

DA SEN HOLDINGS GROUP LIMITED

大森控股集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1580

GLOBAL OFFERING



Sole Sponsor and Sole Global Coordinator



Joint Bookrunners



IMPORTANT

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

Da Sen Holdings Group Limited

大森控股集團有限公司

(incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 180,000,000 Shares (subject to Over-allotment Option)
Number of Hong Kong Offer Shares	: 18,000,000 Shares (subject to reallocation)
Number of International Offer Shares	: 162,000,000 Shares (subject to reallocation and the Over-allotment Option)
Maximum Offer Price	: HK\$0.90 per Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and a 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	: 1580

Sole Sponsor



Sole Global Coordinator



Joint Bookrunners



The 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 however arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents delivered to the Registrar of Companies and available for inspection" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance. 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.

Please see the section headed "Risk factors" for a discussion of certain risks that you should consider before investing in our Shares.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (on behalf of the Underwriters) and us, on the Price Determination Date. The Price Determination Date is expected to be on or about Tuesday, 13 December 2016 but in any event, not later than Thursday, 15 December 2016. The Offer Price will be not more than HK\$0.90 and is currently expected to be not less than HK\$0.60, unless otherwise announced. If, for any reason, the Offer Price is not agreed by Thursday, 15 December 2016 between the Sole Global Coordinator (on behalf of the Underwriters) and us, the Global Offering will not proceed and will lapse.

The Sole Global Coordinator (on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that stated in this prospectus (which is HK\$0.60 to HK\$0.90 per Share) at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be published in The Standard (in English) and the Hong Kong Economic Journal (in Chinese) not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. Further details are set out in the sections headed "Structure of the Global Offering" and "How to apply for Hong Kong Offer Shares" in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe, and to procure applicants for the subscription of, the Hong Kong Offer Shares, are subject to termination by the Sole Global Coordinator (on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that trading in the Offer Shares commences on the Stock Exchange. Such grounds are set out in the section headed "Underwriting — Underwriting arrangements and expenses — Grounds for termination by the Hong Kong Underwriters" 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 and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of, U.S. persons, except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act.

7 December 2016

EXPECTED TIMETABLE

2016⁽¹⁾

Latest time to complete electronic applications under
White Form eIPO service through the designated
website **www.eipo.com.hk** ⁽²⁾ 11:30 a.m. on Monday,
12 December

Application lists open⁽³⁾ 11:45 a.m. on Monday,
12 December

Latest time for lodging **WHITE** and **YELLOW**
Application Forms 12:00 noon on Monday,
12 December

Latest time to give **electronic application instructions**
to HKSCC⁽⁴⁾ 12:00 noon on Monday,
12 December

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

Application lists close 12:00 noon on Monday,
12 December

Expected Price Determination Date Tuesday, 13 December

Announcement of:

- the final Offer Price;
- the level of applications in the Hong Kong Public Offering;
- the level of indications of interest in the International Offering; and
- the basis of allotment of the Hong Kong Offer Shares will be published (a) in The Standard (in English) and the Hong Kong Economic Journal (in Chinese) and; (b) on our website at **www.msdsn.com** ⁽⁵⁾ and the website of the Stock Exchange at **www.hkexnews.hk** ⁽⁶⁾ on or before Friday, 16 December

Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) will be available through a variety of channels as described in the section headed "How to apply for the Hong Kong Offer Shares — Publication of results" in this prospectus from Friday, 16 December

EXPECTED TIMETABLE

Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) will be available at **www.iporesults.com.hk** with a "search by ID" function Friday, 16 December

Share certificates in respect of wholly or partially successful applications will be dispatched or deposited into CCASS on or before⁽⁷⁾ Friday, 16 December

Refund cheques (if applicable) will be dispatched on or before^(7 and 9) Friday, 16 December

White Form e-Refund Payment Instructions will be dispatched on or before^(7, 8 and 9) Friday, 16 December

Dealings in Shares on the Stock Exchange to commence at 9:00 a.m. on Monday, 19 December

- (1) All dates and times refer to Hong Kong dates and local time unless otherwise stated.
- (2) If you have already submitted your application through the designated website at **www.eipo.com.hk** and obtained an application 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. You will not be permitted to submit your application through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications.
- (3) If there is a tropical cyclone warning signal number 8 or above, or a "black" rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 12 December 2016, the application lists will not open on that day. See "How to apply for the Hong Kong Offer Shares — Effect of bad weather on the opening of the application lists" in this prospectus.
- (4) Applicants who apply for the Hong Kong Offer Shares by giving electronic application instructions to HKSCC should see "How to apply for the Hong Kong Offer Shares — Applying by giving electronic application instructions to HKSCC via CCASS" in this prospectus.
- (5) None of the website or any of the information contained on the website forms part of this prospectus.
- (6) The announcement will be available for viewing on the Stock Exchange's website at **www.hkexnews.hk**.
- (7) Applicants who apply for 1,000,000 or more Hong Kong Offer Shares and have provided all required information may collect refund cheques (where applicable) and Share certificates (where applicable) in person from the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Friday, 16 December 2016. Applicants being individuals who opt for personal collection must not authorize any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives each bearing a letter of authorisation from his corporation stamped with the corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar. Uncollected refund cheques and Share certificates will be dispatched promptly by ordinary post to the addresses as specified in the applicants' Application Forms at the applicants' own risk. Details of the arrangements are set out in "How to apply for the Hong Kong Offer Shares" in this prospectus.

EXPECTED TIMETABLE

- (8) Applicants who apply through the White Form eIPO service by paying the application monies through a single bank account, may have e-Refund payment instructions (if any) dispatched to their application payment bank account. Applicants who apply through the White Form eIPO service by paying the application monies through multiple bank accounts, may have refund cheques sent to the address specified in their application instructions to the designated White Form eIPO Service Provider by ordinary post and at their own risk.
- (9) White Form e-Refund Payment Instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the Offer Price is less than the price payable on application.

The Share certificates will only become valid certificates of title provided that the Global Offering has become unconditional in all respects and neither of the Hong Kong Underwriting Agreement nor the International Underwriting Agreement is terminated in accordance with its respective terms prior to 8:00 a.m. on the Listing Date. The Listing Date is expected to be on or about Monday, 19 December 2016. Investors who trade the Shares on the basis of publicly available allocation details prior to the receipt of Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

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This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong 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 or the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization 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 what is 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 Sole Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors or advisors, or any other person or party involved in the Global Offering. Information contained on our website, located at www.msdsn.com, does not form part of this prospectus.

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SUMMARY

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

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

BUSINESS OVERVIEW

Our principal business is the manufacture and sale of plywood and biomass wood pellets (木製生物質顆粒) in the PRC, and both of which are made from wood. Our plywood products are mainly made of poplars, and consist of furniture board (家具板), ecological plywood (生態板) (also known as melamine faced board (三聚氰胺貼面板)) and hardwood multi-layered board (實木多層板), while we use wood residues (also known as sanshengwu (三剩物)) to produce our biomass wood pellets.

The history of our business and products is short. Our plywood products were first launched in 2011 and our biomass wood pellets were first launched in 2013. Nevertheless, we had recorded a significant growth during the Track Record Period. Our revenue amounted to approximately RMB166.1 million, RMB317.0 million, RMB380.9 million and RMB208.5 million for each of the three years ended 31 December 2013, 2014 and 2015, and six months ended 30 June 2016 respectively. Our net profits attributable to owners of the Company were approximately RMB20.3 million, RMB38.9 million, RMB45.2 million and RMB26.8 million for each of the three years ended 31 December 2013, 2014 and 2015, and six months ended 30 June 2016 respectively. The reasons for our achievement of significant growth and substantial increase in revenue and net profits during the Track Record Period were mainly due to: (a) we have employed more sales staff during the Track Record Period in promoting our products in the market, and our sales team has put effort in selling products to both new and recurring customers; (b) the increase in sizeable number of new customers referred by our existing customers; and (c) we participated in industry exhibitions, such as the China Forestry Products Trade Fair and the China International Biomass Conference, in order to promote our plywood products and biomass wood pellets to the relevant markets. The PRC economy has slowed down recently, but this does not have material adverse effect on our plywood and biomass wood pellets businesses.

During the Track Record Period, our plywood products remained as our primary revenue generator, which accounted for over 70% of our total revenue. Our plywood is generally used in furniture making and interior decoration and renovation of buildings. Although the history of our plywood is short, we emphasise on the quality control management and environmental management. In 2014, our plywood brand “Bolema (伯樂馬)” was awarded as the top 10 best brands (十佳品牌) through an online evaluation conducted by PRC timber trade website (中國木業網), and according to the Ipsos Report, the PRC timber trade website is a professional business-to-business (b2b) platform for wood products trading companies and manufacturers, which is a popular and well recognised website to wood-based panel manufacturers in the PRC. We have also successfully obtained the qualification of environmental management system “GB/T24001-2004 idt ISO14001:2004” in 2013 and the Hardwood Plywood Veneer Core Formaldehyde Emission Standard: Phase 2 (0.05 ppm) certificate of conformity under CARB requirement in 2014 for our plywood. According to the Ipsos Report, the plywood is highly fragmented and competitive with the top five companies taking about 0.65% of the share of total industry revenue, and we ranked the fourth in term of market share of total industry revenue in the PRC in 2015. Furthermore, according to the Ipsos Report, application of wood-based panels (including plywood) in decoration industry and construction industry are the two of the most key drivers of the development of wood-based panels (including plywood) manufacturing industry. These downstream industries have developed well enough to create development potential

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for the wood-based panel manufacturing industry. Our Directors are of the view that, based on the Ipsos Report and our continuously business growth during the Track Record Period, the plywood industry will continue to develop steadily, as plywood is generally considered a primary commodity, like our ecological plywood and hardwood multi-layered board, and our Group can enrich the product lines and produce higher value-added products and be more competitive when the processing technologies and production capacity are improved.

We also produce biomass wood pellets which are a relatively cleaner fuel as compared with other traditional forms of fuel, such as coal. At the beginning of the production in 2013, we used the wood residues generated from our plywood production process to produce biomass wood pellets which enabled us to maintain a cost-competitive operation structure and expanded our source of revenue. With the expansion of our biomass wood pellets business and to meet the increasing demand of our biomass wood pellets from customers, we also purchased wood residues from the suppliers near our production plant. According to the Ipsos Report, the bioenergy industry in China is still under-developed, but it is recently supported by the PRC Government, for example, the State Council released “the Biomass Development Prospect in the 12th 5-year plan 《生物質能發展“十二五”規劃》” in 2012, aiming at regulating and instructing the long-term expansion of bioenergy. According to the Ipsos Report, the biomass wood pellet made of wood is highly fragmented and competitive with the top five companies taking about 1.92% of the total market value, and we ranked the first in term of market share of the total industry revenue in the PRC in 2015. Our Directors are of the view that, the biomass energy market is still under-developed in the PRC, but with the support of the PRC Government and implementation of relevant laws and regulations in promoting bioenergy, the potential growth of biomass wood pellets business in the PRC market is still large. Furthermore, according to Energy Development Strategic Action Plan (2014-2020), the development of clean energy is encouraged, and the percentage of coal consumption should be limited to within 62% nationwide by 2020. Therefore, our Directors are of the view that, based on the Energy Development Strategic Action Plan (2014-2020), the demand for biomass wood pellets will continue to increase and the growth of biomass consumption is expected to sustain in the near future.

According to the Ipsos Report, the plywood products industry in the PRC has medium entry barriers. Nevertheless, to overcome the entry barriers, our production base is strategically located in Sunsi Town, Chengwu County, Heze City, Shandong Province, as we benefit from the abundant and stable supply of poplars, with a location advantage as to easy and convenient access to the logistic city, Linyi City, for delivery of our products to the customers in Eastern China and Southern China regions, such as Anhui Province, Fujian Province, Jiangxi Province, Jiangsu Province, Shanghai, Zhejiang Province and Guangdong Province, as well as other cities in the PRC. Our Directors consider that the strategic location is one of our competitive strengths which allows us to maintain a stable supply of raw materials and with relatively lower purchase costs and transportation costs from our raw material suppliers, and further enables us to maintain the price competitiveness of our products over other competitors as well as to achieve a significant growth over a short period of time. According to the 2015 Shandong Province Forestry Industry Statistical Year Book issued by Forestry Department of Shandong Province (山東省林業廳) in June 2016, Heze City ranked first among other cities in Shandong Province in terms of production volume of wood-based materials in 2015. We are the major customer in purchasing wood-based raw materials such as poplar logs, veneers and plywood cores in Heze City, Shandong Province, and according to the Ipsos Report, our Group ranked second in terms of revenue among other plywood manufacturers in Shandong Province. Accordingly, to the best knowledge of our Directors, our Directors consider that there are no other major competitors competing with our Group for the supply of wood-based raw materials in Heze City, Shandong Province. On the other hand, our track record is limited as the history of our business is short, which cannot be an indicative factor of our future performance growth. There is no assurance that we can maintain our competitiveness and high profit margins in the future. Please refer to the paragraphs headed “Our Group has limited track record although we recorded a significant growth of our turnover and profit attributable to owners of the Company during the Track Record Period. Our turnover and

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profits may not continue to grow at the same rates in the future” and “Our biomass wood pellet business has limited track record and we cannot guarantee that we can maintain or establish a long-term relationship with our existing customers and develop a good relationship with our potential customers. If there is any decrease in our customers’ demand for biomass wood pellets or if we lose these customers, our business and results of operations may be adversely affected” in the section headed “Risk factors” for further details.

OUR BUSINESS MODEL

Our business consists of the manufacture and sale of plywood and biomass wood pellets. With respect to our plywood products, we usually confirm the purchase orders with customers on product specifications, like the size, thickness and water resistance, as well as confirm the sufficient supply of the raw materials, before we proceed to the plywood production process. It generally takes about 15 days to 30 days from the confirmation of purchase order to the delivery of our plywood products, subject to various factors such as the quantities of each order and supplies of raw materials and the specification of the plywood products. As our biomass wood pellets are produced with a standard specification, we usually produce biomass wood pellets before confirmation of purchase orders, and we can produce approximately 384 tons per day and our inventory level for finished biomass wood pellets maintains at about 7 days to 14 days.

OUR PRODUCTS

We manufacture and sell plywood and biomass wood pellets:

(i) **Plywood:**

Our plywood products are divided into the following three types:

- (a) furniture board (家具板) is widely used in furniture making, such as tables and chairs, because of its strength, appearance and low cost.
- (b) ecological plywood (生態板) (also known as melamine faced board (三聚氰胺貼面板)) is considered to have lesser adverse environmental impacts than the traditional lacquered board. For satisfying the requisite requirements for the heat pressing process for attaching the top sticker sheets, the production process of ecological plywood generally involves multiple heat pressing processes in order to achieve a higher level of smoothness of its surfaces and stricter moisture content requirements. Ecological plywood can be used in interior applications of buildings and furniture making.
- (c) hardwood multi-layered board (實木多層板) is widely used in high-quality furniture, kitchen furniture and bathroom furniture. Generally, the quality of hardwood multi-layered board is made of better quality raw materials, with a more complicated production process and stronger bonding strength.

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Production capacity, production volume and utilisation rate

Our production facilities are located in Chengwu County, Heze City, Shandong Province, with a gross floor area of approximately 47,000 sq.m. As at the Latest Practicable Date, we had one integrated production line with an annual production capacity of 149,600 m³, and 429 production employees. We typically conduct monthly review to determine the production plan for the following month. Our plywood production line operates 16 hours a day, for approximately 340 days a year.

The following table shows our annual designated production capacity, total production volume and utilisation rate of our production line during the Track Record Period:

Year ended 31 December	Annual designated production capacity (m³)	Actual production volume (m³)	Utilisation rate (%)
2013	114,240	56,231	49.2%
2014	145,744	90,964	62.4%
2015	149,600	102,786	68.7%
Six months ended 30 June	Six-month designated production capacity (m³)	Actual production volume (m³)	Utilisation rate (%)
2016	72,400	55,036	76.0%

The average utilisation rate of our plywood production line is affected by a number of factors such as the number of orders received from our customers, the types of products manufactured and our production schedule. During the Track Record Period, we had not encountered any material interruptions to our production.

(ii) Biomass wood pellets:

Our biomass wood pellets are made of wood residues (also known as sanshengwu (三剩物)) which are produced with a standard specification and relatively cleaner fuel as compared with other traditional forms of fuel, such as coal.

Production capacity, production volume and utilisation rate

We commenced production of biomass wood pellets in March 2013 at our production facilities located in Chengwu County, Heze City, Shandong Province, with a total of gross floor area of approximately 23,982 sq.m. As at the Latest Practicable Date, we had two production lines with its aggregated designed annual production capacity of 130,560 tons and 84 production employees. We typically conduct monthly review to determine the production plan for the following week. Our production line operates 16 hours a day, for approximately 340 days a year.

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The following table shows our estimated production capacity, total production volume and utilisation rate of our production lines during the Track Record Period:

	Year ended 31 December						Six months ended 30 June					
	2013			2014			2015			2016		
	Annual designated capacity (tons)	Annual production volume (tons)	Average utilisation rate	Annual designated capacity (tons)	Annual production volume (tons)	Average utilisation rate	Annual designated capacity (tons)	Annual production volume (tons)	Average utilisation rate	Six-month designated capacity (tons)	Actual production volume (tons)	Average utilisation rate
Biomass wood pellets	54,400	29,637	54.5%	130,560	80,734	61.8%	130,560	115,647	88.6%	65,280	62,766	96.1%

The average utilisation rate of our biomass wood pellets production line is affected by a number of factors, such as the number of orders received from our customers and our production schedule. During the Track Record Period, we had not encountered any material interruptions to our production.

OUR SALES AND MARKETING

During the Track Record Period, our Group experienced growth on the revenue, in particular, after the launch of biomass wood pellets. The following table sets forth the revenue breakdown by product segment during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2013	2014		2015		2015		2016		
	<i>RMB'000</i>	<i>% of RMB'000 total</i>	<i>% of RMB'000 total</i>	<i>% of RMB'000 total</i>	<i>% of RMB'000 total</i>	<i>RMB'000 (unaudited)</i>	<i>% of RMB'000 total</i>	<i>% of RMB'000 total</i>	<i>% of RMB'000 total</i>	
<i>Plywood</i>										
Furniture board	109,955	66.2	193,154	60.9	212,471	55.8	86,806	53.4	87,368	41.9
Ecological plywood	31,928	19.2	17,323	5.5	44,329	11.6	20,497	12.6	44,842	21.5
Hardwood multi-layered board	7,289	4.4	40,027	12.6	27,404	7.2	13,404	8.3	27,006	13.0
Subtotal:	149,172	89.8	250,504	79.0	284,204	74.6	120,707	74.3	159,216	76.4
<i>Biomass wood pellets</i>	16,913	10.2	66,518	21.0	96,656	25.4	41,755	25.7	49,243	23.6
Total:	<u>166,085</u>	<u>100.0</u>	<u>317,022</u>	<u>100.0</u>	<u>380,860</u>	<u>100.0</u>	<u>162,462</u>	<u>100.0</u>	<u>208,459</u>	<u>100.0</u>

For more information, please refer to the Section headed “Business — Customers, sales and marketing — Customers” in this prospectus.

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OUR SUPPLIERS

In relation to our plywood products, our key raw materials are poplar logs, poplar plywood cores and veneers. We purchase the poplar logs, plywood cores and veneers that are primarily made of poplar from local farmers and veneers manufacturers in the PRC. The key raw material for the production of our biomass wood pellets is wood residues. We are able to utilise wood residues from our own plywood production and purchase additional wood residues from local wooden floor factories and wooden furniture factories. Please refer to the section headed “Business — Procurement, raw materials and suppliers” in this prospectus for further details.

We have a well-managed procurement system and strict supplier selection process, including qualification authentication, laboratory testing, production examinations as well as annual review and reassessment. For each of the three years ended 31 December 2013, 2014 and 2015, and six months ended 30 June 2016, the purchases from our five largest suppliers accounted for approximately 14.9%, 37.1%, 32.7% and 30.3% of our total purchases respectively, while purchases from our largest supplier accounted for approximately 5.5%, 11.9%, 8.6% and 7.0% of our total purchases, respectively.

COMPETITIVE STRENGTHS AND BUSINESS STRATEGIES

Please see sections headed “Business — Our competitive strengths” and “Business — Our business strategies” in this prospectus.

SHAREHOLDERS INFORMATION

Our Controlling Shareholders

On 3 March 2016, in preparation for the Listing, Mr. Ke, Mr. Cai, Mr. Wang, Mr. Lin, Mr. Wu and Ms. Wu entered into the Concert Party Agreement. The purpose of entering into the Concert Party Agreement is to confirm that the Concert Parties will be acting together in the control of our Company at meetings of our Board (to the extent that they are Directors) and at general meetings (to the extent that they are Shareholders). Further information on the terms and conditions of the Concert Party Agreement is set forth in the section headed “Relationship with Controlling Shareholders — Summary of the Concert Party Agreement” in this prospectus. By virtue of the Concert Party Agreement, all Concert Parties are our Controlling Shareholders, who are Mr. Ke, Mr. Cai, Mr. Wang, Mr. Lin, Mr. Wu and Ms. Wu. Immediately following the completion of the Global Offering and the Capitalisation Issue (taking no account of the Shares which may be issued pursuant to the exercise of the Over-allotment Option and Shares to be issued upon exercise of options which may be granted under the Share Option Scheme), our Controlling Shareholders will be entitled to exercise or control the exercise of approximately 47.229% of the total issued share capital of our Company.

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Pre-IPO investments

In order to broaden our shareholders' base and leverage on the investors' experiences to facilitate our Group's expansion, each of Mr. Ke, Mr. Cai, Mr. Wang, Mr. Lin, Mr. Wu and Ms. Wu entered into the agreements (the "**Pre-IPO Agreements**") with the Pre-IPO Investors whereby Mr. Ke, Mr. Cai, Mr. Wang, Mr. Lin, Mr. Wu and Ms. Wu agreed to transfer Shares to the relevant Pre-IPO Investors. Pursuant to the Pre-IPO Agreements, the shares to be transferred are the shares in the listing vehicle upon completion of the Reorganisation. Upon completion of the Share transfers, and immediately following the completion of the Global Offering and the Capitalisation Issue (taking no account of the Shares which may be issued pursuant to the exercise of the Over-allotment Option and shares to be issued upon exercise of options which may be granted under the Share Option Scheme), each of Bliss International, Sea Dragon, Xing Ying Fu Li, and Ocean Fu will hold approximately 9.375%, 8.890%, 4.8% and 4.706%, respectively, of the total issued share capital of our Company.

The considerations payable under the Pre-IPO Agreements were reached by the relevant parties by arm's length negotiations and with reference to the expected net profits of the listing vehicle for the year of 2013 and an agreed price-to-earnings ratio (for the Pre-IPO Agreements with Hong Kong Investments, Sea Dragon and Ocean Fu, respectively) or the net profits of the listing vehicle for the year of 2014 and growth in revenues of the listing vehicle in the first half of the year 2014 (for the Pre-IPO Agreement with Xing Ying Fu Li). There is no guaranteed discount to the Offer Price. The Pre-IPO Investors confirmed that the consideration paid by them under the Pre-IPO Agreements was irrevocable.

The Pre-IPO Agreements provide that if the Listing fails to take place by 31 December 2016, each of the transferors has the pre-emptive rights to buy back the Shares transferred at the then market value (or the valuation amount of the shares) but in any event, the buy back price shall not be less than the consideration paid by the transferees under the Pre-IPO Agreements. No special right was granted to the Pre-IPO Investors under the Pre-IPO Agreements.

For further information of such pre-IPO investments, please refer to the section headed "History, development and reorganisation — Pre-IPO investments" in this prospectus.

SUMMARY

SUMMARY OF MAJOR FINANCIAL AND OPERATING INFORMATION

Selected consolidated statements of comprehensive income

	Year ended 31 December			Six months ended 30 June	
	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>	
Revenue	166,085	317,022	380,860	162,462	208,459
Cost of sales	<u>(131,041)</u>	<u>(241,985)</u>	<u>(297,370)</u>	<u>(126,107)</u>	<u>(162,513)</u>
Gross profit	35,044	75,037	83,490	36,355	45,946
Selling and distribution expenses	(1,720)	(8,222)	(2,946)	(2,399)	(491)
Administrative expenses	(8,090)	(11,981)	(20,575)	(7,312)	(10,846)
Other income	2,602	2,705	7,304	2,979	4,854
Other losses	<u>(68)</u>	<u>(327)</u>	<u>(178)</u>	<u>(12)</u>	<u>(225)</u>
Operating profit	27,768	57,212	67,095	29,611	39,238
Finance income	3	17	1	1	3
Finance expenses	<u>(599)</u>	<u>(4,748)</u>	<u>(5,428)</u>	<u>(2,968)</u>	<u>(2,192)</u>
Finance expenses, net	(596)	(4,731)	(5,427)	(2,967)	(2,189)
Profit before income tax	27,172	52,481	61,668	26,644	37,049
Income tax expense	<u>(6,842)</u>	<u>(13,555)</u>	<u>(16,446)</u>	<u>(7,019)</u>	<u>(10,293)</u>
Profit after tax	20,330	38,926	45,222	19,625	26,756
Comprehensive income	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total comprehensive income for the year, attributable to owners of the Company	<u>20,330</u>	<u>38,926</u>	<u>45,222</u>	<u>19,625</u>	<u>26,756</u>

Revenue

Our Group experienced growth on the revenue, amounting approximately RMB166.1 million, RMB317.0 million and RMB380.9 million respectively for the years ended 31 December 2013, 2014 and 2015 and approximately RMB208.5 million for the six months ended 30 June 2016. The increase in the overall revenue was mainly due to the increase in the sales of both plywood products and biomass wood pellets.

