c) *Share capital*

Exercise in full of the Repurchase Mandate, on the basis of 500,000,000 Shares in issue immediately after completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme), could accordingly result in up to 50,000,000 Shares being repurchased by the Company during the course of the period prior to the date on which such Repurchase Mandate expires or terminates as mentioned in the paragraph headed "A. Further Information about our Group — 6. Written resolutions of all Shareholders passed on 3 November 2016" in this appendix.

(d) *General*

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to us or our subsidiaries. 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 Listing Rules, the Articles and the applicable laws of Hong Kong and the Cayman Islands.

If, as a result of a repurchase of Shares, a Shareholder's proportionate interest in our voting rights increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert (within the meaning of the Takeovers Code), depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of us and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequence which would arise under the Takeovers Code as a result of any repurchase pursuant to the Repurchase Mandate.

The 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 Listing Rules).

We have not made any repurchases of our own securities since its incorporation.

No core connected person has notified us that he has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of our Group within the two years immediately preceding the date of this prospectus and are or may be material:



- (a) the equity transfer agreement dated 24 February 2016 entered into between Prime Vantage and Mengke (Hong Kong) relating to the transfer of 25% of the entire issued share capital of Hubei Mengke to Mengke (Hong Kong) at a consideration of RMB15.75 million;
- (b) the equity transfer agreement dated 24 February 2016 entered into between Yichang Kunxiang and Mengke (Hong Kong) relating to the transfer of 75% of the entire issued share capital of Hubei Mengke to Mengke (Hong Kong) at a consideration of RMB47.25 million;

- (c) the Deed of Indemnity;
- (d) the Deed of Non-Competition; and
- (e) the Public Offer Underwriting Agreement.

2. Intellectual property rights

(a) *Trademark*

As at the Latest Practicable Date, we had registered the following trademark, and the following trademark is, in the opinion of our Directors, material to our business:

<u>Trademark</u>	<u>Applicant</u>	<u>Class</u>	<u>Place of Registration</u>	<u>Application Number</u>	<u>Expiry Date</u>
(A) 	The Company	16	Hong Kong	303663081	18 January 2026
(B) 					

(b) *Domain name*

As at the Latest Practicable Date, we had registered the following domain name, and the following domain name is, in the opinion of our Directors, material to our business:

<u>Domain Name</u>	<u>Registered Owner</u>	<u>Registration Date</u>	<u>Expiry Date</u>
<u>www.mengkeholdings.com</u>	Hubei Mengke	5 February 2016	5 February 2017

(c) *Patents*

(i) As at the Latest Practicable Date, we have registered the following patents, and the following patents are, in the opinion of our Directors, material to our business:

No.	Patent	Registered Owner	Type	Place of Registration	Patent Number	Expiry Date
1.	Manufacturing method of cigarette inside lining direct plating laser paper (香煙內襯直鍍鐳射紙的生產方法)	Hubei Mengke	Invention	PRC	ZL 2007 1 0051812.9	2 April 2027
2.	Manufacturing method of direct plating cigarette cardboard (直鍍煙卡紙的生產方法)	Hubei Mengke	Invention	PRC	ZL 2007 1 0051813.3	2 April 2027
3.	Method for producing UV (ultraviolet) cold transfer laser printing paper by utilizing gravure steel plate (一種凹印鋼板UV冷轉移鐳射印刷紙生產方法)	Hubei Mengke	Invention	PRC	ZL 2013 1 0663958.4	9 December 2033
4.	A nano-level film material for producing laser paper (一種納米級薄膜材料鐳射紙張的生產方法)	Hubei Mengke	Invention	PRC	ZL 2013 1 0661258.1	9 December 2033
5.	Medium-free aluminized paper production device (一種無介質鍍鋁紙生產裝置)	Hubei Mengke	Utility model	PRC	ZL 2013 2 0798532.5	8 December 2023
6.	Device for reducing and treating VOCs (volatile organic compounds) in aluminized paper (一種降低和處理鍍鋁紙中VOCs的裝置)	Hubei Mengke	Utility model	PRC	ZL 2013 2 0805400.0	9 December 2023
7.	Automatic aluminum-free hologram paper trimming machine (無鋁鐳射紙自動裁邊機)	Hubei Mengke	Utility model	PRC	ZL 2014 2 0839168.7	25 December 2024
8.	Paint cleaner for aluminized paper (鍍鋁紙塗料清潔器)	Hubei Mengke	Utility model	PRC	ZL 2014 2 0838800.6	25 December 2024
9.	Automatic moisture control system for aluminized paper (一種鍍鋁紙水分自動控制系統)	Hubei Mengke	Utility model	PRC	ZL 2014 2 0817983.3	21 December 2024
10.	Paper assembling device for composite packaging equipment (一種複合包裝設備紙張對接裝置)	Hubei Mengke	Utility model	PRC	ZL 2015 2 0702158.3	10 September 2025