SUMMARY

Gross profit and profit margin

The following table sets forth our gross profit margin by product type for the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2013		2014		2015		2015		2016	
	Gross Gross profit profit margin RMB'000	%	Gross Gross profit profit margin RMB'000	%	Gross Gross profit profit margin RMB'000	%	Gross Gross profit profit margin RMB'000	%	Gross Gross profit profit margin RMB'000	%
	<i>(unaudited)</i>									
<i>Plywood</i>										
Furniture board	20,162	18.3	33,765	17.5	39,263	18.5	15,813	18.2	16,255	18.6
Ecological plywood	5,573	17.5	3,058	17.7	8,347	18.8	3,922	19.1	9,316	20.8
Hardwood multi-layered board	<u>1,509</u>	20.7	<u>8,417</u>	21.0	<u>6,003</u>	21.9	<u>2,902</u>	21.7	<u>6,174</u>	22.9
Sub-total:	<u>27,244</u>	18.3	<u>45,240</u>	18.1	<u>53,613</u>	18.9	<u>22,637</u>	18.8	<u>31,745</u>	19.9
<i>Biomass wood pellets</i>	<u>7,800</u>	46.1	<u>29,797</u>	44.8	<u>29,877</u>	30.9	<u>13,718</u>	32.9	<u>14,201</u>	28.8
Total:	<u>35,044</u>	21.1	<u>75,037</u>	23.7	<u>83,490</u>	21.9	<u>36,355</u>	22.4	<u>45,946</u>	22.0

Our gross profit increased by approximately RMB40.0 million, or approximately 114.1% from approximately RMB35.0 million for the year ended 31 December 2013 to approximately RMB75.0 million for the year ended 31 December 2014. Our gross profit further increased by approximately RMB8.5 million, or approximately 11.3%, to approximately RMB83.5 million for the year ended 31 December 2015. Our gross profit amounted to approximately RMB45.9 million for the six months ended 30 June 2016. The increase in the gross profit during the Track Record Period is generally in line with the growth in revenue of our Group.

For biomass wood pellets, we changed our delivery policy so that no more delivery service was arranged for the customers starting March 2015. Such change in delivery arrangement was mainly due to feedbacks from some of our customers that they have preferences in deploying their own transportation teams for a more cost effective delivery of our biomass wood pellets to their designated locations. Accordingly, some delivery expenses have been saved and we charged a lower price to the customers starting March 2015, resulting in a drop in the selling price and gross profit margins for our biomass wood pellets for the year ended 31 December 2015 and the six months ended 30 June 2016.

SUMMARY

Selected consolidated statements of financial position

	As at 31 December			As at
	2013	2014	2015	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets	114,266	135,923	130,655	127,735
Current assets	<u>70,668</u>	<u>153,748</u>	<u>105,219</u>	<u>167,211</u>
Total assets	<u>184,934</u>	<u>289,671</u>	<u>235,874</u>	<u>294,946</u>
Current liabilities	141,383	196,512	97,886	131,121
Net current (liabilities)/assets	<u>(70,715)</u>	<u>(42,764)</u>	<u>7,333</u>	<u>36,090</u>
Total assets less current liabilities	<u>43,551</u>	<u>93,159</u>	<u>137,988</u>	<u>163,825</u>
Non-current liabilities	494	5,278	1,575	656
Total liabilities	<u>141,877</u>	<u>201,790</u>	<u>99,461</u>	<u>131,777</u>
Total equity	<u>43,057</u>	<u>87,881</u>	<u>136,413</u>	<u>163,169</u>
Total equity and liabilities	<u>184,934</u>	<u>289,671</u>	<u>235,874</u>	<u>294,946</u>

We recorded net current liabilities of approximately RMB70.7 million and RMB42.8 million as at 31 December 2013 and 2014, net current assets of approximately RMB7.3 million as at 31 December 2015 and approximately RMB36.1 million as at 30 June 2016. The net current liabilities of our Group as at 31 December 2013 and 2014 were mainly attributable to capital investments in the production plants for both plywood and biomass wood pellet products. For further details of the current assets and liabilities of our Group, please refer to the section headed “Financial information — Net current liabilities/assets” in this prospectus.

SUMMARY

Selected consolidated statements of cash flows

	Year ended 31 December			Six months ended 30 June	
	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 (used in)/generated from operating activities	(20,455)	(5,737)	101,242	96,753	(20,352)
Net cash used in investing activities	(47,422)	(15,530)	(25,031)	(9,549)	(1,734)
Net cash generated from/(used in) financing activities	71,028	19,721	(69,964)	(76,512)	21,405
Net increase/(decrease) in cash and cash equivalents	3,151	(1,546)	6,247	10,692	(681)
Cash and cash equivalents at beginning of year	1,154	4,305	2,759	2,759	9,006
Cash and cash equivalents at end of year	<u>4,305</u>	<u>2,759</u>	<u>9,006</u>	<u>13,451</u>	<u>8,325</u>

Major financial ratios

	Year ended 31 December			Six months ended
	2013	2014	2015	30 June
	2013	2014	2015	2016
Return on equity ⁽¹⁾	47.2%	44.3%	33.2%	16.4%
Return on total assets ⁽²⁾	11.0%	13.4%	19.2%	9.1%
Interest coverage ⁽³⁾	46.6	12.1	12.4	17.9
	As at 31 December			As at
	2013	2014	2015	30 June
	2013	2014	2015	2016
Current ratio ⁽⁴⁾	50.0%	78.2%	107.5%	127.5%
Quick ratio ⁽⁵⁾	27.6%	65.9%	72.2%	91.7%
Gearing ratio ⁽⁶⁾	242.4%	143.8%	37.2%	44.5%
Debt-to-equity ratio ⁽⁷⁾	232.4%	140.7%	30.6%	39.4%

Notes:

- (1) Return on equity is calculated by dividing net profit of each of the financial years by total equity as at the end of each of the financial years or period.
- (2) Return on total assets is calculated by dividing net profit of each of the financial years by total asset as at the end of each of the financial years or period.

SUMMARY

- (3) Interest coverage is calculated by profit before interest and tax divided by interest.
- (4) Current ratio is calculated by dividing current assets by current liabilities of each of the financial years or period.
- (5) Quick ratio is calculated by dividing current asset (net of inventories) by current liabilities of each of the financial years or period.
- (6) Gearing ratio is calculated by dividing total debt by total equity as at the end of each of the financial years or period.
- (7) Debt-to-equity ratio is calculated by dividing net debt (including an amount due to related parties, bank borrowings and obligation under finance lease net of cash and cash equivalent) by total equity as at the end of each of the financial years or period.

For further information on the major financial ratios, please refer to the section headed “Financial information — Major financial ratios” in this prospectus.

DIVIDEND

We do not have any pre-determined dividend distribution ratio. The declaration of future dividends will be subject to our Director’s decision and will depend on, among other things, our earnings, financial condition, cash requirements and availability, and any other factors that our Directors may consider relevant. Any final dividend for a financial year will be subject to our shareholders’ approval.

During the Track Record Period and up to the Latest Practicable Date, we did not declare nor pay any dividends to the Shareholders.

OFFER STATISTICS⁽¹⁾

	Based on minimum indicative Offer Price of HK\$0.60	Based on maximum indicative Offer Price of HK\$0.90
Market capitalisation of our Company ⁽²⁾	HK\$432 million	HK\$648 million
Unaudited pro forma adjusted net tangible assets per Share ⁽³⁾	HK\$0.38	HK\$0.46

Notes:

- (1) All statistics in this table are on the assumption that the Over-allotment Option is not exercised.
- (2) The calculation of market capitalisation is based on 720,000,000 Shares expected to be in issue immediately after completion of the Global Offering and the Capitalisation Issue and taking no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option.
- (3) The unaudited pro forma adjusted net tangible assets per Share are arrived after the adjustments referred to in Appendix II and on the basis that 720,000,000 Shares (including the shares in issue as of 30 June 2016, and shares that to be issued under the Global Offering and the Capitalisation Issue assuming the Global Offering was completed on 30 June 2016, but does not take into account of any shares which may be issued upon the exercise of the over-allotment option).

USE OF PROCEEDS

We estimate that the aggregate net proceeds from the issue of new Shares (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering), assuming an Offer Price of HK\$0.75 per Share, being the mid-point of the proposed Offer Price range of HK\$0.60 to HK\$0.90 per Share, will be approximately HK\$124.5 million.

SUMMARY

We currently intend to apply these net proceeds for the following purposes:

- approximately 60.7% or HK\$75.5 million (equivalent to approximately RMB65.1 million) will be used to finance the expansion of our production facilities to install an additional production line for each of plywood and biomass wood pellets, of which:
 - approximately 32.1% or HK\$39.9 million (equivalent to approximately RMB34.4 million) will be used for installation of one production line for plywood, including purchases of production equipment;
 - approximately 28.6% or HK\$35.6 million (equivalent to approximately RMB30.7 million) will be used for installation of one production line for biomass wood pellets, including purchases of production equipment;
- approximately 14.9% or HK\$18.6 million (equivalent to approximately RMB16.0 million) will be used to finance the expansion of our sales and marketing networks for better growth of our sales in both plywood and biomass wood pellet businesses, including set up the sales and marketing office in five sales points in China;
- approximately 4.2% or HK\$5.2 million (equivalent to approximately RMB4.5 million) will be used to fund our promotional activities for our brand building and improving market awareness of our plywood and biomass pellet products;
- approximately 5.6% or HK\$7.0 million (equivalent to approximately RMB6.0 million) will be used to fund our research and development activities, including purchasing research equipment and materials, and also developing projects with universities for product quality improvement;
- approximately 4.6% or HK\$5.7 million (equivalent to approximately RMB4.9 million) will be used to fund our technical support team in order to assist our new and long term customers in modification of their existing equipment to transform from using the old energy fuel to using our biomass wood pellets;
- approximately 10% or HK\$12.5 million (equivalent to approximately RMB10.8 million) will be used for working capital and other general corporate purposes.

To the extent that the net proceeds from the issue of Shares are not sufficient to fund the uses set forth above, we intend to fund the balance through a variety of means including cash generated from our operations and bank financing. We currently believe that the net proceeds from the issue of Shares, when combined with such alternate sources of financing, are sufficient for the uses set forth above. Please refer to the sections headed “Future plans and use of proceeds — Use of proceeds” and “Business — Our business strategies” in this prospectus for further details.

RISK FACTORS

There are risks associated with our business and investment in the Global Offering including but not limited to risks relating to our general business operations, risks relating to our plywood business and industry and risks relating to our biomass wood pellet business and industry. We summarise below certain risks that we believe are most material to our business, financial conditions, results of operations and future prospects:

- Our Group has limited track record although we recorded a significant growth of our turnover and profit attributable to owners of the Company during the Track Record Period. Our turnover and profits may not continue to grow at the same rates in the future.

SUMMARY

- If we are unable to collect trade receivables in a timely manner, we would have to record impairment losses and our financial condition and results of operations may be adversely affected.
- Any increase in our labour costs would reduce our profit margins, profitability and liquidity, as well as materially and adversely affect our financial condition and results of operations, and labour shortage could disrupt our production.
- Our non-compliance with relevant social insurance and housing provident fund contribution laws and regulations in the PRC might lead to imposition of fines and penalties.
- The plywood products industry is intensely competitive.
- Our biomass wood pellet business has limited track record and we cannot guarantee that we can maintain or establish a long-term relationship with our existing customers and develop a good relationship with our potential customers. If there is any decrease in our customers' demand for biomass wood pellets or if we lose these customers, our business and results of operations may be adversely affected.
- The biomass wood pellets industry we operate in is highly competitive.
- If the biomass wood pellets market does not grow at a rate as we expect or if we fail to keep pace with biomass wood pellets production technological changes, our business, results of operations and financial condition may be adversely affected.

You should read the entire section headed “Risk factors” in this prospectus for further details before you decide to invest in the Offer Shares.

SUMMARY OF NON-COMPLIANCE INCIDENTS

During the Track Record Period, we had not fully complied with certain laws and regulations in respect of contribution to certain employees benefit fund in respect of social insurance and housing provident fund. All such non-compliance incidents have not resulted, and are not expected to result, in any material impact on our financial and operational aspects. Please refer to the section headed “Business — Legal proceedings and compliance — Non-compliance” in this prospectus for detailed information of these non-compliance incidents.

RECENT DEVELOPMENT

We had a steady growth on our businesses on sales of plywood products and biomass wood pellets for the ten months ended 31 October 2016. There have been no significant changes on the selling prices of our plywood products and biomass wood pellets charged to our customers since the end of the Track Record Period and up to the Latest Practicable Date. In addition, the cost of raw materials and other production costs also remained at similar levels since the end of the Track Record Period and up to the Latest Practicable Date.

Sales volume of plywood products increased by approximately 11.2% from approximately 84,199 cubic meters for the ten months ended 31 October 2015 to approximately 93,592 cubic meters for the ten months ended 31 October 2016. Sales volume of biomass wood pellets increased by approximately 8.8% from approximately 88,113 tons for the ten months ended 31 October 2015 to approximately 95,860 tons for the ten months ended 31 October 2016. Such increase in sales volumes were primarily due to the purchase orders placed by customers that were secured during the second half of the year ended 31 December 2015, as well as some customers that have been newly secured during the ten months ended 31 October 2016.

SUMMARY

As at the Latest Practicable Date, all of our inventories balance as at 30 June 2016 had been subsequently consumed and sold, approximately 88.4% of the trade receivables balance as at 30 June 2016 has been subsequently settled, and approximately 94.0% of the trade payables balance as at 30 June 2016 had been subsequently settled.

Our Directors confirm that there have been no material adverse changes in the financial or trading position or prospects of our Group subsequent to the Track Record Period and up to the date of this prospectus.

LISTING EXPENSES

The estimated total listing fees for our Global Offering, primarily consists of fees paid or payable to professional parties and underwriting fees and commission, are approximately RMB28.8 million (based on an Offer Price of HK\$0.75 per Share, being the mid-point of the estimated Offer Price range of HK\$0.60 per Share and HK\$0.90 per Share, and assuming the Over-allotment Option is not exercised). During the Track Record Period, we incurred listing expenses of approximately RMB 13.7 million, of which approximately RMB7.5 million was recognised as general expenses for the year ended 31 December 2015, approximately RMB3.2 million was recognised as general expenses for the six months ended 30 June 2016 and approximately RMB3.0 million was capitalised as deferred expenses as at 30 June 2016 that are expected to be charged against equity upon listing under the relevant accounting standards. We expect to incur additional listing expenses of approximately RMB15.1 million, of which approximately RMB5.9 million is expected to be recognised as general expenses for the period from 1 July 2016 to 31 December 2016 and approximately RMB9.2 million will be capitalised as deferred expenses that are expected to be charged against equity upon successful Listing.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position since 30 June 2016 and no event has occurred since 30 June 2016 which would materially affect the information shown in our financial information included in the Accountant's Report set out in Appendix I to this prospectus.

DEFINITIONS

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

“affiliate”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s) or, where the context so requires, any of them
“Articles of Association” or “Articles”	the articles of association of our Company, conditionally adopted by the then Shareholders on 25 November 2016 to take effect on the Listing Date, a summary of certain provisions of which is set out in Appendix IV to this prospectus, and as amended from time to time
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Bliss International”	Bliss International Investment Company Limited (萬川國際投資有限公司), a company incorporated in the BVI on 10 August 2015 and wholly-owned by Ms. Cheung Yung Yung, an Independent Third Party
“Board”	the board of Directors
“Business Day”	any day (other than a Saturday, Sunday or public holiday in Hong Kong and any day on which a tropical cyclone warning signal No. 8 or above or a “black” rainstorm warning signal is issued or remains issued between 9:00 a.m. and 12:00 noon and is not cancelled at or before 12:00 noon) on which banks are generally open for business in Hong Kong throughout their normal business hours
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of Shares to be made upon capitalisation of part of the share premium account of the Company referred to in the paragraph headed “Resolutions in writing of all our Shareholders passed on 25 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 clearing participant or general clearing participant

DEFINITIONS

“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
“close associate(s)”	has the meaning ascribed to it under the Listing Rules
“Companies Law”	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance of Hong Kong (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 of Hong Kong (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	Da Sen Holdings Group Limited (大森控股集團有限公司), an exempted company incorporated on 24 December 2015 with limited liability under the laws of the Cayman Islands
“Concert Parties”	Mr. Ke, Mr. Cai, Mr. Wang, Mr. Lin, Mr. Wu and Ms. Wu, being our Controlling Shareholders and parties to the Concert Party Agreement, and each a “Concert Party”
“Concert Party Agreement”	the agreement dated 3 March 2016 and entered into amongst the Concert Parties, further information on which is set forth in the section headed “Relationship with Controlling Shareholders — Summary of the Concert Party Agreement” in this prospectus
“connected person”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholders”	has the meaning ascribed thereto under the Listing Rules and, in the context of this prospectus, means the controlling shareholders of our Company immediately after the Global Offering and the Capitalisation Issue, being each member of Mr. Ke, Mr. Cai, Mr. Wang, Mr. Lin, Mr. Wu and Ms. Wu
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“Dasen (HK)”	Dasen (Hong Kong) Holdings Company Limited (大森(香港)控股有限公司), a company incorporated in Hong Kong on 5 July 2012, and is our wholly-owned subsidiary
“Dasen (Heze)”	Dasen (Heze) Biomass Energy Limited* (大森(荷澤)生物質能源有限公司), a company established in the PRC on 1 November 2012, and is our indirect wholly-owned subsidiary
“Deed of Non-competition”	the deed of non-competition dated 25 November 2016 executed by our Controlling Shareholders in favour of our Company, particulars of which are set out in the section headed “Relationship with Controlling Shareholders — Deed of Non-competition” in this prospectus
“Director(s)”	the director(s) of our Company
“Global Offering”	the Hong Kong Public Offering and the International Offering
“GREEN Application Form(s)”	the application form(s) to be completed by White Form eIPO Service Provider Computershare Hong Kong Investor Services Limited
“Group”, “our Group”, “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 business carried on by such subsidiaries or (as the case may be) their predecessors
“Heroic Group”	Heroic Group Limited (雄英集團有限公司), a company incorporated in the BVI on 11 November 2013 and is our wholly-owned subsidiary
“HKFRSs”	Hong Kong Financial Reporting Standards
“HKSCC”	Hong Kong Securities Clearing Company 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 dollars”, “HK dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

DEFINITIONS

“Hong Kong Investments”	Hong Kong Investments Group Limited (香港投資集團有限公司), a company incorporated in the BVI on 3 January 2006 and wholly-owned by Mr. Cheung Chi Mang, an Independent Third Party
“Hong Kong Public Offering”	the offer of Hong Kong Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price, on and subject to the terms and conditions described in this prospectus and the Application Forms
“Hong Kong Offer Shares”	the 18,000,000 Shares (subject to reallocation) being offered by us for subscription pursuant to the Hong Kong Public Offering
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Underwriters”	the several underwriters of the Hong Kong Public Offering listed in the section titled “Underwriting — Hong Kong Underwriters”
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 6 December 2016 relating to the Hong Kong Public Offering and entered into by, among others, our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Hong Kong Underwriters
“IFRS”	International Financial Reporting Standards
“Independent Third Party(ies)”	a party which is not connected (as defined in the Listing Rules) to the directors, substantial shareholders or chief executive of our Company or our subsidiaries and their respective associates
“insignificant subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“International Offer Shares”	the 162,000,000 Shares initially being offered by us for subscription at the Offer Price under the International Offering, subject to re-allocation and the Over-allotment Option as described in the section headed “Structure of the Global Offering”
“International Offering”	the conditional placing by the International Underwriters of the International Offer Shares with institutional and professional investors and other investors expected to have a sizeable demand for our Shares, as further described in the section headed “Structure of the Global Offering”
“International Underwriters”	the several underwriters of the International Offering expected to enter into the International Underwriting Agreement to underwrite the International Offering

DEFINITIONS

“International Underwriting Agreement”	the International Underwriting Agreement relating to the International Offering and to be entered into among us and the International Underwriters on or about the Price Determination Date
“Ipsos”	Ipsos Business Consulting Limited which is an industry consultant engaged by our Company to prepare the Ipsos Report and an Independent Third Party
“Ipsos Report”	a report prepared by Ipsos regarding the plywood manufacturing and biomass wood pellet industry in China and commissioned by our Company
“Joint Bookrunners”	China Industrial Securities International Capital Limited and GF Securities (Hong Kong) Brokerage Limited
“Joint Lead Managers”	China Industrial Securities International Capital Limited, Gransing Securities Co., Limited, Head & Shoulders Securities Limited, Sinolink Securities (Hong Kong) Company Limited, SPDB International Capital Limited, Yicko Securities Limited and Zhongtai International Securities Limited
“Latest Practicable Date”	28 November 2016 being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Listing”	the listing of our Shares on the Main Board of the Stock Exchange
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date on which 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 from time to time)
“Main Board”	the stock market operated by the Stock Exchange, which excludes the Growth Enterprise Market of the Stock Exchange and the options market
“Mei Sem (HK)”	Mei Sem (Hong Kong) Holding Co., Limited (美森(香港)控股有限公司), a company incorporated in Hong Kong on 31 December 2010, and is our wholly-owned subsidiary

DEFINITIONS

“Meisen (Shandong)”	Meisen (Shandong) Wood Limited* (美森(山東)木業有限公司) (formerly known as Chengwu Guangda Wood Limited* (成武光達木業有限公司) and Chengwu Meisen Wood Limited* (成武美森木業有限公司), a company established in the PRC on 19 April 2004, and is our indirect wholly-owned subsidiary
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company, as amended from time to time
“Mr. Ke”	Mr. Ke Mingcai (柯明財), our Chairman, executive Director, one of our Controlling Shareholders and brother-in-law of Mr. Cai
“Mr. Cai”	Mr. Cai Jinxu (蔡金旭), one of our Controlling Shareholders and brother-in-law of Mr. Ke
“Mr. Wang”	Mr. Wang Songmao (王松茂), our chief executive officer, executive Director and one of our Controlling Shareholders
“Mr. Lin”	Mr. Lin Qingxiong (林清雄), one of our Controlling Shareholders
“Mr. Wu”	Mr. Wu Shican (吳仕燦), our executive Director and one of our Controlling Shareholders
“Ms. Wu”	Ms. Wu Haiyan (吳海燕), one of our Controlling Shareholders and the spouse of Mr. Zhang
“Mr. Zhang”	Mr. Zhang Ayang (張啊陽), our executive Director and the spouse of Ms. Wu
“MOFCOM”	the Ministry of Commerce of the PRC
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
“Ocean Fu”	Ocean Fu Enterprises Ltd. (海富企業有限公司), a company incorporated in the BVI on 2 January 2013 and wholly-owned by Mr. Yeung Chi Choi, an Independent Third Party
“Offer Price”	the maximum Hong Kong dollar price per Hong Kong Offer Shares (exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee) at which the Hong Kong Offer Shares are to be subscribed for pursuant to the Hong Kong Public Offering, to be determined as further described in section headed “Structure of the Global Offering” in this prospectus

DEFINITIONS

“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares, together (where applicable) with any Shares issued pursuant to the Over-allotment Option
“Over-allotment Option”	the option we will grant to the Sole Global Coordinator on behalf of the International Underwriters, exercisable by the Sole Global Coordinator on behalf of the International Underwriters pursuant to the International Underwriting Agreement at any time for up to 30 days after the last day for lodging of applications under the Hong Kong Public Offering, to require us to issue up to an aggregate of 27,000,000 additional Shares, representing 15% of the initial Offer Shares, at the Offer Price, to cover over-allocations in the International Offering, if any, details of which are described in the section headed “Structure of the Global Offering — Over-allotment Option — Stabilisation”
“PBOC”	People’s Bank of China (中國人民銀行), the central bank of China
“PRC” or “China”	the People’s Republic of China and, except where the context requires and only for the purpose of this prospectus, references in this prospectus to the PRC or China do not include Taiwan, Hong Kong or the Macao Special Administrative Region of the PRC
“PRC Government”	the central government of China and its political subdivisions, including provincial, municipal and other regional or local government bodies or, as the context requires, any of them
“PRC Legal Advisers”	Jingtian & Gongcheng, the legal advisers to our Company as to PRC law
“Pre-IPO Investor(s)”	Hong Kong Investments, Sea Dragon, Xing Ying Fu Li and Ocean Fu and each a “Pre-IPO Investor”. See “History, development and reorganisation — Pre-IPO investments” for details of their respective shareholding in our Company upon completion of the Listing
“Price Determination Date”	the date on which the Offer Price is fixed for the purposes of the Global Offering, which is expected to be on or about Tuesday, 13 December 2016 but no later than Thursday, 15 December 2016
“Regulation S”	Regulation S under the U.S. Securities Act

DEFINITIONS

“Reorganisation”	the reorganisation arrangements we have undergone in preparation for the listing of the Shares on the Stock Exchange, as described in the section headed “History, development and reorganisation — Reorganisation” in this prospectus
“RMB” or “Renminbi”	Renminbi Yuan, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC
“SAIC”	State Administration for Industry and Commerce of the PRC
“SCNPC”	Standing Committee of the National People’s Congress of the PRC
“Sea Dragon”	Sea Dragon Investments Limited (海龍投資有限公司), a company incorporated in the BVI on 23 May 2006 and wholly-owned by Wong Yan Kong, an Independent Third Party
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary shares issued by our Company, with a nominal value of HK\$0.01 each
“Share Option Scheme”	the share option scheme conditionally approved by our Company on 25 November 2016, the principal terms of which are summarised under the section headed “Other Information — Share Option Scheme” in Appendix V to this prospectus
“Shareholder(s)”	holder(s) of our Shares
“Sole Global Coordinator”	China Industrial Securities International Capital Limited, a licensed corporation to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the sole sponsor to the Global Offering
“Sole Sponsor”	China Industrial Securities International Capital Limited, a licensed corporation to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the sole sponsor to the Global Offering

DEFINITIONS

“sq.m.”	square metre(s)
“Stabilising Manager”	China Industrial Securities International Capital Limited
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between the Stabilising Manager (or its affiliates acting on its behalf) and Mr. Ke on or about the Price Determination Date
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it in section 2 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance
“substantial shareholder”	a person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any of our general meetings
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Buy-back issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016
“Twelfth Five-Year Plan”	a series of economic development initiatives established by the PRC government for the five years from 2011 to 2015 (《中華人民共和國國民經濟和社會發展十二五規劃綱要》)
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“WHITE Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be issued in the applicant’s own name
“White Form eIPO”	the application of Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO at www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited

DEFINITIONS

“Xing Ying Fu Li”	Xing Ying Fu Li Limited (興盈複利有限公司), a company incorporated in the BVI on 19 August 2015 and owned by Mr. Xie Guo Chuan as to 62.5% and Mr. O Chun King as to 37.5%, each of them is an Independent Third Party
“YELLOW Application Form(s)”	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be deposited directly into CCASS
“%”	per cent

If there is any inconsistency between the Chinese names of the entities or enterprises established in the PRC mentioned in this prospectus and their English translations, the Chinese names shall prevail. The English translations of the Chinese names of such PRC entities are provided for identification purposes only and are marked with “*”.

GLOSSARY OF TECHNICAL TERMS

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

“biomass wood pellet(s)”	heating fuels made from compressed biomass, which can be used for power generation, as well as commercial or residential heating
“BMF”	biomass molding fuel, which are biomass briquettes or pellets made from farming and forestry surplus through size reduction, drying and compression
“CAGR”	compound annual growth rate
“CARB”	the California Air Resources Board
“GDP”	gross domestic product
“J”	joule
“plywood”	a glued wood panel made up of thin layers of veneer with the grain of adjacent layers at right angles, or of veneer in combination with a core of lumber or of reconstituted wood
“plywood core(s)”	a layer of the wood veneer, lumber or reconstituted wood which, when glued together with other layers of wood veneer, lumber or reconstituted wood with the grain of adjacent layers at right angles, form a plywood
“veneer(s)”	thin timber sheets of uniform thickness peeled by rotary lathe cutting a log, sliced or sawn from saw timber and logs
“wood residue(s)”	also known as “sanshengwu” (三剩物), waste wood materials from manufacturers of timber products such as board mill, wooden floor factories, wooden furniture factories and plywood factories

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties, including the risk factors described in this prospectus. These forward-looking statements include, but are not limited to, statements relating to:

- our operations and business prospects;
- future developments, trends and competition in industries and markets in which we operate;
- products under development or planning;
- our strategy, business plans, objectives and goals;
- our capital expenditure plans;
- our dividend distribution plans;
- the prospective financial information regarding our business;
- our future financial condition and results of operations;
- the amount and nature of, and potential for, future development of our business;
- general economic conditions; and
- changes to regulatory and operating conditions in the markets in which we operate.

In some cases we use words such as “believe”, “seek”, “intend”, “anticipate”, “estimate”, “project”, “plan”, “potential”, “will”, “may”, “should”, “expect” and other similar expressions to identify forward-looking statements. All statements other than statements of historical facts included in this prospectus, including statements regarding our future financial position, strategy, projected costs and plans and objectives of management for future operations, are forward-looking statements. Although we believe that the expectations reflected in those forward-looking statements are reasonable, we can give no assurance that those expectations will prove to have been correct, and you are cautioned not to place undue reliance on such statements.

Furthermore, these forward-looking statements merely reflect our current view with respect to future events and are not a guarantee of future performance. Our financial condition may differ materially from the information contained in the forward-looking statements as a result of a number of factors, including, without limitation, factors disclosed under “Risk factors” and elsewhere in this prospectus.

FORWARD-LOOKING STATEMENTS

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

RISK FACTORS

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

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

RISKS RELATING TO OUR BUSINESS OPERATIONS AND INDUSTRY

(i) *Risks relating to our general business operations*

Our Group has limited track record although we recorded a significant growth of our turnover and profit attributable to owners of our Company during the Track Record Period. Our turnover and profits may not continue to grow at the same rates in the future.

The history of our business is short. Our plywood products were first launched in 2011 and our biomass wood pellets were first launched in 2013. Nevertheless, we had recorded a significant growth as a result of the increase of our sales volumes and production capacity of plywood and launch of biomass wood pellets during the Track Record Period. Our revenue increased from about RMB166.1 million for the year ended 31 December 2013 to about RMB317.0 million for the year ended 31 December 2014, representing a growth of about 90.9%, and increased to RMB380.9 million for the year ended 31 December 2015, representing a growth of about 20.1% as compared with year 2014. Our profit attributable to owners of our Company also increased from about RMB20.3 million for the year ended 31 December 2013 to about RMB38.9 million for the year ended 31 December 2014, representing a growth of about 91.5%, and then increased to about RMB45.2 million for the year ended 31 December 2015, representing a growth of about 16.2%. Please refer to the section headed "Financial information — Period-to-period comparison of results of operations" in this prospectus for further analysis on our revenue during the Track Record Period.

Continued sales and profits growth depend on a variety of factors, including, among others, our ability to continue to source principal raw materials (such as poplar logs, poplar plywood cores and veneers, and wood residues) at competitive costs, increase our ability to fund our future expansion, our ability to develop new products and our ability to generate additional sales from our existing customers and develop new customers. As such, there is no assurance that we will maintain our competitiveness and high profit margins in the future which is subject to various factors. Also, the loss of, or a substantial decrease in the amount of purchases by, any one or more of our significant customers could reduce our sales, and our business and results of operations may be materially and adversely affected.

RISK FACTORS

If we are unable to collect trade receivables in a timely manner, we would have to record impairment losses and our financial condition and results of operations may be adversely affected.

We may not be able to collect our trade receivables in a timely manner and some of our customers may delay payment of the outstanding balances after due dates due to various reasons beyond our control, such as financial difficulties of the customers. As at 31 December 2013, 2014, 2015 and 30 June 2016, our trade receivables that were past due but not impaired amounted to approximately RMB1.7 million, RMB37.7 million, RMB9.9 million and RMB27.3 million, respectively. The trade receivables balance as at 31 December 2014 increased significantly, which was due to certain customers of our plywood products had tight cash flows during the year ended 31 December 2014, resulting a delay in settling our billed amounts. Outstanding balance from those customers had been fully settled subsequently during the year ended 31 December 2015. Credit review has been performed on those customers and management has terminated the business relationship with some of those customers thereafter. Generally, we give a credit period of 90 days to our customers. Nevertheless, our average trade receivables turnover days also increased from approximately 32 days for the year ended 31 December 2013 to approximately 72 days for the year ended 31 December 2014, to approximately 73 days for the year ended 31 December 2015, and it dropped to approximately 62 days for the six months ended 30 June 2016.

During the Track Record Period, no trade receivables impairment losses were recognised. The reason is that all aged outstanding balances are monitored and followed up closely by our finance team and also our senior management, mainly through direct communication to the management of our customers with aged outstanding balances, and a proposed settlement plan is normally requested during such communication for our consideration. Based on the information obtained, our Directors are of the view that all aged outstanding balances as at 31 December 2013, 2014, 2015 and 30 June 2016 are recoverable and therefore no provision for bad debt is required. However, there is no assurance that impairment losses will not occur in the future even we have from time to time enhanced our credit control and collection policies to minimise the credit risk. If our customers are unable to pay or any further amount of trade receivables is considered to be uncollectible, impairment will be made accordingly. As a result, our financial condition and results of operations will be materially and adversely affected.

We had net current liabilities as at 31 December 2013 and 31 December 2014. There is no assurance that our Group's previous net current liabilities position will not impair our ability to make necessary capital expenditures, obtain external financings or develop business opportunities.

We had net current liabilities of approximately RMB70.7 million and RMB42.8 million as at 31 December 2013 and 31 December 2014 respectively, which was primarily due to the short-term bank borrowings and a loan from a director for our capital expenditure, including the expansion of the production line for plywood products, and construction of two production lines for biomass wood pellets. Our outstanding balance of borrowings from banks, finance lease liabilities and loan from a director as at 31 December 2013 and 31 December 2014 were approximately RMB104.4 million and RMB126.4 million, respectively. Our Group's financial position turned to net current assets of approximately RMB7.3 million and RMB36.1 million respectively, as at 31 December 2015 and 30

RISK FACTORS

June 2016, as we utilised cash receipts from operating profits to repay most of the borrowings from a director and there was no significant capital expenditure during the year ended 31 December 2015 and the six months ended 30 June 2016, and furthermore, we managed to maintain a lower level of total debt as compared to the balance as at 31 December 2014, decreasing from approximately RMB126.4 million as at 31 December 2014 to approximately RMB72.7 million as at 30 June 2016. Nonetheless, there is no assurance that we will be able to obtain the consents from relevant financial institutions for the renewal of the existing short-term loan facilities in the future and there is also no assurance that we will be able to generate sufficient cash flow from our operations to repay the borrowings should the facilities not be renewed.

Our future liquidity, the payment of trade and other payables and the repayment of our outstanding borrowings will depend primarily on our ability to maintain adequate cash inflows from operating activities, cash and cash equivalents, and our access to future financial resources to fulfil our short-term obligations, which will be affected by our future operating performance, prevailing economic conditions, and financial, business and other factors, many of which are beyond our control. If we do not have sufficient cash to fully settle our current liabilities as they become due and payable, our financial condition could be adversely affected. Furthermore, in the event that the financial institutions which have been providing the existing loan facilities to us do not continue to extend similar or more favourable facilities to us, there can be no assurance that we will be able to obtain alternative loan facilities, and our business, financial condition and operation results could be materially and adversely affected.

We recorded net cash used in operating activities for the year/period ended 31 December 2013, 31 December 2014 and 30 June 2016. We may record net cash used in operating activities in the future as we expand our business.

Our Group had net cash used in operating activities of approximately RMB20.5 million, RMB5.7 million and RMB20.4 million for the years ended 31 December 2013 and 31 December 2014 and the six months ended 30 June 2016, respectively. Such negative cash flow from operating activities was primarily due to the increase in trade and other receivables and the increase in inventories. For further information, please refer to the paragraph headed “Financial Information — Liquidity, financial resources and capital structure — Cash flow — Cash flow from operating activities” in this prospectus.

There is no assurance that we will not experience net cash outflow in the future. Net operating cash outflow could impair our ability to make necessary capital expenditures and constrain our operational flexibility as well as adversely affect our ability to meet our liquidity requirements. In the event that we fail to maintain sufficient cash inflows, we may default on our payment obligations and may not be able to meet our capital expenditure requirements which may in turn have a material adverse impact on our business, financial condition, results of operations and our business prospects.

RISK FACTORS

Any increase in our labour costs would reduce our profit margins, profitability and liquidity, as well as materially and adversely affect our financial condition and results of operations, and labour shortage could disrupt our production.

Our Directors consider that the production process in both plywood and biomass wood pellets manufacturing is labour intensive. As at 30 June 2016, we had employed 429 and 82 full-time production employees for our plywood products and biomass wood pellets respectively. For each of the three years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016, our labour costs amounted to approximately RMB14.6 million, RMB21.5 million, RMB21.5 million and RMB11.0 million respectively. The increase in our labour costs during the Track Record Period was primarily due to the increase in number of headcounts following commencement of production of biomass wood pellets in 2013. Labour costs in the PRC have increased significantly in recent years and have affected our Group's cost structure.

Furthermore, our Group relies on a stable supply of experienced employees to operate machinery and perform manual tasks at reasonable costs. There is no assurance that we will be successful in retaining and recruiting suitable and qualified workers in sufficient numbers and in time for our existing and future manufacturing operations at reasonable costs or at all, and any prolonged shortage of labour could materially and adversely affect our operations and financial results. If there is a significant increase in our labour costs and our Group is unable to identify and adopt appropriate means to reduce costs or pass on such increase in costs to our customers, our margins and profitability could be materially and adversely affected. Such cost increases may also increase our working capital needs, which could reduce our liquidity and cash flow, as well as materially and adversely affect our financial condition and results of operations.

There is no assurance that our manpower will be available on a continuous basis due to factors such as strikes, labour stoppages and civil unrest. Any shortage of labour could increase our costs and reduce our production, resulting in a material adverse effect on our business, financial condition and results of operations.

Our non-compliance with relevant social insurance and housing provident fund contribution laws and regulations in the PRC might lead to imposition of fines and penalties.

According to the relevant PRC laws and regulations, we are required to make contributions to certain employee social welfare schemes. The relevant schemes include social insurance contributions (including basic endowment insurance, unemployment insurance, basic medical insurance, work-related injury insurance and maternity insurance) and housing provident fund contributions. During the Track Record Period, we did not fully comply with the social security and housing provident fund contribution requirements for our employees since some employees had no intention to participate in the social security and housing provident fund schemes as they either do not want to bear certain part of the social insurance premiums and housing provident fund contributions, or had separately made contributions to the rural social insurance.

RISK FACTORS

The aggregate unpaid amounts by our Group to the social insurance authority as at 31 December 2013, 2014, 2015 and 30 June 2016 were approximately RMB3.1 million, RMB5.3 million, RMB7.8 million and RMB7.5 million respectively, and the aggregate unpaid amounts by our Group to the housing provident fund management centre as at 31 December 2013, 2014, 2015 and 30 June 2016 were approximately RMB0.6 million, RMB1.0 million, RMB1.3 million and RMB1.3 million respectively.

According to the PRC laws and regulations in relation to social insurance contributions, prior to the implementation of the Social Insurance Law of the People's Republic of China (中華人民共和國社會保險法) (the “**PRC Social Insurance Law**”) which came into force on 1 July 2011, the social insurance authorities are entitled to order us to pay the outstanding social insurance within a certain time limit or immediately. If we do not follow such order accordingly, the social insurance authorities are entitled to impose on us a surcharge at the daily rate of 0.05% as well as a fine ranging from one to three times of the outstanding amount. According to the Administrative Regulations on the Housing Provident Fund Law (住房公積金管理條例) (the “**PRC Housing Provident Fund Law**”), in respect of housing fund contributions, if we are overdue in the payment and deposit of, or underpays the housing provident fund, the housing provident fund management center may order us to make the payment and deposit within a prescribed time limit; if such payment and deposit have not been made after the expiration of the time limit, an application may be made to a people's court for compulsory enforcement.

For further information of such non-compliance issue, please refer to the section headed “Business — Legal proceedings and compliance — Non-compliance” in this prospectus.

Any shortage in supply of raw materials may have adverse effect on our Group's production process.

Our production process requires our Group to obtain adequate supplies of raw materials, such as poplar logs, poplar plywood cores, veneers and wood residues. We purchase the raw materials from local farmers and corporate suppliers which are mainly located in Heze City, Shandong Province. Given stable supply of raw materials is essential to our Group's operation, in the event that any shortage in the supply of raw materials, and there may result in a higher selling price of raw materials and delivery delays, or the supplies of our suppliers are terminated, interrupted, or adversely modified, and we are unable to obtain adequate supplies of the necessary raw materials in a timely manner, or if there is a significant increase in the costs of the raw materials which we cannot pass on to our customers, our Group's operation and financial position could be materially and adversely affected.

We failed to obtain relevant land use right certificates and building ownership certificates for certain land and buildings. If we are ordered to vacate from the buildings or if any penalties are imposed on us, our business operations which are carried out in the buildings will be materially and adversely affected.

As at the Latest Practicable Date, we had not obtained the land use right certificate and building ownership certificate for a parcel of land with a total site area of approximately 22 mu (approximately

RISK FACTORS

14,666.67 sq.m.) and buildings with a total gross floor area of approximately 1,770 sq.m. for offices and staff canteen in the PRC. As at the Latest Practicable Date, we are not aware of any claims or actions being contemplated or initiated by government authorities with respect to our use of such properties. However, after our interview with and/or confirmations obtained from the relevant authorities, as advised by our PRC Legal Advisers, the risk of being penalised due to lack of permits is remote. Nevertheless, we cannot assure that our use of such properties will not be challenged in the future or we will not be fined by the competent construction authority. In the event that our use of properties is successfully challenged, we may be forced to relocate the affected operations. We have no assurance that we will be able to find suitable replacement sites on terms acceptable to us on a timely basis, or at all, or that we will not be subject to material liability resulting from third parties' challenges on our use of such properties. As a result, our business, financial condition and results of operations may be materially and adversely affected. For details, please see the section headed "Business — Properties — Properties with defective titles" in this prospectus.

The success of our Group relies on key executives and the management team.

The success of our Group is attributable to a large extent to the continued services of our key executives and the management team. Please refer to the section headed "Directors and senior management" in this prospectus for further details. The success of our Group depends on the continued efforts of such key executives and the management team, their experience and knowledge of market preferences and their established relationships with customers. It cannot be assured that our Group will be able to retain our key executives and the management team. The loss of services of our key executives and the management team without immediate and adequate replacements could have a material adverse effect on our Group. Besides, our executive Directors formed business strategies for our Group's business operations over the years and have maintained good relationship with our customers and suppliers, therefore, there may be material adverse impact in the profitability of our Group should any of our executive Directors cease to participate in our Group's business operations.

Our Group may face potential liability for defects, flaws or errors in the manufactured products.

Our products may contain latent defects or flaws. We do not have product return policy, and we only allow the return of any defects or errors in the products or return of defective products by customers. Any return of the defects or errors in the products could result in delay or loss of revenue, incurring additional expenditure to correct the problems, adversely affect customer relationships and liability claims against our Group. Our Group does not maintain any product liability insurance or third party insurance for all of our business operations and products unless it is a mandatory requirement of the laws and regulations of the respective countries where our Group has operations. If the products do not meet the specifications and requirements of our customers, such as moisture specifications, or if any of the products are defective, or result in our customers' financial losses or personal injuries, our Group may be subject to product liability claims and other claims for compensation. We may therefore incur significant legal costs regardless of the outcome of the claim. Product failure or defects, and any complaints or negative publicity resulting therefrom, could result in decreased sales or supply of these or other products. Lawsuits are inherently expensive to defend and will divert management and other resources from our business operations and our business, therefore, our financial condition and results of operations may be materially and adversely affected.

RISK FACTORS

Our operations rely on a continuous supply of utilities and any shortages or interruptions could disrupt the operations and increase the expenses.

The manufacturing of our products relies on a continuous and uninterrupted supply of electrical power and water, as well as water, waste and emissions discharge facilities. Any shortage, interruption or curtailment of discharge could significantly disrupt the operations and increase expenses incurred by our Group. Causes of such shortage, interruption or curtailment of discharge may include extreme weather conditions, fire, natural catastrophes, disruptions in raw material supply, equipment and system failures, labour actions or environmental issues. Our Group's production plants do not have backup generators or alternate sources of power to support the production in the event of a blackout. In addition, our Group's insurance coverage does not extend to any damages resulting from interruption in the power supply. Any interruption in our Group's operations at the facilities could damage our reputation, harm our ability to retain existing customers or to attract new customers, any of such could have a material and adverse effect on the business, financial condition and results of operations of our Group.

Our Group's insurance coverage may not adequately protect us against certain risks.

There may be disruptions to the operation of, or damage or other occurrences to, our production plants that result from fire, pests, disease, floods, earthquakes, typhoons, wind, hail, snow, drought, landslides or other natural or man-made disasters, environmental pollution, theft of logs, labour stoppages or disturbances, civil unrest and acts of terrorism. Our Group's assets could be affected by any of the above and other catastrophic events over which we have no control.

Our Group is insured against damages (inclusive of fire damage) in the machinery and warehouse in the production plants. Any damages suffered by our Group in excess of its limited insurance coverage or in respect of uninsured events may materially and adversely impact our results of operations.

Some of the above-mentioned risks may cause personal injuries, consequential loss of profits or environmental damage. These may result in disruption of operations and the imposition of civil or criminal penalties upon our Group, which may not be covered by our current insurance policies.

Given the nature of our operations and business, there can be no assurance that our insurance coverage is sufficient to cover all losses relating to our properties and assets. If our Group's insurance is insufficient to cover such losses, our business, financial condition and results of operations may be adversely affected.

We will continue to be controlled by our Controlling Shareholders, whose interests may differ from our investors' interests and the interests of other shareholders.

As at the Latest Practicable Date, our Controlling Shareholders are Mr. Ke, Mr. Cai, Mr. Wang, Mr. Lin, Mr. Wu and Ms. Wu, who are parties to the Concert Party Agreement and collectively controlled approximately 62.97% of our Shares. Upon the completion of the Global Offering and the Capitalisation Issue, our Controlling Shareholders will own a total of approximately 47.229% of our Shares. While our Controlling Shareholders will have a smaller percentage of shareholding after the

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Global Offering and the Capitalisation Issue, and will be bound to adhere to the process of decision making set out in our Articles of Association and as required by law, our Controlling Shareholders may still be able to influence our major policy decisions, business strategy and material transactions. It is possible that there may be differences in opinion between our Controlling Shareholders and our remaining shareholders from time to time, and we cannot guarantee that our Controlling Shareholders will influence our company to pursue or refrain from pursuing strategies or actions in a manner that serves the best interest of the remaining shareholders.

There is a dilution effect and impact of exercise of options granted under the Share Option Scheme.

Our Company has conditionally adopted the Share Option Scheme. As at the Latest Practicable Date, no option was granted under the Share Option Scheme. Following grant of any options under the Share Option Scheme in the future and issue of new Shares which may be granted under the Share Option Scheme upon exercise of the options, there will be an increase in the number of issued Shares. As such, there may be a dilution or reduction of shareholding of the Shareholders which may also result in a dilution or reduction of the earnings per Share or net asset value per Share.

In addition, the fair value of the options to be granted to employees of our Group under the Share Option Scheme will be charged to the consolidated statements of comprehensive income of our Group over the vesting periods of such options. Accordingly, the financial conditions and results of operations of our Group may be adversely affected.

There is no guarantee on declaration of dividends in the future.

Our Group did not declare any dividends during the Track Record Period. There is accordingly no reference or basis to determine the level of dividends that may be declared and paid by our Company to our Shareholders after Listing. There is no assurance that any dividends will be declared by our Group after the Listing. The declaration, payment and amount of any future dividends are subject to the discretion of the Board depending on, among other things, our earnings, financial condition, cash requirements, the provisions governing the declaration and distribution as contained in the Articles of Association, applicable laws and other relevant factors.

(ii) *Risks relating to our plywood business and industry*

Our Group lacks long-term sales contracts with customers.

Our Group has not entered/does not enter into long-term sales contracts with customers, consequently, most of our customers do not owe long term purchase commitments to our Group. Therefore, there is no assurance that our Group will be able to maintain or increase sales to these customers or other customers at current levels or at all. Any loss of a significant portion of sales to our major customers could have a material adverse effect on the business, financial condition and results of operations of our Group.

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Failure to retain our existing customers could materially affect our financial performance.

We conduct our plywood business on the basis of actual purchase orders placed by our customers from time to time. During the years ended 31 December 2014 and 2015, we had 42 and 84 inactive customers for plywood products. Generally, we consider that a customer as an inactive customer who has not placed purchase orders to our Group for at least three months. These inactive customers became inactive for various factors, for example, a period of one of our top five customers for the years ended 31 December 2013 and 2014 located in Beijing had temporarily closed down its production plant during the year ended 31 December 2015, and we lost one of our major customers located in Henan Province during the year ended 31 December 2015 as we could not meet their specification requirements at a competitive price. We cannot assure that our customers will continue to do business with us at the current level. If one or more of our major customers were to be closed down permanently or temporarily or were to cease conduct business with us and we are unable to expand our business with other existing customers or attract new customers, we may experience slow growth or negative growth, and our business, financial condition and results of operations would be materially and adversely affected.

There is no assurance that we would be able to secure new customers.

During the Track Record Period, we had 47, 112, 106 and 20 new customers, which accounted for approximately 29.9%, 31.8%, 41.4% and 8.3% of our revenue for plywood products. Our Directors consider that it is a common phenomenon for high turnover of customers in the PRC plywood industry, as the PRC plywood industry is highly competitive which our customers may easily choose to purchase plywood products from our competitors. There is no assurance that we can secure new customers and compete successfully in the future. In the event that we cannot secure new customers and are unable to compete with other market players effectively, our business, financial condition, results of operations and prospects will be materially and adversely affected.

Any fluctuations in the market price and demand for plywood may materially and adversely affect our sales, financial condition, profitability or cash flows.

According to the Ipsos Report, the selling prices of plywood increased steadily from 2010 to 2014. The price for plywood may experience fluctuations in the future due to changes in the supply and demand for plywood products in our existing and future markets. Furthermore, according to the Ipsos Report, the PRC Government has recently implemented strict macro-control policies on real estate industry which may slow down the demand for plywood. As such, this may result in high levels of production and an oversupply of plywood, which in turn poses downward pressure on the selling prices of plywood. There is also no assurance that we can maintain a similar level of gross profit margin in light of the fluctuations in the average selling prices of plywood and our cost of productions. Our gross profit margins of approximately 18.3%, 18.1%, 18.9% and 19.9% for each of the three years ended 31 December 2015 and the six months ended 30 June 2016 respectively, and the unfavourable change in market price for plywood could have a material adverse effect on our sales, financial condition, profitability or cash flows and we may suffer a net loss with a slight decrease in selling price of our plywood products.

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The plywood products industry is intensely competitive.

According to the Ipsos Report, there is an increasing number of competitors in the plywood products industry in the PRC, as the plywood products industry in the PRC has medium entry barriers, with low levels of industry concentration and light regulation, allowing potential new and other manufacturing entrants access into the industry. As a result of such increase in the number of competitors, there is intensive competition for resources, from raw materials to labour within the plywood manufacturing industry in the PRC, and the costs for purchase of raw materials and hiring labour for plywood products manufacturing may increase. Consequently, our Group's financial performance and growth prospect may be adversely affected. Please refer to the section headed "Industry Overview — Price and sales value of poplar plywood in the PRC — Competition analysis of plywood manufacturing industry in the PRC" in this prospectus for details on competitive landscape of the PRC plywood industry.

In addition, industry players compete on price and product quality. The competition between plywood manufacturers is intense, and they may offer discount prices and flexible purchase terms to customers. If our Group cannot compete and respond to the market conditions rapidly or fails to upgrade our production facilities with new technology, our business and results of operations may be adversely affected.

Disruption to the supply of raw materials or increase in raw material prices could materially and adversely affect our Group's business, financial condition and results of operations.

The major raw materials used to produce our plywood products are poplar logs, poplar plywood cores and veneers. The purchase of poplar logs, poplar plywood cores and veneers together accounted for approximately 91.7%, 89.6%, 91.6% and 91.9% respectively of the total raw material purchase costs for plywood production during the Track Record Period. However, our Group has not entered into any long-term supply contracts with our suppliers. In the event that the ban on commercial logging imposed by the PRC Government in Shandong Province or the places where our suppliers located, the supply of timber for production of our plywood products may be affected. It is therefore possible that our Group will not be able to purchase sufficient raw materials from our suppliers, in a timely manner and on commercially acceptable terms, or at all.

In addition, if we are unable to acquire raw materials from our existing suppliers for any reason, we cannot assure that our Group will be able to source the raw materials from alternative sources within a reasonable period of time, and at acceptable prices or at all. Our Group cannot assure that such shortages will not occur in the future. Any failure to obtain adequate supplies of raw materials on a timely basis may disrupt our Group's operation, and may have a material adverse effect on the business, financial condition and results of operations of our Group.

Any tightening of the PRC environmental laws and regulations could adversely impact our operations by increasing our compliance costs and potential liabilities.

Our operations in China are subject to a wide range of PRC environmental laws and regulations, which regulate, among other things, the emission or discharge of pollutants or wastes into the soil, water or atmosphere. The regulatory environment for our business activities may continuously change.

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Environmental laws and regulations have generally become more stringent in recent years and could become even more stringent in the future. Our Group may in the future be required to obtain further licenses before it is permitted to carry out certain activities. Some of these environmental laws and regulations could impose significant costs, expenses, penalties and liabilities on our Group for violations of existing conditions attached to our Group's licenses, whether or not our Group caused or knew about them. Violations of such laws and regulations may result in civil penalties (such as fines and recovery of costs), remediation expenses, potential injunctions and prohibition orders and criminal penalties. Some environmental statutes impose strict liability, rendering a person liable for environmental damage regardless of negligence or fault.