No.	Patent	Registered Owner	Type	Place of Registration	Patent Number	Expiry Date
11.	Composite packaging equipment discharge seat (一種複合包裝設備放料座)	Hubei Mengke	Utility model	PRC	ZL 2015 2 0665243.7	30 August 2025
12.	New anti-counterfeit paper production process (一種新型防偽紙張的生產方法)	Hubei Mengke	Invention	PRC	ZL 2013 1 0662655.0	9 December 2033
13.	Hidden aluminum-free anti-counterfeiting laser paper and production method and application of hidden aluminum-free anti-counterfeiting laser paper (一種隱性防偽無鉛鐳射紙、生產方法及其應用)	Hubei Mengke	Invention	PRC	ZL 2014 1 0792498.X	18 December 2034

(ii) As at the Latest Practicable Date, we have applied for registration of the following patents, and the following patent applications are, in the opinion of our Directors, material to our business:

No.	Patent	Applicant	Type	Place of Registration	Application Number	Application Date
1.	High-gloss coating and application and method of coating to coated ivory board (一種高光塗布塗料及在塗布白卡上的應用及方法)	Hubei Mengke	Invention	PRC	2014107998199	19 December 2014
2.	Photocatalytic reagent and application on aluminized paper (一種光催化試劑及在鍍鋁紙上的應用)	Hubei Mengke	Invention	PRC	2014108053238	22 December 2014
3.	Medium-free aluminized paper production device (一種無介質鍍鋁紙生產裝置)	Hubei Mengke	Invention	PRC	2013106537580	9 December 2013

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interests

(a) *Interests and short positions of our Directors and chief executives of our Company in the Shares, underlying Shares and debentures of our Company and our associated corporations after completion of the Capitalisation Issue and the Share Offer*

Immediately after the completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme), the interests or short positions of our Directors and chief

executives of our Company in our Shares, underlying Shares or debentures of our Company or any of our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

<u>Name of Director/chief executive</u>	<u>Capacity/Nature of interest</u>	<u>Relevant company</u>	<u>Number of Shares (Note 1)</u>	<u>Approximate percentage of shareholding</u>
Mr. Zhang (Note 2)	Interest in a controlled corporation	Company	281,252,000(L)	56.25%

Notes:

- (1) The letter “L” denotes a person’s “long position” (as defined under Part XV of the SFO) in such Shares.
- (2) The issued share capital of Happily Soar is owned as to 76% by Mr. Zhang. Under the SFO, Mr. Zhang is deemed to be interested in the same number of Shares held by Happily Soar. Ms. Huang Feixia is the spouse of Mr. Zhang and is deemed to be interested in the Shares held by Mr. Zhang through Happily Soar.

Immediately after the completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme), so far as our Directors are aware, save as disclosed in the table below, the following persons (not being our Directors or a chief executive of us) will have an interest or short position in the Shares or underlying Shares which will have to be notified to us and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

<u>Name</u>	<u>Capacity/ nature of interest</u>	<u>Relevant company</u>	<u>Number of the Shares (Note 1)</u>	<u>Approximate percentage of shareholding</u>
Happily Soar	Beneficial owner	Company	281,252,000 (L)	56.25%
Liberal Rite (Note 2)	Beneficial owner	Company	93,748,000 (L)	18.75%
Mr. Shiu (Note 2)	Interest in a controlled corporation	Company	93,748,000 (L)	18.75%

Notes:

- (1) The letter “L” denotes a person’s “long position” (as defined under Part XV of the SFO) in such Shares.

- (2) The issued share capital of Liberal Rite is wholly owned by Mr. Shiu. Under the SFO, Mr. Shiu is deemed to be interested in the same number of Shares held by Liberal Rite. Ms. Lai Pik Chu is the spouse of Mr. Shiu and is deemed to be interested in the Shares held by Mr. Shiu through Liberal Rite.

(b) *Negative statement regarding interests in securities*

None of our Directors or our chief executives will immediately following the completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme) have any disclosure interests (as referred to in (a) above), other than as disclosed at (a) above.

Our Directors are not aware of any persons who will immediately following the completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme) have a notifiable interest (for the purposes of the SFO) in the Shares or, having such a notifiable interest, have any short positions (within the meaning of the SFO) in the Shares, other than as disclosed at (b) above.

2. Particulars of Directors' service agreement and appointment letters

(a) *Executive Director*

Our executive Director has entered into a service agreement with us for an initial fixed term of two years commencing from the Listing Date. The term of service shall be renewed and extended automatically by two years on the expiry of such initial term and on the expiry of every successive period of two years thereafter, unless terminated by either party thereto giving at least three months' written notice of non-renewal before the expiry of the then existing term.

(b) *Non-executive Director and Independent non-executive Directors*

Our non-executive Director has entered into an appointment letter with us for an initial fixed term of two years commencing from the Listing Date. The term of service shall be renewed and extended automatically by two years on the expiry of such initial term and on the expiry of every successive period of two years thereafter, unless terminated by either party thereto giving at least one month's written notice of non-renewal before the expiry of the then existing term.

Each of our independent non-executive Directors has entered into an appointment letter with us for an initial term of one year commencing from the Listing Date. The term of service shall be renewed and extended automatically by one year upon the expiry of such initial term and on the expiry of every successive period of one year thereafter, unless terminated by either party thereto giving at least one month's written notice of non-renewal before the expiry of the then existing term.

Save as disclosed in this prospectus, none of our Directors has or is proposed to have entered into any service agreement or letter of appointment with any member of our Group (excluding agreements expiring or determinable by any member of our Group within one year without the payment of compensation other than statutory compensation).

3. Remuneration of our Directors

During the three years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2016, the aggregate emoluments paid and benefits in kind granted by us to our Directors were approximately RMB0.2 million, RMB0.2 million, RMB0.8 million and RMB0.3 million, respectively.

During the three years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2016, the aggregate of contributions to employee social security plans for our Directors were approximately RMB23,000, RMB31,000, RMB64,000 and RMB26,000, respectively.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (including our non-executive Directors) for the seven months ending 31 December 2016 will be approximately RMB0.5 million.

None of our Directors or any past director(s) of any member of our Group has been paid any sum of money for the three years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2016 (a) as an inducement to join or upon joining our Company; or (b) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

There has been no arrangement under which a Director has waived or agreed to waive any emolument for the three years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2016.

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

Chairman and non-executive Director	RMB
ZHANG Weixiang	130,000
Executive Director	
FU Mingping	153,600
Independent non-executive Directors	
CHENG Tai Kwan Sunny	103,200
TAN Yik Chung Wilson	103,200
YICK Ting Fai Jeffrey	103,200

Each of our executive Director and non-executive Directors is entitled to reimbursement of all necessary and reasonable out-of-pocket expenses properly incurred in relation to all business and affairs carried out by us from time to time or for providing services to us or executing their functions in relation to our business and operations.

Save as disclosed in this prospectus, no other emoluments have been paid or are payable, in respect of the three years ended 31 December 2013, 2014 and 2015 and the five months ended 31 May 2016 by us to our Directors.

4. Related Party Transactions

Details of the related party transactions are set out under Note 28 to the accountant's report set out in Appendix I to this prospectus.

5. Disclaimers

Save as disclosed in this prospectus:

- (a) none of our Directors or chief executive has any interest or short position in any of our Shares, underlying Shares or debentures of us or any of our associated corporation (within the meaning of Part XV of the SFO), immediately after the completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme), which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any of them is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, in each case once our Shares are listed;
- (b) our Directors are not aware of any person (other than our Directors or the chief executive of us) who will, immediately after the completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme), have an interest or short position in the Shares or underlying Shares which will have to be notified to us and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group;

- (c) none of our Directors or the experts under the paragraph headed “E. Other Information — 6. Qualifications of experts” in this appendix has been directly or indirectly interested in the promotion of, or in any asset(s) which has or have been, within the two years immediately preceding the date 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 nor the experts named under the paragraph headed “E. Other Information — 6. Qualifications of experts” in this appendix below is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business;
- (e) none of the experts named under the paragraph headed “E. Other Information — 6. Qualifications of experts” in this appendix below 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; and
- (f) so far as is known to our Directors, none of our Directors, their respective close associates or Shareholders who are interested in more than 5% of our share capital have any interests in the five largest customers or the five largest suppliers of our Group.