Compliance with, or damages or penalties for violating, current and future environmental laws and regulations could incur significant expenses, which in turn could have a material adverse effect on our business, financial condition and results of operations. Our Group has never engaged any environmental experts to investigate its production plant for environmental problems and issue any environmental reports, nor does our Group formally assess the impact of its operations on the environment.

Any tightening of the requirements prescribed by environmental laws and regulations in China, or changes in the manner of interpretation or enforcement of such existing laws or regulations, could adversely impact our operations by increasing our compliance costs, rigorous control and potential liabilities in connection with such laws and regulations, including additional capital or operating expenditures, which may place additional demands on our Group's liquidity and adversely affect our results of operations.

Changes in market demand for plywood products may adversely affect our financial performance.

Our plywood products are mainly used in various industries, such as commercial and office buildings construction, furniture, interior renovation and decoration packaging as well as vehicles. Market demand for plywood products is subject to changes due to a number of factors, including, among others, changes in domestic and international general economic conditions, developments in real estate market, changes in housing demand and interior renovation and decoration, regulatory changes and population growth. A decrease in the market demand for plywood products may adversely affect our financial performance.

Environmental groups and interested individuals may seek to delay or prevent our Group, or logs companies in general, from harvesting logs and may adversely affect demand for our Group's plywood products.

Environmental groups and interested individuals may seek from time to time to challenge or impair the ability of forestry companies generally to harvest logs in specific geographic areas. For example, groups and individuals may stage protests that disrupt the harvesting plans of logs companies and may file or threaten to file lawsuits that seek to prevent logs companies generally from harvesting logs in specific geographic areas. Such activities may generate negative press about logs companies

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generally. Any delay in or restriction on harvesting imposed due to the intervention of environmental groups or such interested individuals, or any boycott of tropical plywood products or other action that may generate negative perceptions about logs companies generally, may adversely affect the operations and sales of logs companies generally, including our Group.

(iii) *Risks relating to our biomass wood pellet business and industry*

Our biomass wood pellet business has limited track record and we cannot guarantee that we can maintain or establish a long-term relationship with our existing customers and develop a good relationship with our potential customers. If there is any decrease in our customers' demand for biomass wood pellets or if we lose these customers, our business and results of operations may be adversely affected.

The history of our biomass wood pellet business is short, which can be traced back to 2013 when our biomass wood pellets were first launched. During the Track Record Period, the revenue derived from sales of our biomass wood pellets contributed approximately 10.2%, 21.0%, 25.4% and 23.6% of our total revenue respectively.

As we newly developed and established our biomass wood pellets business, we do not have long-term agreements or cooperation agreements with any of our existing customers, our customers are not obliged to purchase a minimum amount of biomass wood pellets or within a specified period from us. There can be no assurance that the demand from our customers will remain at the same level or increase in the future. If there is an adverse change in our relationship with our customers or a downturn of our customers' businesses, which results in a reduction or cessation of their purchases from us, and if we fail to develop new customers, or fail to obtain comparable purchases in substitution, our business, results of operations and financial condition may be adversely affected.

Our Group may not be able to maintain the gross profit margins at the levels recorded during the Track Record Period.

Our biomass wood pellets business's gross profit margin decreased from 44.8% for the year ended 31 December 2014 to 30.9% for the year ended 31 December 2015 and then further decreased to 28.8% for the six months ended 30 June 2016 as a result of the impact from the decreased proportion of the free supplies of wood residues sourced internally from the production line of the plywood products, and also the impact from the change in the delivery policy for biomass wood pellets since March 2015, resulting in a drop in the selling prices charged to our customers. The sustainability of our Group's gross profit margin depends on various factors, including the selling price and production cost. Selling price may be affected by changes in consumer demand and prevailing market conditions, which are to a large extent beyond our control. We cannot guarantee that its gross profit margin will not fluctuate from time to time. For example, the free supply of wood residues sourced internally drops further or the price for procuring raw material increases, and we cannot transfer the production costs to our customers, then our gross profit margin for biomass wood pellets business's will continue to decline, and we cannot assure that our Group can achieve or maintain profitability in the future.

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The biomass wood pellets industry we operate in is highly competitive.

According to the Ipsos Report, the industry we operate in is characterised as highly competitive and we compete with a number of domestic biomass wood pellets producers. Certain of our competitors may have greater financial and other resources, access to proprietary technology, greater expertise and more extensive technical capabilities, greater pricing flexibility and brand recognition. In addition, more specialised biomass wood pellets producers with greater financial resources may enter our market in the future. Our ability to compete successfully in the biomass wood pellets industry depends on various factors, including our transportation and logistics advantages, high quality products, integrated and recyclable industry chain and strong relationships with our customers. There can be no assurance that we will be able to compete effectively against current and future competitors. Intensified competition may result in our price reduction, decrease in our profitability and loss of market shares, which may have a material and adverse effect on our business, prospects, financial condition and results of operations.

If our information and technology system fails or breaks down, our business operations will be materially and adversely affected.

The operations of our biomass wood pellets production are controlled and managed by the automated production control system, which enables us to maximise efficiencies and monitor and control all aspects of our operations and are fundamental to ensure that we can maintain competitiveness of our biomass wood pellet business. Our Group uses information and technology system to contact our production team. There is no assurance that such system will not be failed or broken down. Any failure or breakdown in the system could interrupt our normal business operations and result in a significant slowdown in operational and management efficiency during such failure or breakdown. Any prolonged failure or breakdown could materially impact our ability to produce biomass wood pellets, which could have a material adverse effect on our business and results of operations.

Inability to pass increased raw material costs to our customers could materially and adversely affect our financial condition and results of operations.

We use wood residues to produce our biomass wood pellets, which accounted for the entire total purchase cost of raw materials for biomass wood pellets production, for the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016 respectively. Any increase in the cost of raw materials may lead to declines in our profit margins and operating results. The cost of raw materials (wood residues) depends on variety of factors, which may not be within our control. Fluctuations in weather, supply and demand and economic conditions could adversely affect the cost, availability and quality of wood residues. If we are not able to obtain requisite quantities of wood residues at commercially reasonable price, or if the cost of raw materials increases and our Group is unable to pass on such price increases to the customer, the results of operations of our Group will be materially adversely affected and we will suffer a net loss with an increase in unit cost of raw materials.

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If the biomass wood pellets market does not grow at a rate as we expect or if we fail to keep pace with biomass wood pellets production technological changes, our business, results of operations and financial condition may be adversely affected.

Our growth depends on the stable demand for biomass wood pellets in the relevant sectors. Although the demand has grown rapidly in the past, such growth rate may not remain the same or increase in the future. Any decrease in demand or any downturn in the relevant sectors could materially and adversely affect our sales and profitability. Furthermore, we are subject to the technological development for biomass wood pellets production processes. If there is a change in market preference or if we fail to keep pace with biomass wood pellets production technology changes, we may not be able to achieve the growth as expected and our business may be adversely affected.

Our business and results of operations are dependent on biomass wood pellets markets.

Our biomass wood pellets business and operating results are dependent on the domestic demand of biomass wood pellets. The PRC biomass wood pellets market fluctuates in supply and demand from year to year, which are subject to numerous factors beyond our control, including, among others, general economic conditions in the PRC and fluctuations in industries with great demand for biomass wood pellets. Fluctuations in supply and demand for biomass wood pellets affect their prices, which in turn affect our operations and financial performance. The demand for biomass wood pellets is primarily influenced by the pace of domestic economic growth and development. Significant reduction in the demand for our biomass wood pellets may have an adverse effect on its price, which would in turn cause a decline in our profitability and could materially and adversely affect our business and results of operations.

Our biomass wood pellets operation is inherently subject to changing conditions that can affect our profitability.

Biomass wood pellets operation is inherently subject to changing conditions that can affect our production scale and production costs for varying periods of time and can result in decreases in profitability. Such conditions include, among others, weather and natural disasters (such as earthquakes, landslides, flooding and other similar occurrences), unexpected maintenance problems, key equipment failures, fire and other conditions, which can be expected to have a significant impact on our operating results. Prolonged disruption of production could result in a material decrease in our revenue and profitability. There are other factors affecting the production and sale of our biomass wood pellets that could result in decrease in our profitability, such as changes in the laws and/or regulations that we are subject to, including safety, labour and environmental requirements, and changes in the biomass wood pellets market and general economic conditions in the PRC.

There can be no assurance that we are able to respond to the above changing conditions. If we fail to take effective measures to address these changing conditions, our business, results of operations and financial condition may be materially and adversely affected.

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RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Our Group may be subject to any future occurrence of natural disasters or outbreaks of contagious diseases in the PRC which may have a material and adverse effect on our results of operations.

Any future occurrence of natural disasters or outbreaks of health epidemics and contagious diseases, including avian influenza, severe acute respiratory syndrome, or SARS, and swine flu caused by H1N1 virus, or H1N1 flu, or H7N9 flu, may materially and adversely affect our Group's business and results of operations. In 2009, there were reports of occurrence of H1N1 flu in certain regions of the world, including the PRC and in 2013, there were reports of occurrences of H7N9 flu in the PRC. An outbreak of health epidemic activities in affected areas, which may in turn adversely affect our Group's business. Moreover, China, has experienced natural disasters like earthquakes, floods, landslides and droughts in the past few years. For example, in May 2008 and April 2010, China experienced earthquakes with reported magnitudes of 8.0 and 7.1 on the Richter scale in Sichuan Province and Qinghai Province respectively, resulting in the death of tens of thousands of people. In 2010, severe droughts occurred in southwestern China, resulting in significant economic losses in these areas. Any future occurrence of natural disasters in China may adversely affect its economy, the supply of raw materials for the production of plywood products and biomass wood pellets, any or all of which could adversely affect our business. There is no guarantee that any future occurrence of natural disasters or outbreak of avian influenza, SARS, H1N1 flu, H7N9 flu or other epidemics, or the measures taken by the PRC government or other countries in response to a future outbreak of avian influenza, SARS, H1N1 flu, H7N9 flu or other epidemics, will not seriously interrupt our operations or those of our customers, which may have a material and adverse effect on the results of operations of our Group.

The PRC's economic, political and legal conditions, as well as governmental policies, could affect our business, financial condition and results of operations.

Our businesses, assets and operations are located in China. Accordingly, the financial condition, results of operations and business prospects of our Group are, to a significant degree, subject to the economic, political and legal developments in China. China's economy differs from the economies of most developed countries in many respects, including, among other things, government involvement, level of development, growth rate, control of foreign exchange and allocation of resources.

China's economy used to be a planned economy, and a substantial portion of productive assets in China are still owned by the PRC government. The government also exercises significant control over China's economic growth by allocating resources, setting monetary policy and providing preferential treatment to particular industries or companies. Although the government has implemented economic reform measures to introduce market forces and establish sound corporate governance in business enterprises, such economic reform measures may be adjusted, modified or applied inconsistently from industry to industry, or across different regions of the country. As a result, our Group may not benefit from certain of such measures.

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Uncertainties presented by the PRC legal system could limit the legal protections available to our Group and the investors, which may have a material and adverse effect on our business and results of operations.

The operations of our Group in China are governed by PRC laws and regulations. Our Group's PRC subsidiaries are foreign-invested enterprises and subject to laws and regulations applicable to foreign investment in China. China has a civil law legal system based on written statutes. Unlike the common law system, previous court decisions in China may be cited for reference but have limited precedential value. Although the overall effect of legislation over the past 30 years has significantly enhanced the protections afforded to various forms of foreign investments in China, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. Such uncertainties may limit the legal protections available to our Group and to other foreign investors.

In addition, the PRC legal system is based in part on government policies and certain internal rules, some of which are not published on a timely basis or at all, which may have a retroactive effect. As a result, our Group may not be aware of any violation of these policies and internal rules until sometime after the violation. In addition, administrative or court proceedings may be protracted, resulting in substantial costs and diversion of resources and management attention if our Group seeks to enforce our Group's legal rights through administrative or court proceedings. Moreover, compared to more developed legal systems, the PRC administrative and court authorities have significantly wider discretion in interpreting and implementing statutory and contractual provisions. As a result, it may be more difficult to evaluate the outcome of administrative and judicial proceedings as well as the level of legal protection our Group is entitled to. These uncertainties may impede our ability to enforce contracts, which could in turn materially and adversely affect our business and operations.

Investors may experience difficulties in effecting service of legal process and enforcing judgments against our Group and management.

Substantially all of our businesses, assets and operations are located in China. In addition, the assets of our Directors and executive officers of our Group are mainly located in China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon our Group or such directors or executive officers, including with respect to matter arising under U.S. federal securities laws or applicable state securities laws. Moreover, China has not entered into a treaty for the reciprocal recognition and enforcement of court judgments with the United States, the United Kingdom, Japan and many other countries. In addition, Hong Kong has no arrangement with the United States for reciprocal enforcement of judgments. As a result, recognition and enforcement in China or Hong Kong of a court judgment obtained in the United States and any of the other jurisdictions mentioned above may be difficult or impossible.

Although our Company will be subject to the Listing Rules and the Takeovers Codes upon the listing of the Shares on the Stock Exchange, the holders of Shares will not be able to bring actions on the basis of violations of the Listing Rules and must rely on the Stock Exchange to enforce its rules. The Listing Rules and Hong Kong Codes on Takeovers and Mergers and Share Repurchases do not have the force of law in China.

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Our Company relies partially on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements our Group may have. Any limitations on the ability of our PRC subsidiaries to make payments to our Group could have a material and adverse effect on our ability to conduct our business.

As a holding company, our Company relies partially on dividends from our subsidiaries in China for cash requirements, including service of any debt our Group may incur. Current PRC regulations permit our PRC subsidiaries to pay dividends to our Company only out of their accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, our PRC subsidiaries are required to set aside a certain amount of its after-tax profits each year, if any, to fund certain statutory reserves. These reserves are not distributable as cash dividends. Furthermore, in the future, if our PRC subsidiaries incur debt on their own behalf, the instruments governing the debt may restrict their ability to pay dividends or make other payments to our Company. The inability of our PRC subsidiaries to distribute dividends or other payments to our Company could materially and adversely limit the ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends, or otherwise fund and conduct their business.

Dividends payable by our Company to non-PRC shareholders and their gains on the sale of Shares may become subject to income taxes under PRC tax laws.

Under EIT law (as defined below), the Personal Income Tax Law of the PRC (中華人民共和國個人所得稅法) and relevant implementing regulations, unless otherwise stipulated in a relevant international tax treaty entered into by the PRC, dividends payable to shareholders that are “non-resident enterprises” are subject to a withholding tax of 10%, and dividends payable to shareholders who are “non-resident individuals” may be subject to a withholding tax of 20% in each case to the extent such dividends are deemed to have their resources within the PRC. Similarly, any gain realised on the transfer of shares by “non-resident enterprise” shareholders are also subject to a 10% PRC income tax (or other treaty rate, if applicable) and any gain realised on the transfer of shares by “non-resident individual” shareholders may be subject to a 20% PRC income tax, in each case if such gain is regarded as income derived from sources within the PRC.

We may be considered a “resident enterprise” under the EIT Law and income tax on the dividends that we receive from our PRC subsidiaries may increase, our financial condition and results of operations may be materially and adversely affected.

Our Company was incorporated in the Cayman Islands, and we conduct our business through our operating subsidiaries in the PRC. Pursuant to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (the “EIT Law”) took effect on 1 January 2008, except for the purchase and sales through a public market, enterprises established under the laws of foreign countries or regions and whose “de facto management bodies” are located within the PRC territory are considered “resident enterprises” and will generally be subject to enterprise income tax at the rate of 25% on their global income. On 6 December 2007, the State Council adopted the Regulation on the Implementation of EIT Law (中華人民共和國企業所得稅法實施條例), effective as of 1 January 2008, which defines the term “de facto management bodies” as “bodies that substantially carry out comprehensive management and control on the business operation, employees, accounts and assets of enterprises”.

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Moreover, if, in accordance with EIT law and regulations, we were considered a PRC resident enterprise, we would be subject to the corporate income tax at a rate of 25% on our global income, and any dividend received by our non-resident enterprise shareholder may be subject to a withholding tax at a rate of up to 10%, unless such non-resident shareholder's jurisdiction of incorporation has a tax treaty with the PRC that provides for a different withholding tax agreement. In addition, although the EIT Law provides that dividend payments between qualified PRC resident enterprises are exempted from enterprise income tax, due to the short history of the EIT Law, it remains unclear as to the detailed qualification requirements for the exemption and whether dividend payments by our PRC subsidiaries to us would meet such qualification requirements if we were considered a PRC resident enterprise for the purpose. In such case, our profitability and cash flow would be materially and adversely affected as a result of our global income being taxed under the EIT Law.

Government control over currency conversion may limit our ability to issue dividends to our Company's shareholders in foreign currencies, and may, therefore, adversely affect the value of investment of our Shareholders or investors.

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Under the existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the PRC State Administration of Foreign Exchange, or the SAFE, upon satisfaction with certain procedural requirements. Therefore, our PRC subsidiaries are able to pay dividends in foreign currencies to our Company without prior approval from the SAFE by complying with certain procedural requirements. But approval from or registration with appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents our Company from obtaining sufficient foreign currencies to satisfy our foreign currency demands, our Company may not be able to pay dividends in foreign currencies to holders of the Shares.

Fluctuations in the value of the Renminbi may have a material and adverse effect on investment of our Shareholders or investors.

A substantial portion of the costs of our PRC operating subsidiaries are denominated in Renminbi. The net proceeds from this offering will be denominated in Hong Kong dollars. Fluctuations in exchange rates, primarily those involving the Hong Kong dollar and U.S. dollar, may affect the relative purchasing power of these proceeds. Fluctuations in the exchange rate will also affect the relative value of earnings from and the value of any foreign currency-denominated investments our Company makes in the future.

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The value of the Renminbi against the U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in China's and international political and economic conditions and the PRC government's fiscal and currency policies. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous business day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets.

Any appreciation of the Renminbi against the U.S. dollar of any other foreign currencies may result in a decrease in the value of the foreign currency-denominated assets.

RISKS RELATING TO THE GLOBAL OFFERING

There may be marketability and possible price and trading volume volatility of the Shares.

The Listing is by way of Global Offering and the Shares have not been listed or allotted on any stock exchange or open market before completion of the Global Offering. There is no assurance that there will be an active trading market of the Shares upon Listing. In addition, the market price of the Shares to be traded on the Stock Exchange may differ from the Offer Price and investors should not treat the Offer Price as an indicator of the market price of the Shares to be traded on Stock Exchange.

Upon Listing, the trading volume and market price of the Shares may be affected or influenced by a number of factors from time to time, including but not limited to, the income, profit, and cash flow of our Group, new products, services and/or investments of our Group, changes of senior management of our Group, and general economic conditions. There is no assurance that such factors will or will not occur and it is difficult to quantify the impact on our Group and on the trading volume and market price of the Shares.

Sale or perceived sale of substantial amounts of the Shares in the public market after the Global Offering could adversely affect the prevailing market price of the Shares.

The Shares beneficially owned by the Controlling Shareholders are subject to certain lock-up periods under the Listing Rules and the Underwriting Agreements. There is no assurance that the Controlling Shareholders will not dispose of these Shares following the expiration of the lock-up periods. Sale of a substantial number of the Shares in the public market, or the perception that such sale may occur, could adversely affect the prevailing market price of the Shares.

Our investors' interest as shareholder may be diluted if we raise funds by issuing more shares.

If we raise funds by issuing new equity or new equity-linked securities in order to meet our funding needs in the future, our investors' percentage ownership of our Company may decrease. Additionally, if the new equity that we issue confers preferential rights, such rights may take priority over those rights conferred by our Shares.

RISK FACTORS

As our Company is incorporated in the Cayman Islands, protection of minority Shareholders may be different from those available to shareholders of companies established under the laws of Hong Kong or other jurisdictions.

The corporate affairs of our Company are governed by the Memorandum, the Articles, the Companies Law and the laws of the Cayman Islands. The laws of the Cayman Islands relating to protection of the interests of minority shareholders differ in some respects from those of Hong Kong or other jurisdictions where investors may be located. Such differences may mean that the remedies available to the minority Shareholders may differ from those they would have under the laws of Hong Kong or other jurisdictions. Please see paragraph headed “Cayman Islands Company Law” in Appendix IV to this prospectus for information on protection of minorities under the laws of the Cayman Islands.

Statistics and facts from governmental source in this prospectus have not been independently verified.

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

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

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

RISK FACTORS

Investors should read this entire prospectus carefully and we strongly caution you not to place any reliance on any information (if any) contained in press articles or other media regarding us and the Global Offering including, in particular, any financial projections, valuations or other forward looking statement.

Prior to the publication of this prospectus, there may be press or other media, which contains certain information referring to us and the Global Offering that is not set out in this prospectus. We wish to emphasise to potential investors that neither we nor any of the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, our Directors, officers, employees, advisers, agents or representatives of any of them, or any other parties (collectively, the “**Professional Parties**”) involved in the Global Offering has authorised the disclosure of such information in any press or media, and neither the press reports, any future press reports nor any repetition, elaboration or derivative work were prepared by, sourced from, or authorised by us or any of the Professional Parties. Neither we nor any of the Professional Parties accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is not contained in this prospectus or is inconsistent or conflicts with the information contained in this prospectus, we disclaim any responsibility, liability whatsoever in connection therewith or resulting therefrom. Accordingly, prospective investors should not rely on any such information in making your decision as to whether to subscribe the Offer Shares. You should rely only on the information contained in this prospectus and the Application Forms.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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 of Hong Kong (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to our Company. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief that (i) the information contained in this document is accurate and complete in all material respects and not misleading or deceptive; (ii) there are no other matters the omission of which would make any statement herein or this prospectus misleading; and (iii) all opinions expressed in this prospectus have been arrived at after due and careful considerations, and are founded on bases and assumptions that are fair and reasonable.

INFORMATION ON THE GLOBAL OFFERING

The Hong Kong 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 Global Offering 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 our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus, and the procedures for applying for Hong Kong Offer Shares are set out in the section headed "How to apply for Hong Kong Offer Shares" in this prospectus and on the relevant Application Forms.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The Listing of our Shares on the Stock Exchange is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between the Sole Global Coordinator (on behalf of the Underwriters) and us on the Price Determination Date.

The International Offering is expected to be underwritten by the International Underwriters.

For further information about the Underwriters and the underwriting arrangements, see the section headed "Underwriting" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

SELLING RESTRICTIONS

Each person acquiring Offer Shares will be required to confirm, or by his acquisition of Offer Shares be deemed to confirm, that such person is aware of the restrictions on offers and sale of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Hong Kong Offer Shares in any jurisdiction other than 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 circumstances 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 save 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. In particular, the Offer Shares have not been publicly offered or sold, directly or indirectly, in the PRC.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned herein, including the Offer Shares, any Shares which may be sold or issued pursuant to the exercise of the Over-allotment Option. None of our share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

COMMENCEMENT OF DEALINGS IN OUR SHARES

Dealings in our Shares on the Stock Exchange are expected to commence on Monday, 19 December 2016. Our Shares will be traded in board lots of 5,000 Shares each. The stock code of our Shares will be 1580.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, our Shares on the Stock Exchange and our Company's 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 any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second trading date after the trade date. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for our Shares to be admitted into CCASS.

OVER-ALLOCATION AND STABILISATION

Please see the section headed "Structure of the Global Offering" for further details.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

REGISTER OF MEMBERS AND STAMP DUTY

All Offer Shares issued pursuant to applications made in the Hong Kong Public Offering will be registered on our Company's register of members to be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited. The Company's principal register of members will be maintained by our Company's principal share registrar in the Cayman Islands by Codan Trust Company (Cayman) Limited.

No stamp duty is payable by applicants in the Global Offering. The current rate of stamp duty in Hong Kong is 0.2% of the consideration or, if higher, the value of our Shares being sold or transferred.

Dealings in our Shares registered on our Hong Kong register of members of our Company maintained in Hong Kong will be subject to Hong Kong stamp duty.

PROCEDURE FOR APPLYING FOR HONG KONG OFFER SHARES

The procedure for applying for Hong Kong Offer Shares is set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are advised to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of or dealing in our Shares. None of us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of holders of Shares resulting from the subscription, purchase, holding or disposal of, or dealing in, Shares.

CURRENCY TRANSLATIONS

Unless otherwise specified, amounts denominated in Renminbi and U.S. dollars have been translated, for the purpose of illustration only, into Hong Kong dollars in this prospectus at the following rates:

HK\$1.00 : RMB0.8625

HK\$7.7574 : US\$1.00

RMB6.6908 : US\$1.00

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

No representation is made that any amounts in Renminbi, U.S. dollars 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.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of Chinese laws and regulations, governmental authorities, departments, entities (including certain of our subsidiaries), institutions, natural persons, facilities, certificates, titles and the like included in this prospectus and for which no official English translation exists are unofficial translations for identification purposes only. In the event of any inconsistency, the Chinese name prevails.

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Residential Address	Nationality
<i>Executive Directors</i>		
Mr. Ke Mingcai (柯明財)	Room 15, 16th Floor, Block M Kornhill 43-45 Hong Yu Street Hong Kong	Chinese
Mr. Wang Songmao (王松茂)	Flat A, 36th Floor, Three Island Place No. 61 Tanner Road, Island Place North Point Hong Kong	Chinese
Mr. Zhang Ayang (張啊陽)	No. 24 Luo Chang Cang Bian Luo Shan, Jinjiang City Fujian Province People's Republic of China	Chinese
Mr. Wu Shican (吳仕燦)	Flat B, 21st Floor, King Man Court No. 19 Fort Street Hong Kong	Chinese
<i>Independent non-executive Directors</i>		
Mr. Shao Wanlei (邵萬雷)	Room 1101, No. 10 Lane 851 Yushan Road, Pudong New Area Shanghai People's Republic of China	Chinese
Mr. Lin Triomphe Zheng	Suite 17E, Guanghua Mansion 68 Hexiang West Road Xiamen People's Republic of China	Australian
Mr. Wang Yuzhao (王玉昭)	Research Institute for Fiscal Science Ministry of Finance Jitifucheng Road 28A Haidian District, Beijing People's Republic of China	Chinese

For more information of our Directors, please refer to the section headed "Directors and senior management" in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal advisers to the Sole Sponsor and the Underwriters	As to Hong Kong law: Stephenson Harwood 18th Floor, United Centre 95 Queensway Hong Kong As to PRC law: Grandall Law Firm (Guangzhou) Units 3806-3808, Yuexiu Financial Tower 28 Zhu Jiang Dong Road Guangzhou China
Auditor and Reporting Accountant	PricewaterhouseCoopers <i>Certified Public Accountants</i> 22/F, Prince's Building Central Hong Kong
Property valuer	DTZ Cushman & Wakefield Limited 16/F, Jardine House Central Hong Kong
Receiving bank	Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong

CORPORATE INFORMATION

Registered Office	Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands
Headquarter and principal place of business in the PRC	Economic Development Zone Sunsu Town Chengwu Shandong PRC
Principal place of business in Hong Kong	Unit 1201-5 China Resources Building No. 26 Harbour Road Wanchai Hong Kong
Company's website	www.msdsn.com (information contained in this website does not form part of this prospectus)
Company secretary	Mr. Lau Chung Wai (<i>FCPA (Practising)</i>) Unit 1201-5 China Resources Building No. 26 Harbour Road Wanchai Hong Kong
Authorised representatives (for the purpose of the Listing Rules)	Mr. Ke Mingcai Room 15, 16th Floor, Block M Kornhill 43-45 Hong Yu Street Hong Kong Mr. Lau Chung Wai Unit 1201-5 China Resources Building No. 26 Harbour Road Wanchai Hong Kong
Audit committee	Mr. Lin Triomphe Zheng (<i>Chairman</i>) Mr. Shao Wanlei Mr. Wang Yuzhao

CORPORATE INFORMATION

Remuneration committee	Mr. Wang Yuzhao (<i>Chairman</i>) Mr. Shao Wanlei Mr. Lin Triomphe Zheng
Nomination committee	Mr. Shao Wanlei (<i>Chairman</i>) Mr. Ke Mingcai Mr. Wang Yuzhao
Risk management committee	Mr. Wu Shican (<i>Chairman</i>) Mr. Zhang Ayang Mr. Lin Triomphe Zheng
Compliance adviser	China Industrial Securities International Capital Limited 30/F, AIA Central 1 Connaught Road Central Hong Kong
Principal share registrar	Codan Trust Company (Cayman) Limited Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong
Principal bankers	China Construction Bank Chengwu Branch Road South Bole Street West Chengwu Heze City PRC Shanghai Pudong Development Bank No.777 Heping Road Mudan District Heze City Shandong PRC

INDUSTRY OVERVIEW

This section contains certain information relating to the industry in which we operate. Certain information and statistics contained in this section have been derived from various official and publicly available sources. In addition, certain information and statistics set forth in this section have been extracted from a market research report commissioned by us and prepared by Ipsos. References to Ipsos should not be considered as its opinion as to the value of any security or the advisability of investing in our Company. Our Directors believe that the sources of information contained in this section are appropriate sources for such information and have taken reasonable care in reproducing such information. Our Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information prepared by Ipsos and set out in this section has not been independently verified by our Group, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Sole Sponsor or any other party involved in the Global Offering.

SOURCE OF INFORMATION

We have commissioned Ipsos, an independent market research company, to analyse and to report on the plywood and biomass wood pellets industries in the PRC at a total fee of RMB500,000. Ipsos was founded in Paris, France, in 1975 and publicly-listed on the NYSE Euronext Paris in 1999. Ipsos SA acquired Synovate Ltd. in October 2011. After the acquisition, Ipsos has become one of the largest research companies in the world which employs approximately 16,000 personnel worldwide across 87 countries. Ipsos conducts research on market profiles, market size, share and segmentation analyses, distribution and value analyses, competitor tracking and corporate intelligence.

All statistics are based on information available at the time of reporting. In compiling the Ipsos Report, Ipsos has conducted primary and secondary market research including: (a) conducting desk research to gather background information and to obtain the relevant information and statistics on the industry; (b) performing client consultation to facilitate the research including background information of the client; and (c) conducting interviews including face to face, phone interviews with key stakeholders and industry experts in the PRC. The information and statistics as set forth in this section have been extracted from the Ipsos Report.

Our Directors confirm that Ipsos is independent of and not connected with our Company (within the meaning of the Listing Rules). Ipsos has given its consent for our Company to quote from the Ipsos Report and to use information contained in the Ipsos Report in this prospectus.

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

ASSUMPTIONS AND PARAMETERS USED IN THE IPSOS REPORT

The following assumptions are used in the Ipsos Report:

- (a) The supply and demand of plywood and biomass wood pellets in mainland China are assumed to be stable and without shortage over the forecast period.

INDUSTRY OVERVIEW

- (b) It is assumed that there is no external shock such as financial crisis or natural disasters in the global market to affect the demand and supply for the wooden panels manufacturing industry and biomass molding fuel (“BMF”) manufacturing industry in mainland China over the forecast period.

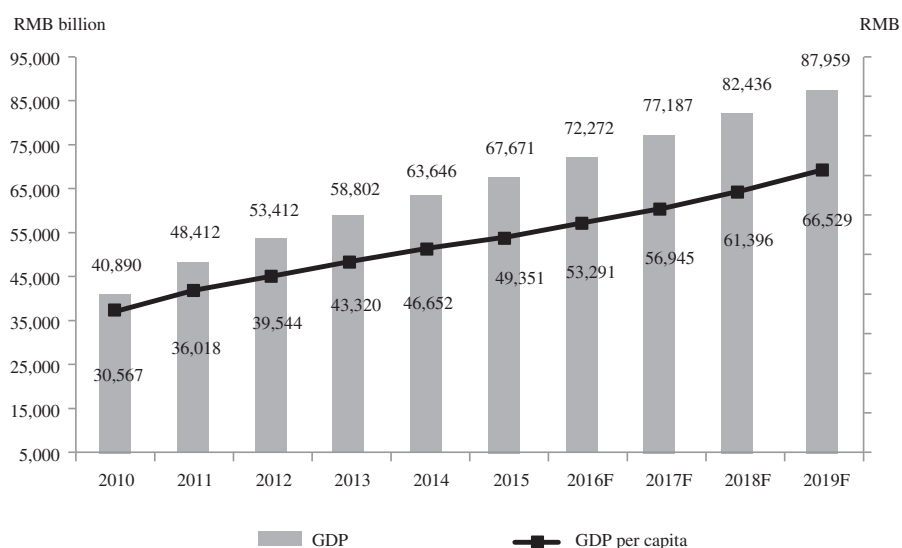
The following parameters are considered in the Ipsos Report:

- (a) GDP and GDP growth rate in China from 2010 to 2019;
- (b) GDP per capita and GDP per capita growth rate in China from 2010 to 2019;
- (c) Average annual household disposable income in China from 2010 to 2019;
- (d) The Twelfth Five-Year Plan of the PRC and the National Economy and Social Development; and
- (e) The Twelfth Five-Year Plan of the PRC for Renewable Energy Development.

OVERVIEW OF MACRO-ECONOMIC ENVIRONMENT IN THE PRC

The chart below sets out the historical and projected nominal GDP and GDP per capita in China from 2010 to 2015 and from 2016 to 2019 respectively.

Historical and projected nominal GDP^(note) and GDP per capita in China from 2010 to 2019



Source: National Bureau of Statistics of China

Note: Nominal GDP refers to the market value of all final goods produced in a geographical region.

INDUSTRY OVERVIEW

According to the National Bureau of Statistics of China, the GDP in the PRC increased from approximately RMB40,890 billion in 2010 to approximately RMB67,671 billion in 2015. Despite that China GDP growth decelerated from approximately 10.4% in 2010 to approximately 6.9% in 2015, China has still been one of the world's most dynamic economies with its high CAGR compared to the world's average CAGR of approximately 5.8% from 2010 to 2015. Unlike other global economies that were significantly affected by the financial crisis, China was able to maintain its steady growth by implementing the stimulus package of RMB4 trillion announced by the PRC Government to improve ecological environment in November 2008. The implementation of an expansive monetary policy is another reason for China's steady economy growth. According to the Ipsos Report, from 2016 to 2019, the GDP growth in China is expected to decline further to approximately 6.7% in 2019, and it is further expected to grow from approximately RMB72,272 billion in 2016 to approximately RMB87,959 billion in 2019. The PRC Government has set a minimum target of approximately 6.5% for the next five years (2015-2019) according to the Eighteenth National Congress of the Chinese Communist Party.

According to the National Bureau of Statistics of China, the GDP per capita in China grew from approximately RMB30,567 in 2010 to approximately RMB49,351 in 2015, at a CAGR of approximately 10.1%. It is expected that GDP per capita in China will grow at a CAGR of approximately 7.7% from 2016 to 2019. The growing trend of GDP per capita is aligned with the growth of GDP.

OVERVIEW OF WOOD RESOURCES IN THE PRC

According to the State Forestry Administration of the PRC, the forest area in China was approximately 2.1 million km³ in 2013, and generally the forestry resources diminish from southern to northern regions. The southern parts of China have high temperature and sufficient precipitation which is suitable for trees to grow, and therefore have the majority of forestry resources, for example, Fujian has the highest forest coverage rate with approximately 66.0% in 2013. The provinces in northwest part of China have a relatively low forest coverage rate, with Xinjiang and Qinghai having the lowest forest coverage rate of approximately 4.2% and 5.6% in 2013 respectively.

According to the Ipsos Report, the demand for timber in China increased steadily with the total consumption of timber products growing from approximately 431.8 million m³ in 2010 to approximately 573.4 million m³ in 2015, at a CAGR of approximately 5.8%. The urbanisation process will be a major driver of the growing demand for timber and timber products in China, and the increased urbanisation accelerated the demand for both timber and wooden products, with the urbanisation rate growing from approximately 49.7% in 2010 to approximately 56.1% in 2015. Timbers will generally be used for both construction and furniture making. The consumption of timber is estimated to reach approximately 731.4 million m³ in 2019, at a CAGR of approximately 6.3% from 2016 to 2019. The urbanisation rate is expected to reach approximately 70.0% by 2030, which indicates that urbanisation will intensify in the near term.

INDUSTRY OVERVIEW

Demand and supply of poplars in the PRC

Poplar is the major raw material in manufacturing our plywood products. Among other trees species, poplar is a fast-growing tree species and generally can be felled for wooden panels or plywood processing every 8 years, compared to average felling period of other species of more than 20 years. Poplar logs have different diameters which can be made into different types of plywood products, and the plantation of poplars requires very little investment during its growing period. Poplar logs are also lighter and have better resistance to deformation and cracks as compared with tree species such as eucalyptus and pines.

According to the State Forestry Administration of the PRC and the Ipsos Report, the poplars area in China was approximately 0.1 million km² in 2013, accounting for approximately 4.9% of the total forest area. Shandong has the highest poplars coverage rate of approximately 5.7% among all the provinces in China, with a total poplars area of approximately 8,933 km² in 2013. Furthermore, the Forestry Department of Shandong Province (山東省林業局) joined with other government authorities in Shandong Province has issued the “Opinions on Accelerating the Development of Forestry Industry in Shandong” (《關於加快全省林業產業發展的意見》) in 2010, pursuant to which the government encouraged to speed up the development of forestry industry by building forest base covering an area of about 3,333.3 km², as well as to develop the construction of fast-growing and high-yielding timber base for providing sufficient raw materials to the local wood-based processing manufacturers in Shandong Province. Shandong Province is one of the major provinces providing poplars in the PRC. The provinces with rich poplars resources provide a solid and sufficient supply base for wood-based manufacturers in the PRC.

According to the Ipsos Report, below table shows the historical and estimated demand and supply of poplars in Shandong Province from 2013 to 2018.

	2013	2014	2015 (estimated)	2016 (estimated)	2017 (estimated)	2018 (estimated)
Supply of poplars (million m ³)	144.72	145.01	145.30	145.59	145.88	146.17
Demand of poplars (million m ³)	76.22	79.02	80.17	81.37	82.59	83.83

(Source: Ipsos Report)

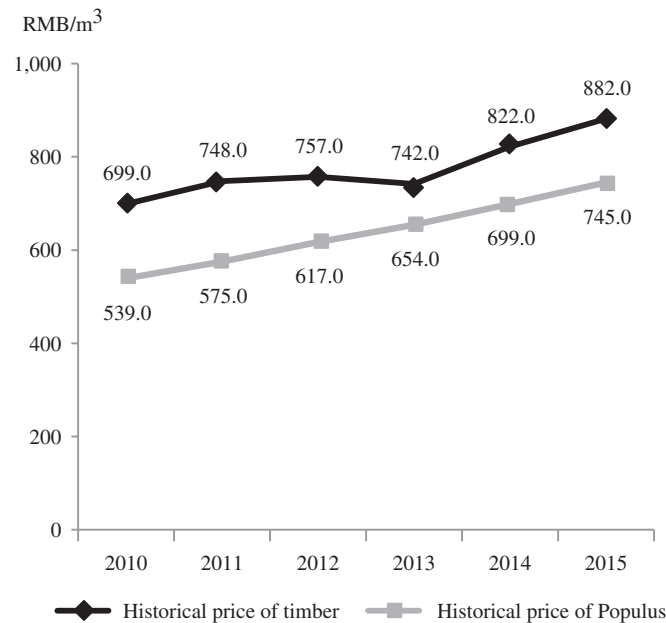
Based on the above, the supply of poplars in Shandong Province, will remain stable in 2017 and 2018 which can satisfy the demand of poplars for the wood-based manufacturers. Hence, it is considered that, going forward, it will be able to maintain a sufficient supply of poplars for their operations in a sustainable manner in the near future.

INDUSTRY OVERVIEW

Price of poplars in the PRC

The chart below sets out the historical costs of timber and poplars for wood-based panel manufacturing industry in China from 2010 to 2015.

**Costs of raw materials for wooden panels manufacturing industry
in the PRC from 2010 to 2015**



Sources: State Forestry Administration of the PRC and Ipsos Report

According to the State Forestry Administration of the PRC and the Ipsos Report, the historical prices of timber in China increased from approximately RMB699.0 per m³ in 2010 to approximately RMB882.0 per m³ in 2015, at a CAGR of approximately 6.7%. The increase in timber prices was mainly due to the increasing gap between the timber supply and the demand for timber, which increased from approximately 350.9 million m³ in 2010 to approximately 501.2 million m³ in 2015. The price dropped by approximately RMB15.0 per m³ from 2012 to 2013, attributing to a production volume of timber of approximately 84.4 million m³ in 2013, which was the highest from 2010 to 2014. The lack of supply led to China's dependence on foreign wood, contributing more than 50.0% in 2014. The wooden panels processing manufacturers had to turn to imported wood because of the insufficient local supply of raw material, causing them to experience lower profit margins.

According to the Ipsos Report, the historical prices of poplars in China experienced steady growth from 2010 to 2015 at a CAGR of approximately 4.8%, reaching approximately RMB745.0 per m³ in 2015. The prices of poplars are below average of all species because of its easy to fell characteristic compared to other species, such as cedars or pines. However, poplars wooden panels are gaining popularity in the market due to its short felling period and the lack of supply of wood in China. With the development of processing techniques to improve hardness, the price of poplars is also expected to increase in the next 5 years.

INDUSTRY OVERVIEW

OVERVIEW OF WOODEN PANELS MANUFACTURING INDUSTRY IN THE PRC

According to the Ipsos Report, the wooden panels manufacturing industry is developing rapidly from 2010 to 2015, with the production value of wooden panels manufacturing industry in China increased from approximately RMB266.4 billion in 2010 to approximately RMB603.8 billion in 2015, at a CAGR of approximately 17.8%. This was mainly due to the implementation of the Urban Affordable Housing Construction Project which drove wooden panels manufacturing industry's production value. The production value of wooden panels manufacturing industry accounted for more than 10.0% of the gross output value of forestry in 2015, compared to approximately 7.2% in 2010. Production value of wooden panels manufacturing industry is expected to grow at a CAGR of approximately 6.9% from 2016 to 2019, reaching approximately RMB838.2 billion in 2019. The wooden panels manufacturing industry is experiencing a structural upgrade, aiming at reducing the fragmentation of the industry. The production value will continue to grow and a transition from scale expansion to quality upgrading in the industry can be expected.

Market share and production cost of different types of wooden panels

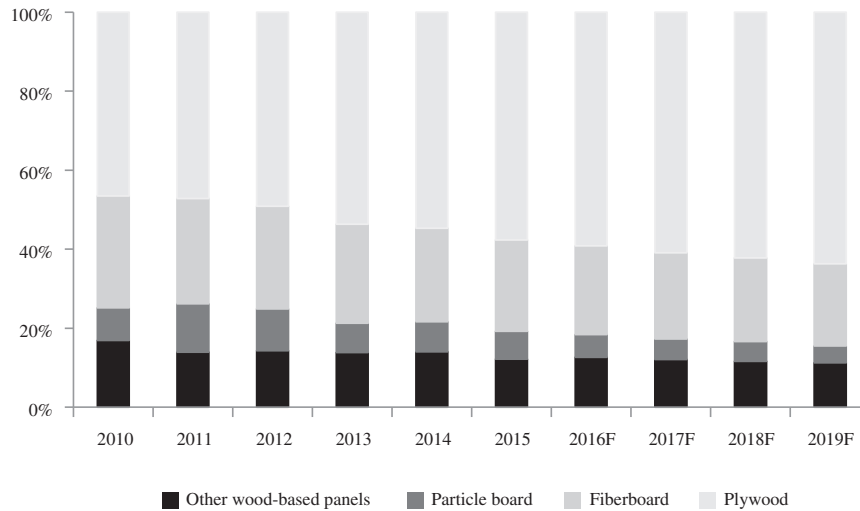
Plywood, fiberboard and particle board are three major types of wooden panels, among which plywood and fiberboard are widely used in downstream industries such as construction and decoration, furniture manufacturing and transportation manufacturing. Plywood is of less weight and has higher intensity than fiberboards and particle board, contributing to its better performance of nail-holding power and better deformation-resistant ability. Plywood also outperforms the other wooden panels in appearance given its clear texture. Despite its comparatively high manufacturing cost due to usage of larger-diameter trees and glue, plywood is still the most popular type of wooden panels in China.

According to the Ipsos Report, the market share of plywood increased from approximately 46.5% in 2010 to approximately 57.7% in 2015, followed by fiberboard accounting for approximately 23.1% of the total production volume in 2015. The average production cost of plywood was approximately RMB1,705.7 per m³ in 2015, followed by fiberboard at approximately RMB1,632.6 per m³. With the improvement of people's consumption concept, consumers are willing to pay more for higher quality products, and therefore plywood is increasingly used in the manufacturing of melamine faced board, and the market share of plywood in terms of volume is expected to keep growing from approximately

INDUSTRY OVERVIEW

59.2% in 2016 to approximately 63.7% in 2019. The chart below sets out the historical and projected market share of different types of wooden panels, namely plywood, fibreboard, particle board and other types of wooden panels in China from 2010 to 2015 and from 2016 to 2019 respectively.

Market share^(Note) of different types of wooden panels in the PRC from 2010 to 2019



Source: State Forestry Administration of the PRC; Ipsos Report

Note: Market share is calculated by the ratio of corresponding production volume to total production volume of the industry.

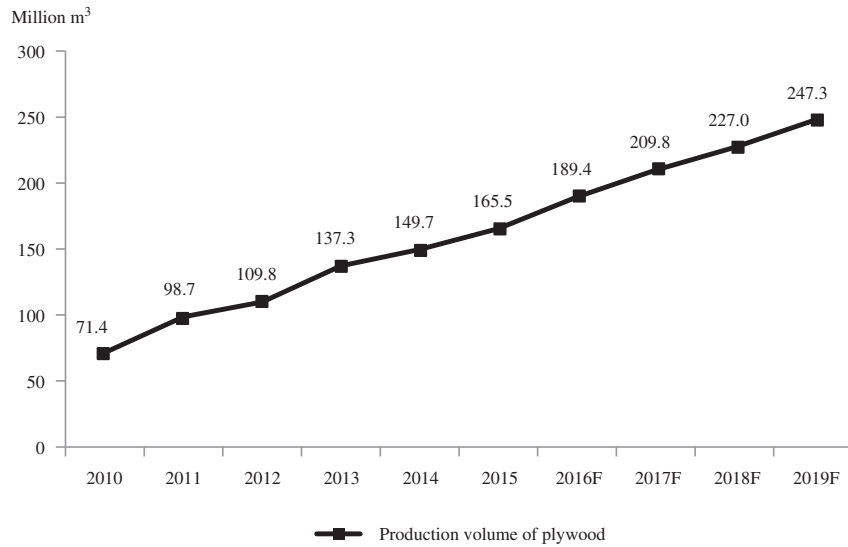
Production volume of plywood manufacturing industry in the PRC

Production volume of plywood manufacturing industry in China increased from approximately 71.4 million m³ in 2010 to approximately 165.5 million m³ in 2015, at a CAGR of approximately 18.3%. Due to the prosperity of real estate industry and low entry barriers for plywood manufacturing, more players entered into the market, and existing players increased their capacity as well, which led to the rapid growth of supply of plywood from 2010 to 2015. Production volume of plywood manufacturing industry in China is expected to reach approximately 247.3 million m³ in 2019, at a CAGR of approximately 9.3% from 2016 to 2019. As the leading companies in this industry continue to expand their own production capacity by merger integration and upgrading from unique product production to the integration of plantation and plywood manufacturing with the aim to enhance brand share and competitiveness, it is anticipated that there will be an increase in supply of plywood in the near future.

INDUSTRY OVERVIEW

The chart below sets out the historical and projected total production volume of the plywood manufacturing industry in the PRC from 2010 to 2015 and from 2016 to 2019 respectively.

Production volume of plywood manufacturing industry in the PRC from 2010 to 2019

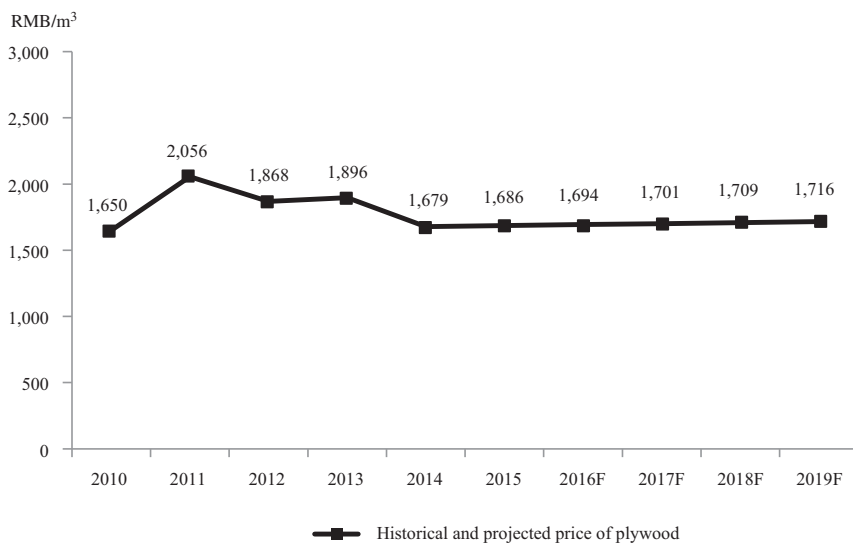


Source: State Forestry Administration of the PRC; Ipsos Report

Historical and projected prices of plywood in the PRC

The chart below sets out the historical and projected prices of plywood in the PRC from 2010 to 2015 and from 2016 to 2019 respectively.

Historical and projected prices of plywood in the PRC from 2010 to 2019



Sources: State Forestry Administration of the PRC; Ipsos Report

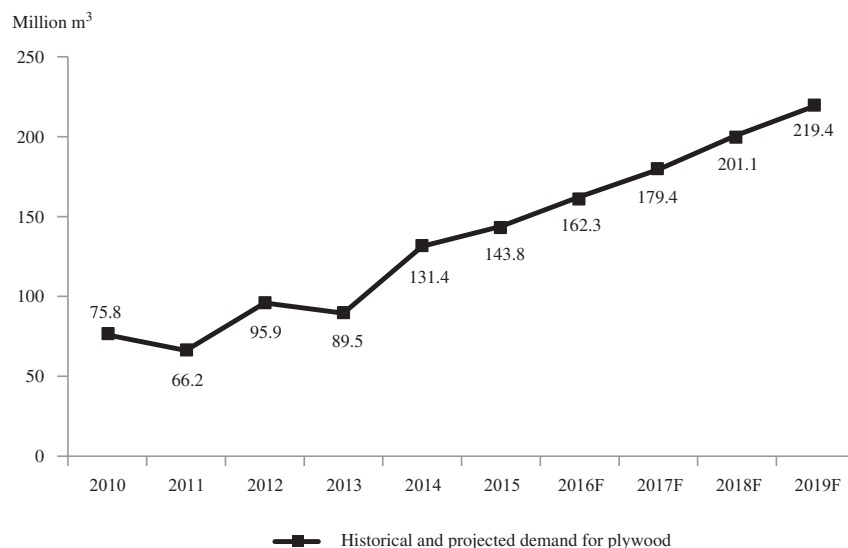
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According to the Ipsos Report, the sharp rise of price of plywood in 2011 from approximately RMB1,650 per m³ in 2010 to approximately RMB2,056 per m³ in 2011 was partly due to the increasing ex-factory prices of raw materials and the government's encouragement of wood imports for the purpose of protecting forestry resources, both of which had led to an increase in manufacturing cost. The historical prices of plywood decreased gradually from 2011 to 2014 though remaining at a higher level than 2010, which was mainly due to the oversupply of plywood and the price competition caused by fierce competition of plywood market in the PRC. However, the oversupply issue is starting to be relieved from 2014 and according to the Ipsos Report, the price of plywood is expected to experience a very slight increase from 2016 to 2019 due to a higher estimated growth in demand compared with the estimated growth in supply during the same period.

Demand of plywood in the PRC

The chart below sets out the historical and projected demand of plywood in the PRC from 2010 to 2015 and from 2016 to 2019 respectively.

Demand for plywood in the PRC from 2010 to 2019



Sources: State Forestry Administration of the PRC; Ipsos Report

According to the Ipsos Report, the demand for plywood increased with fluctuations at a CAGR of approximately 12.6% from 2010 to 2015, which was mainly due to an investment upsurge in the real estate field, driving the construction and decoration industry to grow and the demand for plywood to increase as well. Despite the fierce competition in the plywood manufacturing industry, the robust future growth in infrastructure construction triggered by the One Belt One Road Initiative (a development strategy and framework that focuses on connectivity and cooperation among countries primarily between the PRC and the rest of Eurasia) and the continuous development in middle west regions of China are expected to support the growth in demand for plywood. According to the Ipsos Report, it is estimated that the demand for plywood in China will grow at a more steady pace at a CAGR of approximately 10.6% from 2016 to 2019. The expected increase in demand for plywood is

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anticipated to relieve the anticipated increase in supply as the estimated growth in demand for plywood at a CAGR of about 10.6% from 2016 to 2019 is higher than its estimated growth in supply at a CAGR of about 9.3% from 2016 to 2019 during the same period, and therefore the price of plywood is expected to experience a slight increase from 2016 to 2019.