D. SHARE OPTION SCHEME

1. Summary of terms of the Share Option Scheme

(a) *Purpose of the Share Option Scheme*

The purpose of the Share Option Scheme is to enable our Group to grant options to the eligible participants as incentive or rewards for their contribution to our Group and/or to enable our Group to recruit and retain high-calibre employees and attract human resources that are valuable to our Group or any entity in which any member of our Group holds any equity interest (the “**Invested Entity**”). As at the Latest Practicable Date, there is no “Invested Entity” other than members of our Group, and our Group has not identified any potential “Invested Entity” for investment.

(b) *Who may join*

Our Directors shall, in accordance with the provisions of the Share Option Scheme and the Listing Rules, be entitled but shall not be bound at any time within a period of 10 years commencing from the date of the adoption of the Share Option Scheme to make an offer to any person belonging to the following classes:

- (i) any employee (whether full time or part time, including our Directors (including any non-executive Director and independent non-executive Director)), any of its subsidiaries (within the meaning of the Companies Ordinance) or any Invested Entity (an “**eligible employee**”);

- (ii) any supplier of goods or services to any member of our Group or any Invested Entity;
- (iii) any customer of any member of our Group or any Invested Entity;
- (iv) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;
- (v) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;
- (vi) any adviser (professional or otherwise), consultant, individual or entity who in the opinion of our Directors has contributed or will contribute to the growth and development of our Group; and
- (vii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group.

and, for the purpose of the Share Option Scheme, the offer for the grant of an option may be made to any company wholly owned by one or more eligible participants.

For the avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of our Group to any person who falls within any of the above classes of eligible participants shall not, by itself, unless our Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the eligible participants to an offer shall be determined by our Directors from time to time on the basis of our Directors' opinion as to his contribution to the development and growth of our Group.

(c) *Maximum number of Shares*

- (i) The maximum 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 scheme adopted by our Group shall not exceed 30% of the share capital of our Company in issue from time to time.
- (ii) The total number of Shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 10% of the total number of Shares in issue at the time dealings in the Shares first commence on the Stock Exchange, being 50,000,000 Shares ("**General Scheme Limit**").

- (iii) Subject to (i) above and without prejudice to (iv) below, our Company may seek approval of our Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of our Group shall not exceed 10% of the Shares in issue as at the date of approval of the limit and for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of our Group) previously granted under the Share Option Scheme and any other share option scheme of our Group will not be counted.
- (iv) Subject to (i) above and without prejudice to (iii) above, our Company may seek separate Shareholders' approval in general meeting to grant options under the Share Option Scheme beyond the General Scheme Limit, or if applicable, the extended limit referred to in (iii) above to eligible participants identified by our Company before such approval is sought.

(d) *Maximum entitlement of each eligible participant*

Subject to (e) below, the total number of Shares issued and which may fall to be issued upon exercise of the options under the Share Option Scheme and the options granted under any other share option scheme of our Group (including both exercised or outstanding options) to each participant who accepts the offer for the grant of an option under the Share Option Scheme (a “grantee”) in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being. Where any further grant of options under the Share Option Scheme to a grantee would result in the Shares issued and to be issued upon exercise of all options granted and proposed to be granted to such person (including exercised, cancelled and outstanding options) under the Share Option Scheme and any other share option scheme of our Group in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant must be separately approved by our Shareholders in general meeting with such grantee and his close associates (or his associates if the participant is a connected person) abstaining from voting.

(e) *Grant of options to cover connected persons*

- (i) Without prejudice to (ii) below, the making of an offer under the Share Option Scheme to any Director, chief executive or substantial shareholder of our Company 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 an option under the Share Option Scheme).
- (ii) Without prejudice to (i) above, where any grant of options under the Share Option Scheme to a substantial shareholder or an independent non-executive Director or any of their respective associates, would result in the Shares issued and to be issued upon exercise of

all options under the Share Option Scheme already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (1) representing in aggregate over 0.1% of the Shares in issue; and
- (2) having an aggregate value, based on the closing price of the Shares at the offer date of each offer, in excess of HK\$5 million;

such further grant of options must be approved by our Shareholders in general meeting. The grantee, his associates and all core connected persons of our Company must abstain from voting in favour at such general meeting.