DEMAND AND SUPPLY OF POPLAR PLYWOOD IN THE PRC

According to the Ipsos Report, the supply and demand of poplar plywood in the PRC aligns with the supply and demand of the overall plywood market in the PRC as approximately 70% of the total plywood market consists of poplar plywood.

The supply of poplar plywood in the PRC increased at a CAGR of about 19.9% from 2010 to 2015 and is expected to increase at a CAGR of about 11.1% from 2016 to 2019.

Shandong Province is the largest poplar plywood supplier among all the provinces abundant in poplar resources, which, according to the Ipsos Report, contributed more than 39.9% of the total production volume of poplar plywood in the PRC in 2015. The poplar plywood produced in Shandong Province generally has low and stable moisture content due to the dry air, low rainfall and short rainy season in Shandong Province, which can be used to produce superior quality furniture products compared with those made from plywood produced in southern regions of the PRC such as Jiangsu and Zhejiang Provinces. According to the Ipsos Report, Shandong Province is regarded as the most ideal plywood supplier for downstream players due to its superior location, sufficient supply, and consistent and higher product quality.

According to the Ipsos Report, the demand for poplar plywood in the PRC increased with fluctuations at a CAGR of approximately 14.3% from 2010 to 2015, and is expected to grow at a steadier pace at a CAGR of approximately 12.2% from 2016 to 2019.

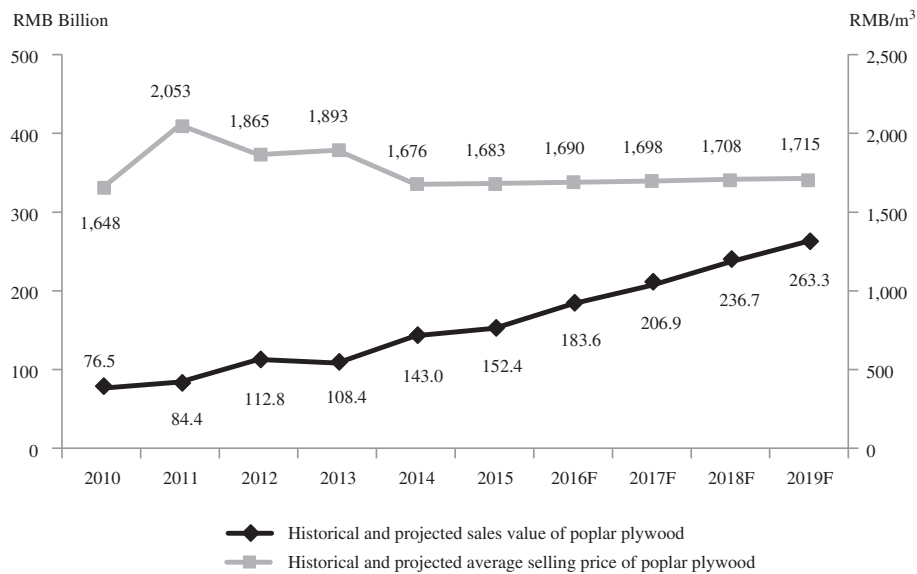
According to the statistics of China Light Industry Council and the Ipsos Report, the demand for poplar plywood is mainly concentrated in Southern China and Eastern China, with furniture manufacturers in Guangdong and Fujian Provinces contributing to approximately 20.3% and 13.5% respectively of the total volume of wooden furniture in the PRC respectively in 2015.

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PRICE AND SALES VALUE OF POPLAR PLYWOOD IN THE PRC

The chart below sets out the historical and projected average selling price and sales value of poplar plywood in the PRC from 2010 to 2015 and 2016 to 2019 respectively.

Average selling price and sales value of poplar plywood in the PRC from 2010 to 2019



Source: State Forestry Administration of the PRC; Ipsos Report

According to the Ipsos Report, the change in average selling price and sales value of poplar plywood is again aligned with that of the overall plywood market due to the large proportion of poplar plywood in the total plywood market.

Historical price of poplar plywood increased at a CAGR of approximately 0.4% from 2010 to 2015, and is expected to experience a slight increase from 2016 to 2019 at a CAGR of 0.5%, while sales value of poplar plywood in the PRC increased at a CAGR of approximately 14.8% and is expected to further increase at a CAGR of approximately 12.8% from 2016 to 2019.

Downstream players such as furniture manufacturers and wooden packaging manufacturers are showing increasing preference for poplar plywood due to its low price, abundant supply and superior quality such as better resistance to deformation and cracks.

Competition analysis of plywood manufacturing industry in the PRC

The plywood manufacturing industry is highly fragmented and competitive, which is mainly due to the similarity of products and processing technology. According to the Ipsos Report, there were more than 4,000 plywood manufacturers in China in 2015, and the top 5 wooden panels processing manufacturers contributed only approximately 0.65% of the total wooden panels manufacturing industry in China in 2015. First, plywood faces low threat of substitution in the near future. The

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current substitute for plywood are particle board, fiberboards and other man-made panels like crop-based panels with their major raw material being straw. Given plywood performs better in density and texture clarity, this makes it more popular than particle boards and fiberboards, hence plywood will remain a more popular choice. Second, customer's bargaining power is relatively high due to the industry's wealth of manufacturing options. On the other hand, the switching cost of customers is relatively low due to the similar product property, causing the price to be the major way of competition. Third, suppliers' bargaining power is determined by the availability of resources in the area. Due to felling restrictions resulting from the deforestation issue, most of the plywood is made of fast-growing woods (e.g. poplars), so plywood processing manufacturers in regions rich in fast-growing forestry resources like Shandong and Guangxi Provinces have high bargaining power as local suppliers are plentiful.

According to the interviews and analysis conducted by Ipsos, the top 5 plywood manufacturers by revenue in China in 2015 were set forth as below:

Rank	Name of Company	Headquarter Location	Revenue of Plywood 2015 (million RMB)	Share of Total Industry Revenue (%)
1	Company A — A listed company in Shenzhen Stock Exchange	Zhejiang	478.6	0.17%
2	Company B — A listed company in Shenzhen Stock Exchange	Jiangsu	448.3	0.15%
3	Company C	Shandong	417.0	0.14%
4	Our Group	Shandong	284.2	0.10%
5	Company D	Jiangsu	257.7	0.09%

Source: Ipsos Report

Note: The market share data reported above has been determined via a fieldwork programme consisting of interviews and analysis by Ipsos. The table above refers to the top 5 companies ranked by revenue which is generated from plywood manufacturing industry instead of their total revenue. Ipsos has estimated the market shares based on estimates provided by various trade sources (i.e. not just the companies themselves) and seek a consensus on these estimates as much as possible.

According to the Ipsos Report, and based on the best knowledge of our Directors, currently, Company A and Company B do not have any production plant in Shandong Province and their major operations are outside Shandong Province. To the best knowledge of our Directors, the production facilities of Company C is located in Shouguang City, which is located over 400 kilometers away from Heze City, Shandong Province. There is no information that Company A, Company B or Company C purchase wood-based raw materials in Heze City, which would become our major competitors in purchasing poplar logs, veneer, and plywood cores in Heze City, Shandong Province.

According to the Ipsos Report, China has been the largest exporter of plywood across the world since 2005, and the export volume of plywood has reached around 10.8 million m³ in 2015. The volume of imported plywood in the PRC in 2015 is around 0.17 million m³, at a price of around RMB4,445 per m³, whereas the amount of domestic produced plywood is around 171.9 million m³, at

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a price of around RMB1,686 per m³. Considering that both the volume and price of imported plywood are of low competitiveness and the huge difference between imported volume and domestic production volume indicates the low threat of imported plywood, the plywood produced in the PRC is expected to face low threat of imported plywood from outside the PRC.

Entry barriers of plywood manufacturing industry in the PRC

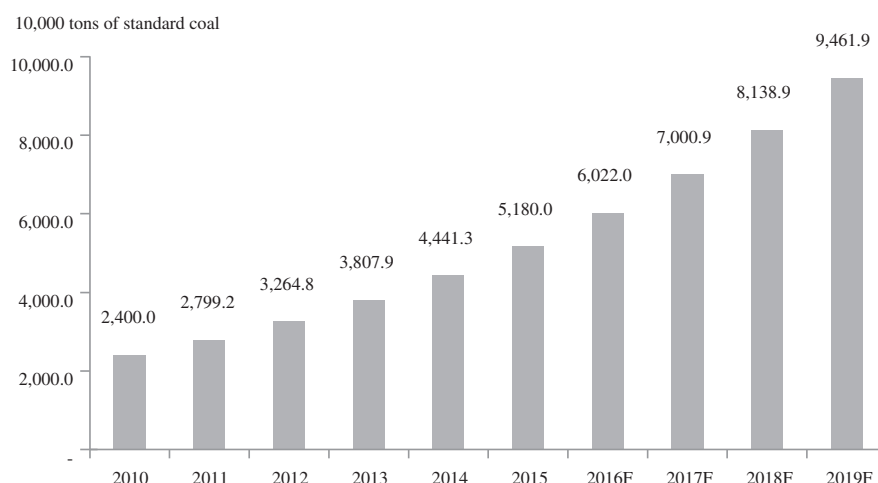
- Plywood manufacturing industry is a typical resource-dependent industry. New comers have to secure a sufficient and steady supply for the raw materials, otherwise it would be difficult for them to make good progress due to the lack of forestry resources in China and government's restrictions on deforestation.
- In general, the entry barriers of plywood industry are relatively low due to its being labour-intensive and low value-added. Both the initial capital input and the requirement for production equipment are relatively low compared to other manufacturing industries.

OVERVIEW OF BIOENERGY INDUSTRY IN THE PRC

According to the Ipsos Report, although China is keen on looking for clean, efficient and new alternative energy sources, the bioenergy industry in the PRC is still underdeveloped for the reasons of low biomass production technique, small production scale, and high cost of production. Nevertheless, biomass energy in China has seen fast development in recent years. In 2015, biomass electricity generation composed approximately 45% of the total biomass energy consumption.

The chart below sets out the historical and projected consumption of biomass energy in China from 2010 to 2015 and from 2016 to 2019 respectively.

Consumption of biomass energy in the PRC from 2010 to 2019



Source: China biomass development report, the 12th 5-year development of renewable energy in China, China National Renewable Energy Centre; and Ipsos Report

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Biomass energy can be divided into the form of (i) BMF, (ii) biomass fuel gas, and (iii) biomass liquid fuel. BMF is a sub-segment of bioenergy, which turns farming and forestry surplus into briquettes or pellets (such as biomass wood pellets, biomass bamboo pellets and straw fuel briquettes) through size reduction, drying, and compression. According to the Ipsos Report, the biomass briquette composes approximately 35% of total biomass energy consumption. BMF is expected to have the fastest rate of development, with its consumption amount growing from approximately 1 million tons in 2010 to an expected amount of approximately 50 million tons in 2020 in order to satisfy the increasing demand of rural livestock and industrial production. Ipsos also estimated that biomass wood pellets produced in 2015 provided for approximately 15% of biomass energy consumed in the PRC. Biomass fuel gas and biomass liquid fuel composed approximately 20% of total biomass energy consumption. Key development areas include biodiesel and cellulosic ethanol are expected to grow from approximately 0.2 million tons to approximately 2 million tons and approximately 2 million tons to approximately 10 million tons from 2010 to 2020 respectively.

Comparison of BMF with other fuels

According to the Ipsos Report, compared to traditional fuel, such as coal, BMF has competitive edge in transport, storage, combustibility, and emission. The sources of BMF are food waste and are renewable and biological so as to improve environmental resources efficiency. Furthermore, BMF contains no sulfate and phosphorous, therefore no pollution gas and contents would be released after burning. These enable biomass fuel to become the symbol of new-generation fuel. On the other hand, BMF has a relatively higher emission of carbon dioxide compared to other traditional fuels such as natural gas, oil and electricity.

The table below sets out the comparison between BMF and other fuels.

Comparison of BMF and other fuels

Fuel Type	Heat of combustion (MJ/kg)	Heat rate (MJ)	Emission (grams of carbon dioxide emitted per MJ)	Price (RMB) (Cost of boiling 1 metric ton of water to steam using a 1 ton/hour boiler)	Advantage
Coal	15.0-32.0	11.0	88.1 -97.6	150.0	Relatively low cost, can be easily accessed
Biomass	16.3-20.1	10.0	83.8	200.0	Equivalent heat to traditional fossil fuels with lower emission
Natural gas	54.0	8.4	50.3	278.0	High heat of combustion, low emission
Oil (heavy crude oil)	45.2	11.3	74.8	315.0	Low cost, relatively high heat rate
Oil (light diesel)	44.8	11.3	69.2	415.8	Relatively high heat rate, moderate emission
Electricity	Not Applicable	Not Applicable	Not Applicable	864.0	Clean, stable, automatic, small in size

Source: Ipsos Report

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OVERVIEW OF BMF MANUFACTURING INDUSTRY IN THE PRC

The Renewable Energy Law (《中華人民共和國可再生能源法》) has been enacted in the PRC since 2006 and has been amended in 2009, pursuant to which the local environmental protection institutes have launched plans to replace coal-fueled heating system with BMF-fueled heating system. Henan, Shandong, and Zhejiang have offered compensation packages for such heating system renovation. Since then, BMF, especially wood pellets, has been produced in large scale for replacing coal burning and the estimated wood pellets production was approximately 30 million tons in 2015. BMF is more cost-competitive in the PRC market than biomass liquid fuel and biomass gas fuel due to simpler production processes and relatively cheaper raw materials.

In 2014, the United Nation, along with the Ministry of Environmental Protection, National Energy Association and the Ministry of Commerce of PRC, launched the UNDP-China Biomass Fuels Pilot Project. Under this project, a series of research subjects are expected to be carried out in the form of Energy Performance Contracting (EPC) in cities, like Beijing, Tianjin, Hebei, Shandong, Shanghai, Jiangsu, and Zhejiang. This program is considered as an entrepreneurial act to gradually replace coal fuel with BMF to power heating system, and is expected to help enlarge the scale of production and promote the commercialisation of the BMF industry. Even though China's BMF production is relatively small in volume at present compared to other large BMF producing countries such as Canada, US, and Russia, China has a great potential market for BMF as it is the world's second largest energy consumer.

Government regulations and policies affecting BMF manufacturing industry in the PRC

In an attempt to relieve global warming, the PRC Government has launched the following two policies to encourage intensive processing of forest and farm waste, such as the Catalogue for adjusting products structure (2011) (產品結構調整指導目錄2011) and the National Plan to Tackle Climate Change (2014-2020)(《國家應對氣候變化規劃(2014-2020)》).

Please refer to the section headed “Laws and Regulations — PRC laws and regulations relating to timber processing and product quality — timber processing production and bio-energy law of the PRC” in this prospectus for details.

Furthermore, the PRC Government offers stimulus package to encourage the development of BMF. Subsidies and tax rebate are offered by the PRC Government to stimulate the development of BMF industry, such as stated in the Circular on Printing and Distributing the Interim Measures on the Administration of Levying and Use of Renewable Energy Development Fund (關於印發《可再生能源發展基金徵收使用管理暫行辦法》的通知), the Opinions on Promoting the Development of New Energy and Energy-saving and Environmental Protection Industry in Shandong Province (關於加快我省新能源和節能環保產業發展的意見) and the Circular on Issuing the Catalogue of Preferential Value-added Tax Policies for Products and Labor Services Generated from the Comprehensive Utilization of Resources (關於印發《資源綜合利用產品和勞務增值稅優惠目錄》的通知).

Please refer to the sections headed “Laws and Regulations — PRC laws and regulations relating to timber processing and product quality — timber processing production and bio-energy law of the PRC” and “Laws and Regulations — PRC laws and regulations relating to taxation and foreign exchange — value-added tax” in this prospectus for details.

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Comparison between wood pellets and other BMF

In China, wood and bamboo are mostly used for biomass pellets, while straw and cornstalk are usually used for producing biomass briquettes. Biomass wood pellets are the most common type of BMF and are generally made from compacted sawdust and related industrial wastes from milling of lumber, manufacture of wood products and furniture, and construction.

	Raw materials	Energy efficiency	Emission (kilograms of carbon dioxide emitted per tonne) ^(Note 1)
Wood pellets	Residual sawdust, wood shavings, and wood peelings	0.75 standard coal equivalent	1,767.3 ^(Note 2)
Bamboo pellets	Bamboo	0.96 standard coal equivalent	1,833.3 ^(Note 3)
Nut pellets	Nut peelings	0.55 standard coal equivalent	806.7
Palm kernel pellets	Palm kernel peelings	0.65 standard coal equivalent	677.2
Briquettes	Straw and crop stalks	0.5 standard coal equivalent	687.5 ^(Note 4)

Notes:

1. Carbon Dioxide Emission = (% of carbon content*44/12)*1,000
2. Number is based on aspen
3. Number is based on 3 years moso bamboo
4. Number is based on rice straw stalk

Source: Ipsos Report

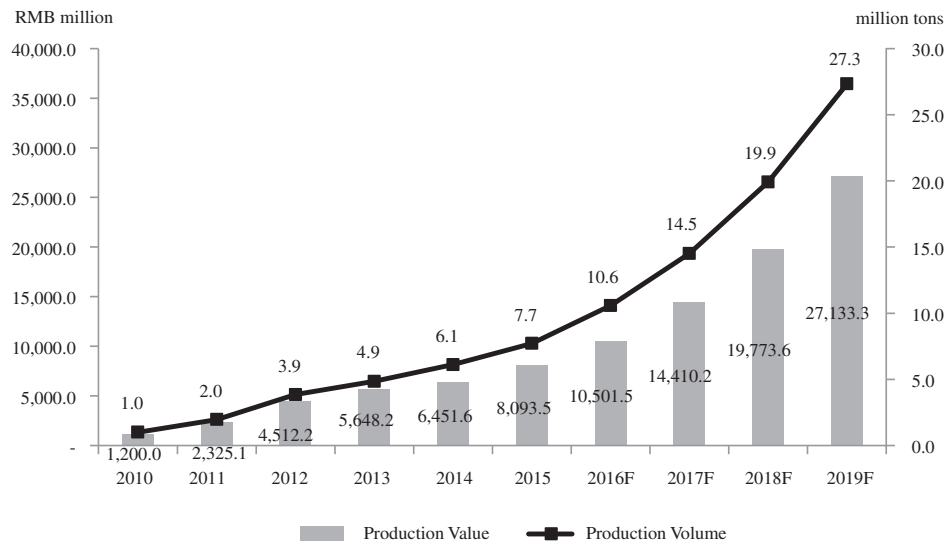
According to the Ipsos Report, compared to bamboo pellets, wood pellets are less likely to get coagulated, which makes it an ideal biomass fuel for both small scale heating and large scale heating. However, the energy efficiency of wood pellets varies depending on its raw materials. Energy efficiency of pellets made from heavy wood (woods that are used for panel) processing residues is 4200J, while that of lower-quality wood is 2800J. As for bamboo pellets, its energy efficiency is relatively stable, ranging from 4800J to 4900J (which is almost equal to standard coal). Since bamboo is an oily material, it coagulates easily. This makes bamboo pellets unsuitable for certain small-scale heating systems, given small-scale stoves have relatively smaller furnaces and do not have enough space to release the dust. Compared to straw briquette and wood pellets, nut and palm kernel pellets contain oil, this means that it has higher calorific value. This characteristic allows them to release more heat than other biomass material ceteris paribus. However, nuts pellet contains more sulfate, carbon and water than wood pellets which lead to higher pollution, gas emission and lower combustibility.

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Market value of biomass wood pellets industry in the PRC

The chart below sets out the historical and projected market value and volume of biomass wood pellets industry in China from 2010 to 2015 and from 2016 to 2019 respectively.

Market value of biomass wood pellets industry in the PRC from 2010 to 2019



Source: Ipsos Report

According to the Ipsos Report, the market value of biomass wood pellets has been growing at approximately 50.5% from 2010 to 2015. The constant growth of market value of biomass wood pellets is largely driven by governmental support on the biomass wood pellets fuel industry. In 2013, the National People’s Congress prohibited the use of coal stove. Since then, biomass, electricity or gas stoves have been used instead of coal stores. In 2014, clean energy powered heating stoves represented 3% of the total heating industry’s revenue. Biomass stove, with its cheap cost and low carbon emission, has largely expanded in second/third tier cities and suburban area of first tier cities. For example, in 2014, some residential areas in Changchun and Huaibei, have started replacing coal stoves with pellet stoves.

It is expected that the growth rate will sustain in the near future. China has rich forest resources to support the industry’s growth. According to the statistics of the Twelfth Five-Year Plan launched by the PRC Government, exploitable forest residues in China are 125 million tons, which equals to approximately 63 million tons standard coal. At present, the production amount of biomass wood pellets is only 7.7 million tons, which equals to approximately 5.8 million tons of standard coal. Thus, exploitable forest residues in China are far from being fully utilised. Demand will increase as the number of biomass pellet boiler increases. It is also expected that, in 2017, most coal boilers in first-tier and second-tier cities will be replaced by biomass boilers, and the demand of biomass wood pellets is expected to remain strong. Though suspicions have been raised about whether biomass wood

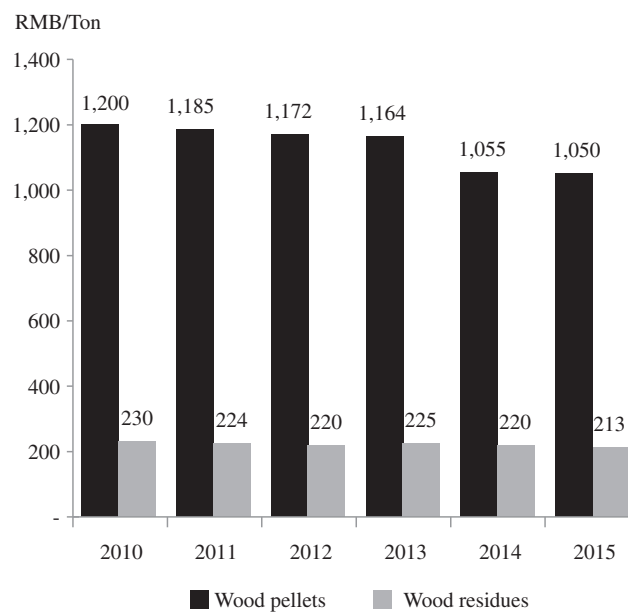
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pellets demand will continue to grow, as governmental subsidies on BMF in some cities were either reduced or removed because of many cases of fraudulent subsidy applications. However, the reduction in compensation is unlikely to adversely affect the demand of biomass wood pellets, as biomass wood pellets are amongst the cheapest source of renewable energy for heating.

Historical price of biomass wood pellets in the PRC

The chart below sets out the historical unit price of biomass wood pellets in the PRC from 2010 to 2015.

Historical unit price of biomass wood pellets in the PRC from 2010 to 2015



Source: Ipsos Report

According to the Ipsos Report, in the past 5 years, unit price of biomass wood pellets experienced minimal decrease. This was mainly due to the increase of demand and competition within the industry at the same time. The demand for biomass wood pellets was driven higher due to their wider application, where from 2010 to 2015, market value of biomass wood pellets industry in China had been increasing at approximately 50.5% annually. Under the Renewable Energy Law, pellet boiler, which is carbon neutral and good for the environment, was encouraged by the PRC Government and often receive subsidies. In first and second tier cities, coal boilers are gradually being replaced by stove boilers. As biomass wood pellet application became wider, demand for biomass wood pellets increased. On the other hand, according to the Ipsos Report, due to the low entry barrier of biomass wood pellets manufacturers and the encouragement of clean energy according to the Energy Development Strategic Action Plan (2014-2020), more small-scale companies entered the market and most of them are even family-based. They offered lower price to compete in the highly fragmented market. Such increase in competition has led to the supply of biomass wood pellets surpassing the increasing demand for the same product, which resulted in the slight decrease of the price of wood pellets from 2014.

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Market trend, growth drivers and growth barriers for biomass wood pellets industry in the PRC

From 2010 to 2013, the domestic demand of biomass wood pellets was low, the growth of biomass wood pellets production was mainly driven by export to neighboring countries. The unit price of biomass wood pellets produced in China was far lower than neighboring countries such as Japan and Korea, and this has driven the need of exporting biomass wood pellets to neighbouring countries. For example, in 2011, the average price of biomass wood pellets in China was only approximately RMB1,200 per ton, whereas the average price of biomass wood pellets in Japan was approximately RMB2,702 per ton.

Having considered biomass energy is a relatively cleaner fuel as compared with other traditional forms of fuel, such as coal, and is an important substitute for coal, the PRC Government has not only established policies to promote the usage of biomass wood pellets, but has also established policies to guarantee the supply of raw materials for biomass wood pellets. In May 2013, the State Forestry Administration of the PRC issued the first *National Forestry Biomass Energy Development Plan for 2011-2020* (《全國林業生物質能發展規劃2011-2020》), this plan elaborated guidelines, basic principles, development goals and layout for China's forestry biomass development. According to the plan, the area of woody biomass forest (forests of which the trees are solely dedicated for producing energy) should reach 5.24 million hectares, which means approximately 45.0 million tons of raw materials are available for producing of biomass pellets. Since current consumption of biomass wood pellets was only approximately 7.7 million tons and current consumption of BMF was only approximately 10 million tons, the biomass wood pellets industry driven by such government policy has great potential to grow.

With respect to the growth barrier for biomass wood pellets industry, as the price of coal had started to decrease since 2014, some pellet boilers restarted using coal as their energy sources. Furthermore, the subsidy of biomass has greatly reduced after 2010 because of the wide application of biomass wood pellets. This will pose a threat to the biomass wood pellets industry as demand would decrease if the price reduction of coal continues.

Competitive analysis of biomass wood pellet manufacturing industry in the PRC

According to the Ipsos Report, the biomass wood pellets manufacturing industry in China is highly fragmented and competitive, with the top 5 companies generating 1.92% of total market value in 2015. The biomass wood pellets manufacturing industry in China is still at the initial stage of development, and the majority of biomass wood pellets manufacturing companies are small-scale factories due to the government support policies and low entry barrier. The small-scale factories have low competitive capacity due to the immature technology, instability of technological process, high equipment failure rate, and poor customer development in downstream application areas. Stable raw material supply channel, production capacity and technical innovation are key barriers to the growth of these companies. As a consequence, the biomass wood pellets manufacturing market in mainland China is highly fragmented with large numbers of small-scale companies with annual production volume of less than 10,000 tons. Furthermore, due to the high transportation cost, the biomass wood pellets manufacturing enterprises clusters are mainly in the coastal areas of the Yangtze River Delta, Pearl River Delta and Bohai Bay, where the manufacturing industry is well-developed. For instance, there are more than 400 biomass wood pellets manufacturing companies in Zhejiang Province.