For the purpose of seeking the approval of our Shareholders under paragraphs (c), (d) and (e) above, our Company must send a circular to our Shareholders containing the information required under the Listing Rules and where the Listing Rules shall so require, the vote at the Shareholders' meeting convened to obtain the requisite approval shall be taken on a poll with those persons required under the Listing Rules abstaining from voting.

(f) *Time of acceptance and exercise of an option*

An offer under the Share Option Scheme may remain open for acceptance by the eligible participants concerned (and by no other person) for a period of up to 21 days from the date, which must be a Business Day, on which the offer is made to such eligible participants.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to the grantee thereof, and in the absence of such determination, from the date of acceptance of the offer of such option to the earlier of (i) the date on which such option lapses under the relevant provisions of the Share Option Scheme; and (ii) the date falling 10 years from the offer date of that option.

An offer shall have been accepted by an eligible participant in respect of all Shares which are offered to such eligible participant when the duplicate letter comprising acceptance of the offer duly signed by the eligible participant together with a remittance in favour of our Company of HK\$1.00 by way of consideration for the grant thereof is received by our Company within such time as may be specified in the offer (which shall not be later than 21 days from the offer date). Such remittance shall in no circumstances be refundable.

Any offer may be accepted by an eligible participant in respect of less than the number of Shares which are offered provided that it is accepted in respect of a board lot for dealings in the Shares on the Main Board or an integral multiple thereof and such number is clearly stated in the duplicate letter comprising acceptance of the offer duly signed by such eligible participant and received by our Company together with a remittance in favour of our Company of HK\$1.00 by way of consideration for the grant thereof within such time as may be specified in the offer (which shall not be later than 21 days from the offer date). Such remittance shall in no circumstances be refundable.

(g) *Performance targets*

Unless otherwise determined by our Directors and stated in the offer to a grantee, a grantee is not required to hold an option for any minimum period nor achieve any performance targets before the exercise of an option granted to him.

(h) *Subscription price for Shares*

The subscription price in respect of any option shall, subject to any adjustments made pursuant to paragraph(s) below, be at the discretion of our Directors, provided that it shall not be less than the highest of:

- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the offer date;
- (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the offer date; and
- (iii) the nominal value of a Share.

(i) *Ranking of Shares*

Shares to be allotted and issued upon the exercise of an option will be subject to all the provisions of the articles of association of our Company for the time being in force and will rank *pari passu* in all respects with the then existing fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members (the "**Exercise Date**") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee has been duly entered on the register of members of our Company as the holder thereof.

(j) *Restrictions on the time of grant of options*

For so long as the Shares are listed on the Stock Exchange, an offer may not be made after inside information has come to our Company's knowledge until it has announced the information. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarter-year period or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for our Company to publish announcements of its results for any year, half-year, quarter-year period or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, no offer for the grant of an option may be made.

Our Directors may not make any offer to an eligible participant who is a Director during the periods or times in which our Directors are prohibited from dealing in Shares under such circumstances as prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

(k) *Period of the Share Option Scheme*

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

(l) *Rights of ceasing employment*

If the grantee is an eligible employee and in the event of his ceasing to be an eligible employee for any reason other than his death, ill-health or retirement in accordance with his contract of employment or the termination of his employment on one or more of the grounds specified in (n) below before exercising the option in full, the option (to the extent not already exercised) shall lapse on the date of cessation or termination and not be exercisable unless our Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as our Directors may determine following the date of such cessation or termination. The date of cessation or termination as aforesaid shall be the last day on which the grantee was actually at work with our Company or the relevant subsidiary or the Invested Entity whether salary is paid in lieu of notice or not.

(m) *Rights on death, ill-health or retirement*

If the grantee is an eligible employee and in the event of his ceasing to be an eligible employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s) or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation of employment which date shall be the last day on which the grantee was at work with our Company or the relevant subsidiary or the Invested Entity whether salary is paid in lieu of notice or not.

(n) *Rights on dismissal*

In respect of a grantee who is an eligible employee, the date on which the grantee ceases to be an eligible employee by reason of termination of his employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the grantee or our Group into disrepute), such option (to the extent not already exercised) shall lapse automatically and shall not in any event be exercisable on or after the date of cessation to be an eligible employee.

(o) *Rights on breach of contracts*

In respect of a grantee other than an eligible employee, the date on which our Directors shall at their absolute discretion determine that (i) (aa) such grantee has committed any breach of any contract entered into between such grantee on the one part and the Group or any Invested Entity on the other part; or (bb) such grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (cc) such grantee could no longer make any contribution to the growth and development of the Group by reason of the cession of its relation with the Group or by any other reason whatsoever; and (ii) the option shall lapse as a result of any event specified in sub-paragraph (i)(aa) to (cc).

(p) *Rights on a general offer, a compromise or arrangement*

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of the Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, our Shareholders. If such offer becomes or is declared unconditional or such scheme of arrangement is formally proposed to our Shareholders, the grantee shall, notwithstanding any other terms on which his option was granted, be entitled to exercise the option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date on which such offer (or, as the case may be, revised offer) closes.

(q) *Rights on winding-up*

In the event of a resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two Business Days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and our Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one Business Day before the date on which such resolution is to be considered and/or passed whereupon he shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation ranking equally with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of our Company.

(r) *Grantee being a company wholly owned by eligible participants*

If the grantee is a company wholly owned by one or more eligible participants:

- (i) the provisions of paragraphs (l), (m), (n) and (o) above shall apply to the grantee and to the option granted to such grantee, mutatis mutandis, as if such option had been granted to the relevant eligible participant, and such option shall accordingly lapse or fall to be exercisable after the event(s) referred to in paragraphs (l), (m), (n) and (o) above shall occur with respect to the relevant eligible participant; and
- (ii) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant eligible participant provided that our Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

(s) *Adjustment of the subscription price*

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable or the Share Option Scheme remains in effect, and such event arises from a capitalisation issue, rights issue, consolidation or sub-division of the Shares, or reduction of the share capital of our Company, then, in any such case our Company shall instruct the auditors or an independent financial adviser to certify in writing the adjustment, if any, that ought in their opinion fairly and reasonably to be made either generally or as regards any particular grantee, to:

- (i) the number or nominal amount of Shares to which the Share Option Scheme or any option(s) relate(s) (insofar as it is/they are unexercised); and/or

the subscription price of any option; and/or
- (ii) (unless the relevant grantee elects to waive such adjustment) the number of Shares comprised in an option or which remain comprised in an option,

and an adjustment as so certified by the auditors or such independent financial adviser shall be made, provided that:

- (i) any such adjustment shall give the grantee the same proportion of the issued share capital of our Company (as interpreted in accordance with the supplemental guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes) for which such grantee would have been entitled to subscribe had he exercised all the options held by him immediately prior to such adjustment;
- (ii) no such adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;

(iii) the issue of Shares or other securities of the Group as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustment; and

(iv) any such adjustment shall be made in compliance with the Listing Rules and such rules, codes and guidance notes of the Stock Exchange from time to time.

In respect of any adjustment referred to above, other than any adjustment made on a capitalisation issue, the auditors or such independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provisions of the Listing Rules and the supplemental guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes.

(t) ***Cancellation of options***

Subject to the provisions in the Share Option Scheme and the Listing Rules, any option granted but not exercised may not be cancelled except with the prior written consent of the relevant grantee and the approval of our Directors.

Where our Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding, for this purpose, the options so cancelled) within the General Scheme Limit or the limits approved by our Shareholders pursuant to paragraph (c)(ii) or (c)(iv) above.

(u) ***Termination of the Share Option Scheme***

Our Company by an ordinary resolution in general meeting may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme and options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(v) ***Rights are personal to grantee***

An option shall be personal to the grantee and shall not be transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest whatsoever in favour of any third party over or in relation to any option or enter into any agreement to do so. Any breach of the foregoing by a grantee shall entitle our Company to cancel any option granted to such grantee to the extent not already exercised.

(w) *Lapse of option*

An option shall lapse automatically (to the extent not already exercised) on the earliest of (i) the expiry of the option period in respect of such option; (ii) the expiry of the periods or dates referred to in paragraphs (l), (m), (n), (o), (p), (q) and (r) above; or (iii) the date on which our Directors exercise our Company's right to cancel the option by reason of a breach of paragraph (v) above.