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Threats from main substitutes of biomass wood pellets coming from biomass briquettes and bamboo pellets as a form of clean energy to coal are few, as the energy efficiency of biomass briquettes is only 2/3 of that of biomass wood pellets, and the alkalinity of the biomass briquettes also accelerates the corrosion of the boiler. Furthermore, as an oily material, the energy efficiency of bamboo pellets is higher than biomass wood pellets, but it also coagulates easily, which restricts bamboo pellets to large-scale heating systems, for instance, power generation plants.

According to the interviews and analysis conducted by Ipsos, the top 5 biomass wood pellets manufacturers by revenue in China in 2015 were set forth as below:

Rank	Name of Company	Headquarter Location	Revenue of Biomass Wood Pellets in 2015 <i>(million RMB)</i>	Share of Total Industry Revenue <i>(%)</i>
1	Our Group	Shandong	102.1	1.26%
2	Company E	Jiangxi	25.9	0.32%
3	Company F	Liaoning	14.5	0.18%
4	Company G	Hunan	12.9	0.16%
5	Company H — A listed company in Shenzhen Stock Exchange	Guangzhou	12.0	0.15%

Source: Ipsos Report

Note: The market share data reported above has been determined via a fieldwork programme consisting of interviews and analysis by Ipsos. Ipsos has estimated the market shares based on estimates provided by various trade sources (i.e. not just the companies themselves) and seek a consensus on these estimates as much as possible.

Entry barriers of biomass wood pellet manufacturing industry in the PRC

According to the Ipsos Report, generally, the barrier of entry for biomass wood pellets is at mid-low level. There are currently approximately 2,500 biomass wood pellets producing companies in China and this number is expected to grow in the future. However, most biomass wood pellet companies are small in scale. One can set up a biomass wood pellet factory company with only RMB0.15 million to buy an assembly line, two workers and a 100 square meter-factory. A mid-sized biomass wood pellet plant with a production capacity of 10,000 tons of biomass wood pellets required a total investment of approximately RMB2.0 million in 2010. In order to achieve higher profit margin and gain the economies of scale, biomass wood pellet companies need to have better expertise in thermal operations in order to satisfy the demand of differentiated customers and win customer loyalty.

LAWS AND REGULATIONS

PRC LAWS AND REGULATIONS RELATING TO FOREIGN INVESTMENT

Catalogue for the Guidance of Foreign Investment Industries

The *Catalogue for the Guidance of Foreign Investment Industries (2015 Revision)* (外商投資產業指導目錄(2015年修訂)) (the “**Catalogue**”) was issued by the NDRC and MOFCOM on 10 March 2015 and became effective from 10 April 2015. Pursuant to the Catalogue, foreign invested projects in the PRC are divided into four categories: encouraged, permitted, restricted and prohibited. Timber processing falls within the permitted industries in accordance with the Catalogue, while the development of new technologies for the comprehensive utilisation of wood residues falls within the encouraged industries.

Law of PRC on Wholly Foreign-owned Enterprises

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

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

PRC LAWS AND REGULATIONS RELATING TO MERGER AND ACQUISITION

On 8 August 2006, six PRC regulatory agencies, including the MOFCOM, the State Assets Supervision and Administration Commission, the State Administration of Taxation, the SAIC, China Securities Regulatory Commission (“**CSRC**”) and the SAFE, jointly issued the *Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* (關於外國投資者併購境內企業的規定) (“**M&A Rule**”), which became effective on 8 September 2006 and was amended on 22 June 2009. This M&A Rule, among other things, includes the provisions requiring that a special purpose vehicle (“**SPV**”) formed for purposes of overseas listing of equity interests in PRC companies and controlled directly or indirectly by PRC domestic companies or individuals to obtain the approval of the CSRC prior to the listing and trading of such SPV’s securities on an overseas stock exchange under certain circumstances.

LAWS AND REGULATIONS

PRC LAWS AND REGULATIONS RELATING TO TIMBER PROCESSING AND PRODUCT QUALITY

Timber Processing Production and Bio-energy Law of the PRC

Pursuant to *Regulations of the Forestry Law of the PRC* (中華人民共和國森林法實施條例) promulgated on 29 January 2000 and amended on 8 January 2011, operation and processing of timbers in forest areas are subject to approval by the competent forestry departments of the people's governments at or above the county level. Meanwhile, timber purchasing units or individuals may not purchase any timber from which there is no forest tree felling license or other proof of lawful origins.

According to the *Forestry Law of the PRC* (中華人民共和國森林法) and *Regulations of the Forestry Law of the PRC* (中華人民共和國森林法實施條例), anyone who wishes to fell trees shall apply for a tree felling licence, however firewood trees owned by individuals felled by rural residents from private hilly land and odd trees owned by individuals on private plots and around their houses shall be exempted. The competent departments for forestry of the people's governments at or above the county level shall be responsible for the work in connection with forestry in their respective areas.

For timber transportation, a timber transport licence shall be required for transporting the timber which is administrated by the *Forestry Law of the PRC* and *Regulation of the Forestry Law*. Timber transport licences shall be valid for the whole journey from the starting point to the destination of the transportation, and shall accompany with the goods.

Depending on the source of the timber, the proof that the timber is from legitimate origin may be different. For timber supplied by production companies or individual loggers, timber felling licence or other proof of lawful origins is required. For wood log, wood pieces and sawn wood purchased from timber market, invoices issued for such transactions are required. In addition to the above, for wood purchased from timber operation and processing companies, a copy of the timber operation and processing licence should be provided. It is, therefore, wood reseller may not possess timber felling licences, timber transport licence or timber operation and processing licence itself, but the purchasers of wood may prove that the timber purchased is from legal sources by obtaining relevant invoices. Moreover, as forestry authority inspects the lawful origin of each batch of wood before issuing timber transport licence, purchasers of wood may also prove that the timber purchased is from legal sources by inspecting the timber transport licence.

According to the Forestry Law of PRC, where a person illegally purchases trees in a forest area while clearly knowing that the trees are illegally or indiscriminately felled, the competent forestry department shall order him to stop purchasing the trees, or confiscate the illegally or indiscriminately felled trees bought or the gains obtained from selling them, and the competent forestry department may also fine the person for not less than one time but not more than three times the money spent on illegally buying the trees. If a crime is constituted, the person shall be investigated for criminal responsibility in accordance with law. According to the *Criminal Law of the PRC* (中華人民共和國刑法), when a person, for the purpose of profit, illegally purchases timber in a forest area knowing that the timber is felled stealthily or arbitrarily, if the circumstances are serious, he shall

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be sentenced to fixed-term imprisonment of not more than three years, criminal detention or public surveillance and shall also, or shall only, be fined; if the circumstances are especially serious, he shall be sentenced to fixed-term imprisonment of not less than three years but not more than seven years and shall also be fined.

Pursuant to the *Law on Renewable Energy of the PRC* (中華人民共和國可再生能源法) promulgated on 28 February 2005, amended on 26 December 2009, the competent department of energy under the State Council shall implement a unified administrative approach for the development and utilisation of renewable energies throughout the country. Relevant departments under the State Council shall, according to their respective functions and duties, be responsible for the management of the development and utilization of relevant renewable energies. The energy administrative departments of local governments at and above county level shall be responsible for administering the development and utilisation of renewable energies in their respective administrative regions. Relevant departments of local governments at and above county level shall, according to their respective functions and duties, be responsible for administering the development and utilisation of relevant renewable energies. The state shall encourage the clean and highly efficient development and utilisation of biomass fuels and the development of energy crops. Pursuant to the Circular on Printing and Distributing the Interim Measures on the Administration of Levying and Use of Renewable Energy Development Fund (關於印發《可再生能源發展基金徵收使用管理暫行辦法》的通知) issued on 29 December 2011 and effective on 1 January 2012, the development funds for renewable energy sources include special funds arranged by the public budgeting of national finance, and additional electrovalence revenue of renewable energy sources legally collected from electricity consumers. The special development funds for renewable energy sources shall be arranged by the central finance from the annual public budgets (excluding the special funds for basic construction within the central budget arranged by the investment authorities of the State Council). The development funds for renewable energy sources shall be used for supporting the activities of electricity generation and exploitation of renewable energy sources.

Pursuant to the Opinions on Promoting the Development of New Energy and Energy-saving and Environmental Protection Industry in Shandong Province (關於加快我省新能源和節能環保產業發展的意見) issued on 26 June 2009, the local government would support the development of BMF industry and encourage the research and development of the production equipment of biomass energy in Shandong Province.

Pursuant to the National Plan to Tackle Climate Change (2014-2020)(《國家應對氣候變化規劃(2014-2020)》), to promote the industrialisation of the BMF industry, the BMF industry has been encouraged to bring consumption of BMF to 50 million tons annually in 2020.

Pursuant to the Catalogue for adjusting products structure (2011) (產品結構調整指導目錄2011) amended in 2013, products such as intensive processing of forest and farm waste like sawdust, small firewood, corn stalk, machinery for collection, transportation, and storage of the forest and farm waste, as well as pellet stove were encouraged to be developed.

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Product Quality Law of the PRC

The principal legal provisions governing product liability are set out in the *Product Quality Law of the PRC* (中華人民共和國產品質量法) (the “**Product Quality Law**”), which was last amended on 8 July 2000. The *Product Quality Law* is applicable to all activities of production and sale of any product within the territory of the PRC, and the producers and sellers shall be liable for product quality in accordance with the *Product Quality Law*. According to the *Product Quality Law*, consumers or other victims who suffer personal injury or property losses due to product defects may demand compensation from the producer as well as the seller. Where the responsibility for product defects lies with the producer, the seller shall, after settling compensation, have the right to recover such compensation from the producer, and vice versa. Violations of the *Product Quality Law* may result in the imposition of fines. In addition, the seller or the producer may be ordered to suspend operation and its business license may be revoked. Criminal liability may be incurred in serious cases.

PRC LAWS AND REGULATIONS RELATING TO TAXATION AND FOREIGN EXCHANGE

Law of the PRC on Enterprise Income Tax

According to the *Law of the PRC on Enterprise Income Tax* (中華人民共和國企業所得稅法) (the “**EIT Law**”) promulgated on 16 March 2007 and the *Implementing Regulations of the Law of the PRC on Enterprise Income Tax* (中華人民共和國企業所得稅法實施條例) (the “**EIT Regulation**”) promulgated on 6 December 2007, both of which became effective on 1 January 2008, enterprises in the PRC including domestic and foreign invested enterprises shall pay enterprise income tax at the unified rate of 25%.

Pursuant to the *Circular on Improving the Policy on Extra Pre-tax Deduction of Research and Development Expenses* (關於完善研究開發費用稅前加計扣除政策的通知) issued on 2 November 2015 and became effective on 1 January 2016 where an enterprise is engaged in the research and development on the subjects as listed in the Hi-tech Sectors with Primary Support of the State Support and the Guideline of the Latest Key Priority Developmental Areas in the High Technology Industry (2007) jointly issued by the NDRC and other departments, such enterprise may, in accordance with relevant provisions, additionally calculate and deduct the certain actual expenditures provided by Pre-tax Deduction Measures incurred by the enterprise in a tax year when calculating the taxable income amount.

Administrative Measures for Certification of New and High Technology Enterprises

Pursuant to the *Administrative Measures for the Accreditation of High-tech Enterprises* (高新技術企業認定管理辦法) (these “**Measures**”) which was promulgated on 29 January 2016 and effective from 1 January 2016, the High-tech enterprises, which are recognised in accordance with these Measures, may apply for preferential tax policies in accordance with the *EIT Law* and the *EIT Regulation* thereof, the *Law of the PRC Concerning the Administration of Tax Collection* (中華人民共和國稅收徵收管理法) and the *Implementation Rules of the Law of the PRC Concerning the Administration of Tax Collection* (中華人民共和國稅收徵收管理法實施細則).

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Value-added Tax

Pursuant to the *Temporary Regulations on Value-added Tax of the PRC* (中華人民共和國增值稅暫行條例), which was promulgated by the State Council on 13 December 1993, amended on 10 November 2008 and became effective on 1 January 2009, all entities and individuals in the PRC engaged in the sale of goods, processing services, repair or replacement services in China, and the importation of goods into the PRC are required to pay value-added tax (“VAT”). VAT payable is calculated as “output VAT” minus “input VAT”, and the rate of VAT is 17% or under certain limited circumstances, 13%, depending on the products.

Pursuant to the Circular on Issuing the Catalogue of Preferential Value-added Tax Policies for Products and Labor Services Generated from the Comprehensive Utilization of Resources (關於印發《資源綜合利用產品和勞務增值稅優惠目錄》的通知) issued on 12 June 2015 and became effective on 1 July 2015, taxpayers engaged in the sale of home-grown products and providing services generated from comprehensive utilisation of resources, may enjoy the policy of claiming VAT refunds immediately after payment. Taxpayers shall separately calculate the sales revenues and tax payable in respect of the products and services of comprehensive utilisation for application under the policy to claim VAT refunds immediately after payment.

Administrative Regulations of the PRC on Foreign Exchange

Pursuant to the *Administrative Regulations on Foreign Exchange of the PRC* (中華人民共和國外匯管理條例) promulgated by the State Council on 29 January 1996, became effective on 1 April 1996 and amended on 5 August 2008, Renminbi is freely convertible without the approval from the SAFE or its local counterpart for current account transactions, including payment of dividends to foreign investors, payment of interests, international trade of goods, service-related foreign exchange transactions, while capital account transactions including capital transfer, direct investment, securities investment, derivative products or loans, require a prior approval from a SAFE and/or its competent counterparts. Foreign-invested enterprises in the PRC may, without any approval from the SAFE and/or its competent local counterparts, purchase foreign exchange for dividend distribution, trade or services by providing certain documentary evidence (such as board resolutions and certificates of tax payments).

On 4 July 2014, the SAFE released the Circular on Relevant Issues Concerning Foreign Exchange Administration for PRC Resident to Engage in Offshore Investment and Financing and Return Investment via Special Purpose Vehicles (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (“**Circular No.37**”) and abolished the Circular on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage Financing and Return Investment via Offshore Special Purpose Vehicles (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (“**Circular No.75**”) which came into effect on 1 November 2005.

Pursuant to the SAFE Circular No.37, where the PRC individual residents make investment by establishing the SPVs with their legitimate on-shore enterprises’ assets or equities and offshore assets or equities for the purpose of offshore investments and financing, they shall register with the local SAFE branches with respect to their investments. The SAFE Circular No. 37 also requires the PRC individual residents to file changes to the registration of the SAFE when their registered offshore

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SPVs undergo material events such as the change of basic information including the change of PRC individual residence shareholder, name and operation periods, as well as material events such as capital increase or decrease, share transfer or exchange, merger or division. Where a non-listed SPV uses its own equity interests or options to grant equity incentives to the directors, supervisors and senior management of a domestic enterprise under its direct or indirect control, as well as other employees in employment or labor relationships with the aforesaid company, relevant domestic resident individuals may, before exercising their rights, apply to the local SAFE for foreign exchange registration of the SPV. In accordance with the SAFE circular No.37, under the relevant SAFE rules, failure to comply with the registration procedures set forth in this SAFE Circular No. 37 may result in various punishments stipulated in the *Foreign Exchange Administrative Regulations of the PRC* (中華人民共和國外匯管理條例).

On 13 February 2015, the SAFE issued the Notice on Further Simplification and Improvement of Foreign Exchange Administration Policies for Direct Investment (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) (“**Circular No. 13**”), which came into effect on 1 June 2015. Pursuant to the SAFE Circular No.13, a domestic resident who makes capital contribution to a SPV using his or her legitimate domestic or offshore assets or interests is no longer required to apply to the SAFE for foreign exchange registration of overseas investments. Instead, he or she shall apply to banks in the place where the assets or interests of such domestic enterprise are located (in case such domestic resident individually makes capital contribution to the SPV using his or her legitimate domestic assets or interests) or banks in place where his or her permanent residence is registered (in case such domestic resident individually makes capital contribution to the SPV using his or her legitimate offshore assets or interests).

Dividend Distribution

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

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

Furthermore, pursuant to *the Circular of the State Administration of Taxation on Relevant Issue relating to the Implementation of Dividend Clause in Tax Treaty Agreement* (國家稅務總局關於執行稅收協議股息條款有關問題的通知), which was promulgated and became effective on 20 February 2009, all of the following requirements should be satisfied before a fiscal resident of the other party to the tax arrangement is entitled to the tax arrangement treatment at a tax rate specified for dividends paid to it by a PRC resident company: (a) such a fiscal resident who obtains dividends should be a company as provided in the tax arrangement; (b) the owner’s equity interests and voting shares of the

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PRC resident company directly owned by such a fiscal resident reaches a specified percentage; and (c) the equity interests of the PRC resident company directly owned by such a fiscal resident, at any time during the twelve months prior to the obtainment of the dividends, reaches a percentage specified in the tax arrangement.

According to the Announcement of the State Administration of Taxation on Promulgating the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers (國家稅務總局關於發佈《非居民納稅人享受稅收協定待遇管理辦法》的公告) promulgated on 27 August 2015 and came into effective on 1 November 2015, any non-resident taxpayer meeting certain conditions may be entitled to the convention treatment itself/himself when filing a tax return or making a withholding declaration through a withholding agent, subject to the subsequent administration by the tax authorities.

PRC LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

Pursuant to the *Environmental Protection Law of the PRC* (中華人民共和國環境保護法), which was promulgated by SCNPC on 26 December 1989, amended on 24 April 2014 and became effective on 1 January 2015, the State Environmental Protection Administration is empowered to formulate national environmental quality and discharge standards and monitor China's environmental system at the national level. The environmental protection bureau at the county level and above is responsible for environmental protection within its jurisdiction. Local environmental protection bureaus may set local standards that are stricter than the national standards, in which case enterprises are required to comply with the stricter set of standards.

Pursuant to the *Environmental Impact Assessment Law of the PRC* (中華人民共和國環境影響評價法) promulgated on 28 October 2002, became effective on 1 September 2003 and amended on 2 July 2016, the *Administration Regulation on Environmental Protection of Construction Project* (建設項目環境保護管理條例) promulgated and became effective on 29 November 1998, and *Administration Measures for Examination and Approval of Environmental Protection Facilities of Construction Projects* (建設項目竣工環境保護驗收管理辦法) promulgated on 27 December 2001 and became effective on 1 February 2002, enterprises are required to engage qualified and certified institutes to provide environmental impact evaluations on construction projects and to prepare environmental impact assessments. Construction of any new production facilities or major expansion or renovation of an existing production facility of cement production may only be launched after such an assessment is submitted to and approved by the environmental protection administrative authority.

The *Environmental Protection Law of the PRC* (中華人民共和國環境保護法) requires any entity operating a facility that produces pollutants or other hazardous materials to adopt environmental protection measures in its operations and to establish an environmental protection responsibility system. Effective measures to control and properly dispose of waste gases, waste water, waste residue, dust or other waste materials must be adopted. Any entity operating a facility that discharges pollutants must submit a pollutant discharge declaration statement to the competent authority pursuant to the applicable regulations. The local environmental protection bureau will determine the amount of discharge allowable under the law and will issue a pollutant discharge license for that amount of

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discharge subject to the payment of discharge fees. If an entity discharges more than what is permitted by the pollutant discharge licence, it shall pay a fee for excessive discharge according to state provisions and shall assume responsibility for eliminating and controlling the pollution. If an enterprise has caused severe environmental pollution and has failed to eliminate or control the pollution within a required period of time, a fine may be imposed, or the enterprise may be ordered to suspend or close down its operations. Our subsidiaries in the PRC shall also comply with *Law of the PRC on Prevention and Control of Water Pollution* (中華人民共和國水污染防治法), *Law of the PRC on the Prevention and Control of Atmospheric Pollution* (中華人民共和國大氣污染防治法), *Law of the PRC on Prevention and Control of Environmental Noise Pollution* (中華人民共和國環境噪聲污染防治法), *Law of the PRC on the Prevention and Control of Environmental Pollution caused by Solid Wastes* (中華人民共和國固體廢物污染環境防治法) and other relevant laws and regulation on environmental protection.

PRC LAWS AND REGULATIONS RELATING TO PRODUCTION SAFETY AND LABOR

Production Safety Law of the PRC

The *Law of the PRC on the Prevention and Treatment of Occupational Diseases* (中華人民共和國職業病防治法) was promulgated by the SCNPC on 27 October 2001 and became effective on 1 May 2002 and was amended on 31 December 2011. The *Law of the PRC on the Work Safety* (中華人民共和國安全生產法) was promulgated by the SCNPC on 29 June 2002 and became effective on 1 November 2002, and was subsequently amended on 27 August 2009 and 31 August 2014. Pursuant to these laws, enterprises shall meet the conditions for work safety as required by relevant laws and regulations. Enterprises having more than 100 employees shall establish a department to carry out work safety management or have personnel solely responsible for work safety management. Enterprises shall provide their employees with education and training on the work safety so as to ensure that the employees have necessary knowledge regarding work safety, are familiar with the relevant work safety rules and operating procedures, and possess safe operation skills required for their respective positions. The employees performing special functions as defined by the work safety supervision department of the State Council must receive special training on the work safety and hold the qualification certificate for performing the special functions.

Labour Law of the PRC

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

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Social Insurance and Housing Provident Fund

Employers in the PRC are required to make contributions to various social insurances (including medical, pension, unemployment, work-related injury and maternity insurances) and the housing fund for employees in accordance with the *Social Insurance Law of the PRC* (中華人民共和國社會保險法) which has adopted by the SCNPC on 28 October 2010 and became effective on 1 July 2011, *Regulations on Work-Related Injury Insurance* (工傷保險條例) which was amended on 20 December 2010 and became effective on 1 January 2011, the *Interim Measures Concerning Maternity Insurance for Employees in Enterprises* (企業職工生育保險試行辦法) which became effective on 1 January 1995, the *Interim Regulations Concerning Collection and Payment of Social Insurance Premiums* (社會保險費徵繳暫行條例) which became effective on 22 January 1999, the *Interim Measures on Administration of Social Insurance Registration* (社會保險登記管理暫行辦法) which became effective as at 19 March 1999 and the *Regulations Concerning Housing Provident Fund Administration* (住房公積金管理條例) which was became effective on 3 April 1999 and amended on 24 March 2002.

Labour Union Law

Pursuant to the *Labour Union Law of the PRC* (中華人民共和國工會法) which was promulgated on 3 April 1992 and amended on 27 October 2001, any enterprise, governmental institution or authorities that have 25 or more members shall establish a grassroots labour union committee.

PRC LAWS AND REGULATIONS RELATING TO FIRE PROTECTION

Pursuant to the PRC Fire Protection Law (中華人民共和國消防法), which was promulgated on 20 October 2008 and effective from 1 May 2009, the fire protection design and construction of a construction project shall meet national fire protection technical standards for construction projects. Project owners, design entities, construction entities, project supervision entities, etc., shall, in accordance with the law, be responsible for the fire protection design and the quality of the fire protection construction of the projects.

Pursuant to the Provisions on the Supervision and Administration over Fire Prevention for Construction Engineering (建設工程消防監督管理規定), which was last amended on 17 July 2012, the developer and the design, construction and construction supervision entities shall abide by laws and regulations on fire prevention, as well as national technical standards on fire prevention, and shall be responsible for the fire prevention design for and construction quality and safety of construction engineering. Fire prevention departments under public security organs shall carry out examination and verification of fire prevention design for construction engineering, as well as fire prevention final acceptance, record-filing and random check in accordance with the law. The fire prevention departments under public security organs of the local people's governments at or above the county level shall undertake the examination and verification of fire prevention design, and fire prevention final acceptance, record-filing and random check for construction engineering within their respective jurisdictions.

HISTORY, DEVELOPMENT AND REORGANISATION

BUSINESS HISTORY

Our Group's principal business is the manufacture and sale of our plywood products and biomass wood pellets. Our origins could be traced back to March 2011, when our principal operating subsidiary in the PRC, Meisen (Shandong) was acquired by Mei Sem (HK) for producing plywood. We commenced producing biomass wood pellets in March 2013 by our another principal operating subsidiary in the PRC, Dasen (Heze) which was wholly owned by Dasen (HK). Both Mei Sem (HK) and Dasen (HK) are ultimately controlled by our Controlling Shareholders, using their own financial resources.

In September 2009, Mr. Zhang, our executive Director and the spouse of Ms. Wu, one of our Controlling Shareholders, was invited to an investment opportunities event held by Chengwu county local government authorities, and was also invited to visit Chengwu Guangda Wood Limited (成武光達木業有限公司) (predecessor of Meisen (Shandong)) (“**Chengwu Guangda Wood**”) which was owned by Shandong Chengwu Guangda Industrial and Trading Limited (山東成武光達工貿有限公司) (“**Chengwu Guangda**”), an Independent Third Party. After negotiations and discussions with Chengwu Guangda, in December 2010, Mr. Zhang acquired the entire equity interest in Chengwu Guangda Wood. Mr. Zhang confirms that he had negotiated with Chengwu Guangda on an arm's length basis, and after having considered the financial position of Chengwu Guangda Wood, Mr. Zhang and Chengwu Guangda agreed that the consideration of acquisition was RMB8.0 million based on the amount of registered capital and net asset value of Chengwu Guangda Wood as at 30 November 2010. Chengwu Guangda Wood was then renamed as “Chengwu Meisen Wood Company Limited (成武美森木業有限公司)” in December 2010.

Upon the acquisition of Meisen (Shandong) by Mr. Zhang, Mr. Zhang decided to expand the plywood business of Meisen (Shandong) and contacted Mr. Ke, Mr. Wang and Mr. Wu, our executive Directors, and Mr. Cai and Mr. Lin Hongpeng for their support and funding. Our Directors confirm that the then shareholders of Mei Sem (HK) which in turn holds Meisen (Shandong) had considered (i) the abundant supply of poplars and relevant policies of harvesting poplars in Shandong, (ii) the location of the production plants and the transportation networks to other cities from the production plants, as well as the production facilities setting up in the production plants, and (iii) the sales and marketing experience and management skills of Mr. Ke and Mr. Zhang in relation to the plywood business, and therefore Mr. Wang, Mr. Wu, Mr. Zhang, Mr. Cai and Mr. Lin Hongpeng invested in Meisen (Shandong) through Mei Sem (HK) in March 2011. The consideration of acquiring Meisen (Shandong) by Mei Sem (HK) was determined based on the consideration paid by Mr. Zhang for his acquisition of Meisen (Shandong) in December 2010 and the registered capital of Meisen (Shandong). Before joining our Group, Mr. Ke had been senior management of his own businesses and was responsible for overall planning and strategic development of such businesses. He is the brother-in-law of Mr. Cai, one of our Controlling Shareholders. Mr. Zhang has experience in sales and marketing experience in building materials, including plywood and has gained connections with PRC plywood customers including Shandong Province, while Mr. Wu has experience in manufacturing and sales of furniture. The experience of Mr. Wang mainly related to his manufacturing experience and management skills gained in garment industry. Please refer to the section headed “Directors and senior management” for further details of the biographies of our executive Directors, Mr. Ke, Mr. Wang, Mr. Zhang and Mr. Wu.

HISTORY, DEVELOPMENT AND REORGANISATION

With the leading of management team, Meisen (Shandong) extended its sales network to different regions in the PRC, especially the Eastern China region such as Anhui Province, Fujian Province, Jiangxi Province, Jiangsu Province, Shandong Province, Shanghai and Zhejiang Province. Our plywood customers increased from 12 in 2011 to 172 in 2015. Our Directors confirm that some of our plywood customers were referred by existing customers, and some of which were also the customers of the company which Mr. Zhang worked before joining our Group. Our Directors consider that, notwithstanding the plywood industry is intensely competitive, Meisen (Shandong) has successfully expanded and developed since 2011 for the reasons that (a) the customers network has been built up by Mr. Zhang, as he was a head of sales department of a wooden board and building materials company before joining our Group, who now leads our sales team; (b) Shandong has an abundant supply of poplars, one of our major raw materials for producing plywood, which provides us with convenient and abundant supply of materials at sourcing and transportation costs advantage as compared with the competitors in other provinces; and (c) the management has made efforts in improving the quality of plywood products to meet the international standards, such as obtaining certification issued by CARB, so that some of our customers would purchase our plywood products as materials and produce their products for export which can meet their qualification requirements.

In 2012, our management considered to produce biomass wood pellets for the reasons that (i) our Group had wood residues from timber peeling during the plywood production, and (ii) the government supported the environmental friendly fuels and proposed to implement certain policies, for example, the National Bureau of Energy (國家能源局) issued “12-5” Plan for National Energy and Technology (GuoNengKeJi(2011)No.395) (《國家能源科技“十二五”規劃》國能科技〔2011〕395號) promoting the biomass energy. In November 2012, Dasen (Heze) was incorporated for manufacturing and sales of biomass wood pellets, and it commenced to construct the production plants in December 2012 and commenced its trial production of biomass wood pellets in March 2013. In order to promote our biomass wood pellets, we participated in industry exhibitions, such as the China International Biomass Conference. Our Directors consider, and to the best knowledge of our Directors after having considered the Ipsos Report, that it is not common for plywood product manufacturers to also engage in biomass wood pellets manufacturing for the reason that the biomass wood pellets are made of wood residues, and many plywood manufacturers usually purchase the veneers and plywood cores to produce plywood, that means the production process does not involve logs peeling process and the wood residues will generally be much lesser than those involving logs peeling process as our Group does, therefore those plywood manufacturers may not be benefit from producing biomass wood pellets by using a small amount of wood residues from their production without logs peeling process. Our Group produced wood residues during the logs peeling process in our plywood production and our management considered our Group could be benefit by making use of the wood residues to produce biomass wood pellets instead of disposing of such wood residues in other ways.

Our Group has strategically set up our production base in Sunsi Town, Chengwu County, Heze City, Shandong Province where there is abundant and stable supply of poplars, and has easy and convenient access to the logistic city, Linyi City, for delivery of our products to the customers in Eastern China and Southern China regions, as well as other cities in the PRC. According to the 2015 Shandong Statistical Yearbook compiled by Shandong Provincial Bureau of Statistics (山東省統計局), there were over 1,000 companies which are engaged in processing of timbers, manufacturing of wood, bamboo, rattan, palm and straw products in different sizes in Shandong Province in 2014, and therefore our Group is not the only company enjoying the location advantage among the local

HISTORY, DEVELOPMENT AND REORGANISATION

competitors in Shandong Province. According to the 2015 Shandong Province Forestry Industry Statistical Year Book issued by Forestry Department of Shandong Province (山東省林業廳) in June 2016, Heze City ranked first among other cities in Shandong Province in terms of production volume of wood-based materials. As confirmed by Heze City Statistical Bureau (荷澤市統計局), as at 31 December 2015, there were 383 manufacturers with an annual revenue of RMB20 million or above engaging in wood processing production in Heze City, and Meisen (Shandong) ranked the first in terms of operating revenue among these manufacturers, and there were only four manufacturers with an annual revenue of RMB20 million or above engaging in biomass pellets production in Heze City, Dasen (Heze) ranked the first in terms of operating revenue among these manufacturers. As the result, our Directors consider that due to our larger purchasing volumes as compared with other local manufacturers or competitors, our Group generally enjoys a higher bargaining power against suppliers in Heze City, in particular the local rural farmers. As a key purchaser in Heze City, we also have priority over other competitors in purchasing raw materials from local rural farmers.

The following table illustrates the key milestones of business development of our Group:

- April 2004 Meisen (Shandong) was incorporated by three independent third parties, and was known as Chengwu Guangda Wood Limited (成武光達木業有限公司) at the time of incorporation
- December 2010 Meisen (Shandong) changed its name from Chengwu Guangda Wood Limited (成武光達木業有限公司) to Chengwu Meisen Wood Company Limited (成武美森木業有限公司)
- March 2011 Mei Sem (HK) acquired 100% equity interests in Meisen (Shandong)
- April 2011 The daily production capacity of Meisen (Shandong) reached 240m³
- September 2012 Meisen (Shandong) was evaluated as a Leading Forestry Company of Shandong Province (山東省林業產業龍頭企業) by the Shandong Forestry Department (山東省林業廳)
- November 2012 Dasen (Heze) was incorporated by Dasen (HK) for the production and sales of biomass wood pellets
- March 2013 First production line for biomass wood pellet commenced trial production with a daily production capacity of 192 tons
- May 2013 Meisen (Shandong) was classified as a “AAA” rated enterprise in terms of brand quality and integrity by the China Brand Evaluation Management Centre (中國品牌評價管理中心)

HISTORY, DEVELOPMENT AND REORGANISATION

- October 2013 Meisen (Shandong) obtained (a) GB/T24001-2004 idt ISO14001:2004 certification for its environmental management system for manufacturing and sales of plywood; (b) GB/T19001-2008 idt ISO9001:2008 certification for its quality management system for manufacturing and sales of plywood; and (c) GB/T28001-2011 idt OHSAS18001:2007 certification for its occupational health and safety management system for manufacturing and sales of plywood
- December 2013 Dasen (Heze) obtained the certificate of High-tech Enterprise (高新技術企業證書) from the Technology Bureau of Heze (菏澤市科學技術局)
- January 2014 Dasen (Heze) set up second production line for biomass wood pellet, with a daily production capacity of 192 tons, bringing its daily total production capacity to 384 tons
- March 2014 Meisen (Shandong) obtained certification issued by CARB for compliance with phase 2 (0.05 ppm) formaldehyde emission standard and quality assurance requirements on hardwood plywood veneer core
- May 2014 Daily production capacity of Meisen (Shandong) increased to 480m³ with the addition of production equipment
- July 2014 Our plywood brand “Bolema (伯樂馬)” was awarded as a top 10 best brands (十佳品牌) through an online evaluation conducted by PRC timber trade website (中國木業網)
- January 2015 Meisen (Shandong) changed its name from Chengwu Meisen Wood Limited (成武美森木業有限公司) to Meisen (Shandong) Wood Limited (美森 (山東) 木業有限公司)

CORPORATE HISTORY

Our Company

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands on 24 December 2015. Please refer to the paragraph headed “Change in share capital of our Company” in Appendix V to this prospectus for details of changes in the share capital of our Company. As a result of the Reorganisation, our Company became the holding company of our Group.

Heroic Group

Heroic Group is a company with limited liability incorporated in BVI on 11 November 2013 with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each. On 10 December 2013, Mr. Ke, Mr. Cai, Mr. Wang, Mr. Lin, Mr. Wu and Ms. Wu were allotted and issued 15,000 shares, 11,000 shares, 7,500 shares, 6,000 shares, 6,000 shares, and 4,500 shares, respectively, at par value. Following completion of the above share allotments, Heroic Group was owned as to 30%, 22%, 15%, 12%, 12% and 9% by Mr. Ke, Mr. Cai, Mr. Wang, Mr. Lin, Mr. Wu and Ms. Wu, respectively.

HISTORY, DEVELOPMENT AND REORGANISATION

Heroic Group is an investment holding company. On 31 December 2015, each of Mr. Ke, Mr. Cai, Mr. Wang, Mr. Lin, Mr. Wu and Ms. Wu transferred his/her respective shares in Heroic Group to our Company at considerations of allotment and issue of 3,000 Shares, 2,200 Shares, 1,500 Shares, 1,200 Shares, 1,200 Shares and 900 Shares by our Company to Mr. Ke, Mr. Cai, Mr. Wang, Mr. Lin, Mr. Wu and Ms. Wu, respectively. Heroic Group therefore became a directly wholly-owned subsidiary of our Company.

Mei Sem (HK)

Mei Sem (HK) was incorporated in Hong Kong with limited liability on 31 December 2010 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1 each. Upon incorporation, each of Mr. Cai, Mr. Wang, Mr. Lin Hongpeng (the son of Mr. Lin), Mr. Zhang and Mr. Wu was allotted and issued 5,000 shares, 2,000 shares, 1,200 shares, 1,100 shares and 700 shares, respectively, at par value. 3,000 shares, representing 30% of the total issued share capital of Mei Sem (HK), registered in the name of Mr. Cai were held on trust for Mr. Ke, the brother-in-law of Mr. Cai. Mei Sem (HK) was beneficially owned by Mr. Ke, Mr. Cai, Mr. Wang, Mr. Lin Hongpeng, Mr. Zhang and Mr. Wu as to 30%, 20%, 20%, 12%, 11% and 7%, respectively.

On 19 January 2011, each of Mr. Wu, Mr. Wang, Mr. Lin Hongpeng and Mr. Zhang transferred 700 shares, 2,000 shares, 1,200 shares and 1,100 shares, respectively, at par value to Mr. Cai. Mr. Cai continued to be the nominee shareholder for Mr. Ke in respect of 3,000 shares. Mei Sem (HK) was beneficially owned by Mr. Ke and Mr. Cai as to 30% and 70%, respectively.

On 9 April 2011, Mr. Cai transferred his 700 shares, 2,000 shares, 1,200 shares and 1,100 shares to Mr. Wu, Mr. Wang, Mr. Lin Hongpeng and Mr. Zhang, respectively at consideration of HK\$1 each share. Following completion of the above share transfers, 5,000 shares, 2,000 shares, 1,200 shares, 1,100 shares and 700 shares were held by Mr. Cai, Mr. Wang, Mr. Lin Hongpeng, Mr. Zhang and Mr. Wu. Mr. Cai continued to be the nominee shareholder for Mr. Ke in respect of 3,000 shares. Mei Sem (HK) was beneficially owned by Mr. Ke, Mr. Cai, Mr. Wang, Mr. Lin Hongpeng, Mr. Zhang and Mr. Wu as to 30%, 20%, 20%, 12%, 11% and 7%, respectively. In around January 2011, Mr. Zhang, the then shareholder of Meisen (Shandong), considered to transfer to Mei Sem (HK), and Mei Sem (HK) considered to purchase 100% equity interests in Meisen (Shandong) from Mr. Zhang. The parties believed that if the shareholders of Mei Sem (HK) were overseas citizens, it would facilitate the registration process in respect of the change of shareholders. Since Mr. Cai is an overseas citizen, the other shareholders transferred their shares in Mei Sem (HK) to Mr. Cai in January 2011. Upon completion of the registration process, Mr. Cai transferred the shares in Mei Sem (HK) back to the other shareholders in April 2011. The transfers of shares on 19 January 2011 and 9 April 2011 were carried out to facilitate the registration of change of holder of equity interests in Meisen (Shandong) in the PRC.

On 5 June 2012, Mr. Wu transferred 400 shares, 200 shares and 100 shares to Mr. Lin, Mr. Cai and Mr. Tung Fong Keung, respectively, at par value. On the same day, each of Mr. Zhang and Mr. Lin Hongpeng transferred 1,100 shares and 1,200 shares to Mr. Tung Fong Keung at consideration of HK\$1 each share and Mr. Wang transferred 2,000 shares to Mr. Lin at consideration of HK\$2,000. 3,000 shares, representing 30% of the total issued share capital of Mei Sem (HK), registered in the name of Mr. Cai were held on trust for Mr. Ke; 1,200 shares, representing 12% of the total issued share

HISTORY, DEVELOPMENT AND REORGANISATION

capital of Mei Sem (HK), registered in the name of Mr. Lin were held on trust for Mr. Wu; 1,500 shares, representing 15% of the total issued share capital of Mei Sem (HK), registered in the name of Mr. Tung Fong Keung were held on trust for Mr. Wang and 900 shares, representing 9% of the total issued share capital of Mei Sem (HK), registered in the name of Mr. Tung Fong Keung were held on trust for Ms. Wu, the spouse of Mr. Zhang. Upon completion of above share transfers, Mei Sem (HK) was beneficially owned by Mr. Ke, Mr. Cai, Mr. Lin, Mr. Wu, Mr. Wang and Ms. Wu as to 30%, 22%, 12%, 12%, 15% and 9%, respectively.

On 30 December 2013, Mr. Cai transferred his 5,200 shares to Heroic Group at consideration of HK\$1; Mr. Lin transferred his 2,400 shares to Heroic Group at consideration of HK\$1; and Mr. Tung Fong Keung transferred his 2,400 shares to Heroic Group at consideration of HK\$1. Following the completion of the above transfers, Mei Sem (HK) was a wholly-owned subsidiary of Heroic Group.

Mr. Ke, Mr. Cai, Mr. Wang, Mr. Lin, Mr. Wu and Ms. Wu are Concert Parties, further information on which is set out in the paragraph headed “Summary of the Concert Party Agreement” of the section headed “Relationship with Controlling Shareholders” in this prospectus. During the Track Record Period, Mei Sem (HK) was owned by these Concert Parties. Mr. Cai, Mr. Lin and Mr. Tung Fong Keung, the nominees, are Hong Kong citizens. Since Meisen (Shandong) is a wholly foreign-owned enterprise, its then ultimate beneficial shareholders believed that if the registered shareholders of Mei Sem (HK) were overseas citizens and located in Hong Kong, the nominee arrangements might achieve certain administration efficiency, for example, signing of the administrative documents, passing shareholder resolutions for Mei Sem (HK), communications with offshore third parties and as stated above, facilitating the registration process of shareholding changes of Meisen (Shandong).

Mei Sem (HK) is an investment holding company. Upon completion of the Reorganisation, Mei Sem (HK) became an indirectly wholly-owned subsidiary of our Company.

Dasen (HK)

Dasen (HK) was incorporated in Hong Kong with limited liability on 5 July 2012 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1 each. Upon incorporation, each of Mr. Cai, Mr. Lin and Mr. Tung Fong Keung was allotted and issued 5,200 shares, 2,400 shares and 2,400 shares, respectively at par value. 3,000 shares, representing 30% of the total issued share capital of Dasen (HK), registered in the name of Mr. Cai were held on trust for Mr. Ke; 1,200 shares, representing 12% of the total issued share capital of Dasen (HK), registered in the name of Mr. Lin were held on trust for Mr. Wu; 1,500 shares, representing 15% of the total issued share capital of Dasen (HK), registered in the name of Mr. Tung Fong Keung were held on trust for Mr. Wang and 900 shares, representing 9% of the total issued share capital of Dasen (HK), registered in the name of Mr. Tung Fong Keung were held on trust for Ms. Wu. Dasen (HK) was beneficially owned by Mr. Ke, Mr. Cai, Mr. Lin, Mr. Wu, Mr. Wang and Ms. Wu as to 30%, 22%, 12%, 12%, 15% and 9%, respectively.

On 30 December 2013, each of Mr. Cai, Mr. Lin and Mr. Tung Fong Keung transferred 5,200 shares, 2,400 shares and 2,400 shares, respectively, to Heroic Group, each at a consideration of HK\$1. Following completion of the above share transfers, Dasen (HK) was wholly-owned by Heroic Group.

HISTORY, DEVELOPMENT AND REORGANISATION

Dasen (HK) is an investment holding company. Upon completion of the Reorganisation, Dasen (HK) became an indirect wholly-owned subsidiary of our Company.

Meisen (Shandong)

Meisen (Shandong) is a limited liability company established in the PRC on 19 April 2004 with an initial registered capital of RMB8.0 million held by three Independent Third Parties.

On 23 December 2010, Mr. Zhang acquired 100% equity interests in Meisen (Shandong) at a consideration of RMB8.0 million, which was determined after arm's length negotiation with Shandong Chengwu Guangda Industrial and Trading Limited (山東成武光達工貿有限公司), an Independent Third Party, with reference to the registered capital and net asset value of Chengwu Guangda Wood (predecessor of Meisen (Shandong)) as at 30 November 2010. Following the acquisition, Meisen (Shandong) was wholly-owned by Mr. Zhang.

On 2 March 2011, Mr. Zhang completed the transfer of 100% equity interests in Meisen (Shandong) to Mei Sem (HK) at a consideration of RMB8.0 million, being the registered capital. Upon completion of the above transfer, Meisen (Shandong) was wholly-owned by Mei Sem (HK).

The principal business of Meisen (Shandong) is manufacturing and sales of plywood. Upon completion of the Reorganisation, Meisen (Shandong) became an indirect wholly-owned subsidiary of our Company.

Dasen (Heze)

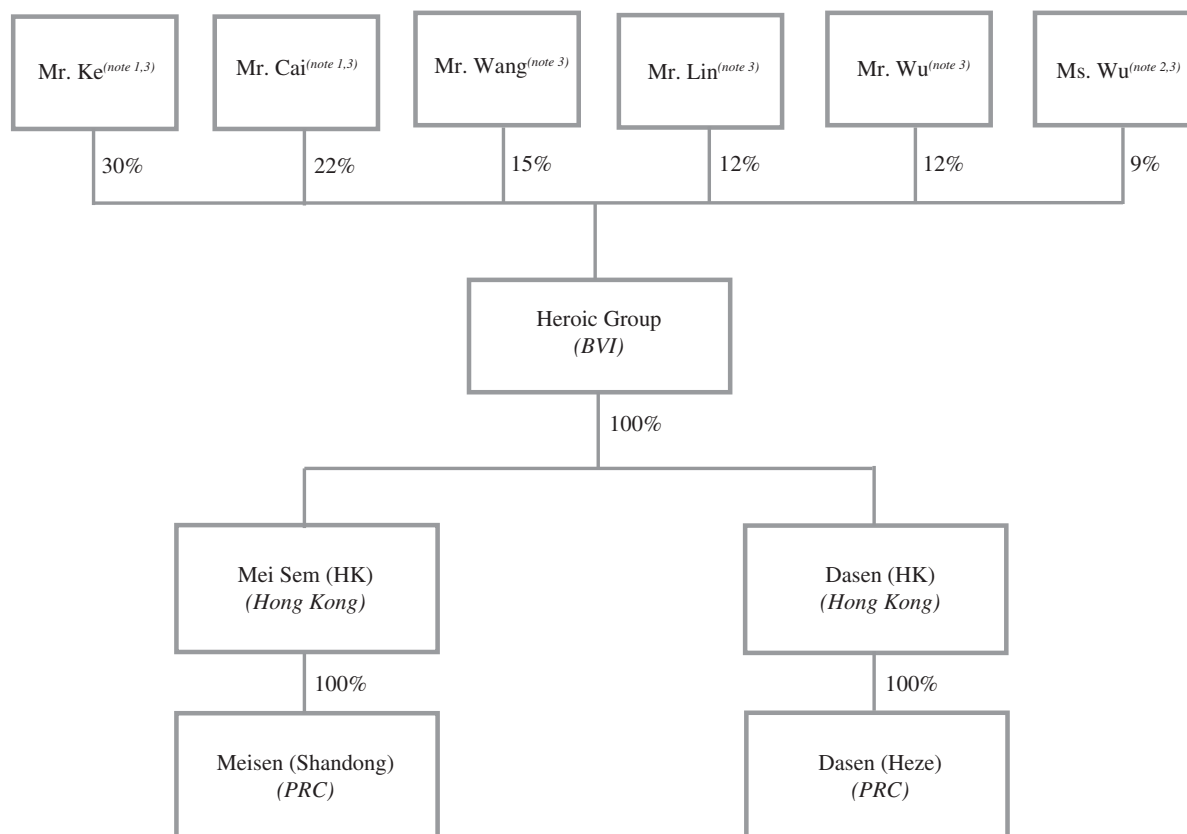
Dasen (Heze) is a limited liability company established in the PRC on 1 November 2012 with an initial registered capital of US\$3.0 million as a wholly-owned subsidiary of Dasen (HK).

The principal business of Dasen (Heze) is manufacturing and sales of biomass wood pellets. Upon completion of the Reorganisation, Dasen (Heze) became an indirect wholly-owned subsidiary of our Company.

HISTORY, DEVELOPMENT AND REORGANISATION

REORGANISATION

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



Notes:

1. Mr. Ke, our Chairman and executive Director and Mr. Cai are brothers-in-law.
2. Ms. Wu is the spouse of Mr. Zhang, our executive Director.
3. Mr. Ke, Mr. Cai, Mr. Wang, Mr. Lin, Mr. Wu and Ms. Wu are Concert Parties by virtue of the Concert Party Agreement. Further information of the Concert Party Agreement is set forth in the section headed “Relationship with Controlling Shareholders — Summary of the Concert Party Agreement” in this prospectus.

HISTORY, DEVELOPMENT AND REORGANISATION

In preparation for the Listing, we underwent the Reorganisation which involved the following steps:

Incorporation of our Company

On 24 December 2015,

- (a) our Company was incorporated in the Cayman Islands as an exempted company with limited liability with an authorised share capital of HK\$100,000 divided into 10,000,000 Shares of HK\$0.01 each;
- (b) one Share was allotted and issued to the initial subscriber;
- (c) the initial subscriber transferred its one Share to Mr. Ke; and
- (d) our Company allotted and issued 2,999 Shares, 2,200 Shares, 1,500 Shares, 1,200 Shares, 1,200 Shares and 900 Shares to Mr. Ke, Mr. Cai, Mr. Wang, Mr. Lin, Mr. Wu and Ms. Wu, respectively, for cash at par value.

Acquisition of Heroic Group by our Company

On 31 December 2015, each of Mr. Ke, Mr. Cai, Mr. Wang, Mr. Lin, Mr. Wu and Ms. Wu transferred his/her respective shares in Heroic Group to our Company. In consideration of the share transfers, our Company allotted and issued a total of 10,000 Shares as set forth in the following table:

Name of transferor	Name of transferee	Number of shares in Heroic Group transferred	Number of Shares allotted to the transferor as consideration
Mr. Ke	Our Company	15,000	3,000
Mr. Cai	Our Company	11,000	2,200
Mr. Wang	Our Company	7,500	1,500
Mr. Lin	Our Company	6,000	1,200
Mr. Wu	Our Company	6,000	1,200
Ms. Wu	Our Company	4,500	900

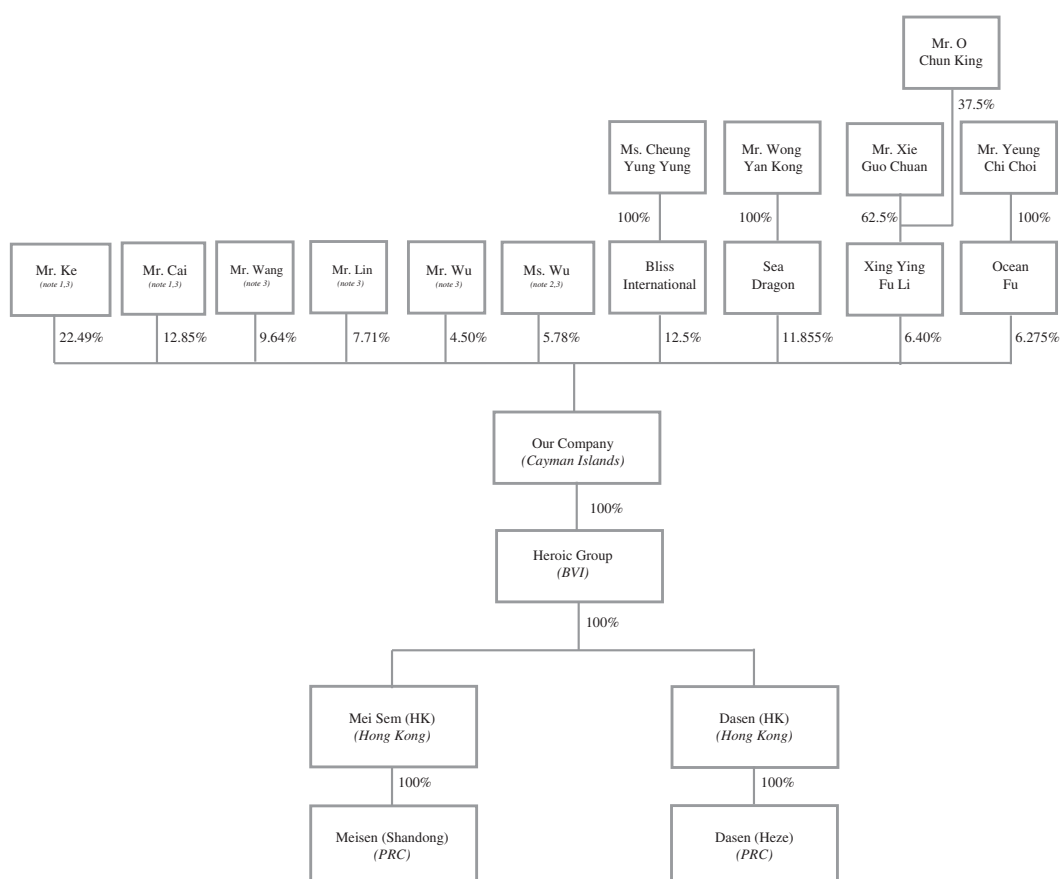
Upon the completion of the above share transfers, our Company was owned by Mr. Ke, Mr. Cai, Mr. Wang, Mr. Lin, Mr. Wu and