(x) *Others*

- (i) The Share Option Scheme is conditional upon:
- (1) the Stock Exchange granting the listing of and permission to deal in such number of Shares representing the General Scheme Limit to be allotted and issued by our Company pursuant to the exercise of options in accordance with the terms and conditions of the Share Option Scheme; and
 - (2) the passing of the necessary resolution to approve and adopt the Share Option Scheme in general meeting or by way of written resolution of our Shareholders.
- (ii) The provisions of the Share Option Scheme relating to the matters governed by Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees or prospective grantees except with the prior sanction of a resolution of our Company in general meeting, provided that no such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the grantees as would be required of the holders of the Shares under the articles of association for the time being of our Company for a variation of the rights attached to the Shares.
- (iii) any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted shall be approved by our Shareholders except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (iv) The terms of the Share Option Scheme and/or any options amended must comply with the applicable requirements of the Listing Rules.
- (v) Any change to the authority of our Directors or the administrators of the Share Option Scheme in relation to any alteration to the terms of the Share Option Scheme must be approved by the Shareholders in general meeting.

2. Present status of the Share Option Scheme

Application has been made to the Stock Exchange for the listing of and permission to deal in the Shares to be issued within the General Scheme Limit pursuant to the exercise of options which may be 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 (collectively, the “**Indemnifiers**”) have, under a Deed of Indemnity as referred to in paragraph (c) of the paragraph headed “B. Further Information about the Business of our Group — 1. Summary of material contracts” in this appendix, given joint and several indemnities to our Company (for ourselves and as trustee for and on behalf of our subsidiaries) in connection with, among other things:

- (a) any taxation (including estate duty) falling on any member of the Group resulting from or by reference to any income, profits, gains, transactions, events, matters or things earned, accrued, received, entered into (or deemed to be so earned, accrued, received or entered into) or occurring on or before the date on which the Share Offer becomes unconditional; and
- (b) all costs which any member of the Group may incur, suffer or accrue, directly or indirectly, from or on the basis of or in connection with any alleged or actual violation or non-compliance by any member of the Group with any laws, regulations or administrative orders or measures in Hong Kong on or before the date on which the Share Offer becomes unconditional, if any.

The Indemnifiers will, however, not be liable under the Deed of Indemnity to the extent that, among others:

- in relation to items (a) and (b) above, provision has been made for such liability in the audited consolidated accounts of our Company or any member of our Group for the Track Record Period;
- in relation to item (a) above, 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
- in relation to item (a) above, the taxation liability arises in the ordinary course of business of any member of our Group or in the ordinary course of acquiring and disposing of capital assets after the date on which the Share Offer becomes unconditional.

Our Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands and the BVI is likely to fall on our Group, and the estate duty under the laws of Hong Kong has been abolished.

2. Legal proceedings/Litigation

To the best knowledge of our Directors, save as disclosed in this prospectus, as at the Latest Practicable Date, neither we nor any of our subsidiaries were/was engaged in any litigation, arbitration or claims of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on its results of operations or financial condition.

3. Application for listing of Shares

We have applied to the Listing Committee for the listing of, and the permission to deal in, the Shares in issue and to be issued by us pursuant to the Capitalisation Issue and the Share Offer as mentioned herein and the Shares to be issued upon exercise of any options which may be granted under the Share Option Scheme. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

4. Preliminary expenses

Our estimated preliminary expenses are approximately HK\$33,540 and have been paid by us.

5. Promoter

- (a) We do not have any promoter.
- (b) Within the two years immediately preceding the date of this prospectus, no amount or benefit has been paid or given to any promoter of our Company in connection with the Share Offer or the related transactions described in this prospectus.

6. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus, and have given and have not withdrawn their written consent to the issue of this prospectus with the inclusion of their letter, report, and/or valuation certificate opinion and/or references to their names (as the case may be), all of which are dated the date of this prospectus, in the form and context in which they respectively appear in this prospectus:

Name	Qualifications
RaffAello Capital Limited	A licensed corporation under the SFO to engage in type 6 (advising on corporate finance) regulated activity as defined under the SFO
Beijing Jingtian & Gongcheng Law Firm	PRC legal advisers
Appleby	Cayman Islands legal advisers
PricewaterhouseCoopers	Certified public accountants
DTZ Cushman & Wakefield Limited	Property valuer
Ipsos Limited	Industry research consultant

7. Consents of experts

Each of the experts named in the paragraph headed “E. Other Information — 6. Qualifications of experts” in this appendix has given and has not withdrawn their respective consent to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and reference to its name included in the form and context in which it respectively appears.

8. Fees of Sole Sponsor

The Sole Sponsor will receive a sponsorship, financial advisory and documentation fee of a total amount of HK\$6.0 million in relation to the Listing and will be reimbursed for its expenses.

9. Independence of the Sole Sponsor

Neither the Sole Sponsor nor any of its associates has accrued any material benefit as a result of the successful outcome of the Share Offer, other than the following:

- (a) by way of sponsorship, financial advisory and documentation fee to be paid to the Sole Sponsor for acting as the sole sponsor of the Listing; and
- (b) by way of the compliance advisory fee to be paid to RaffAello Capital Limited as our Company’s compliance adviser pursuant to the requirements under Rule 3A.19 of the Listing Rules.

No director or employee of the Sole Sponsor who is involved in providing advice to our Company has or may have, as a result of the Listing, any interest in any class of securities of our Company or any of its subsidiaries. None of the directors and employees of the Sole Sponsor has any directorship in our Company or any other companies comprising our Group. The Sole Sponsor is independent from our Group under Rule 3A.07 of the Listing Rules.

10. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

11. Miscellaneous

Save as disclosed herein:

- (a) within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital of our Company or any of its subsidiaries has been allotted and issued, agree to be allotted and issued or is proposed to be allotted and issued fully or partly paid either for cash or for a consideration other than cash;

- (ii) no commission, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries and no commission (excluding sub-underwriters' commission) has been paid or payable for subscribing or agreeing to subscribe or procuring or agreeing to procure subscription for any shares of our Company or any of our subsidiaries;
- (b) no founder, management or deferred shares of our Company have been allotted and issued or agreed to be allotted and issued;
- (c) no share, warrant or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (d) our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in the financial or trading position or prospects of our Group since 31 May 2016, being the date on which the latest audited financial information of our Group was reported in the accountant's report set out in Appendix I to this prospectus; and
- (e) our Directors confirm that there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months immediately preceding the date of this prospectus.

12. Bilingual Prospectus

Pursuant to section 4 of the Company (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), the English language and Chinese language versions of this prospectus are being published separately but are available to the public at the same time at each place where this prospectus is distributed by or on behalf of our Company.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

1. copies of each of the WHITE, YELLOW and GREEN Application Forms;
2. a copy of each of the material contracts referred to in the section headed “Statutory and General Information — B. Further Information about the Business of our Group — 1. Summary of material contracts” in Appendix V to this prospectus; and
3. a copy of each of the written consents as referred to in the section headed “Statutory and General Information — E. Other Information — 6. Qualifications of experts” in Appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of ONC Lawyers at 19th Floor, Three Exchange Square, 8 Connaught Place, Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

1. the Memorandum and the Articles of Association;
2. the Accountant’s Report from PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus;
3. the audited consolidated financial statements of our Group during the Track Record Period;
4. the report from PricewaterhouseCoopers on the unaudited pro forma financial information of our Group, the text of which are set out in Appendix II to this prospectus;
5. the full valuation report relating to the property interests of our Group prepared by DTZ Cushman & Wakefield Limited, the text of which is set out in Appendix III to this prospectus;
6. the PRC legal opinions issued by Beijing Jingtian & Gongcheng Law Firm, our PRC Legal Adviser;
7. the letter of advice prepared by Appleby, our Cayman Island’s legal advisers, summarising certain aspects of Cayman Islands company law as referred to in Appendix IV to this prospectus;
8. the independent research report issued by Ipsos Limited;

9. the material contracts as referred to in the paragraph headed “Statutory and General Information — B. Further Information about the Business of our Group — 1. Summary of material contracts” in Appendix V to this prospectus;
10. the written consents as referred to in the paragraph headed “Statutory and General Information — E. Other Information — 6. Qualifications of experts” in Appendix V to this prospectus;
11. the service agreement and letters of appointment as referred to in the paragraph headed “Statutory and General Information — C. Further Information about our Directors and Substantial Shareholders — 2. Particulars of Directors’ service agreement and appointment letters” in Appendix V to this prospectus;
12. the Companies Law; and
13. the rules of the Share Option Scheme.

MENGKE HOLDINGS LIMITED

盟科控股有限公司

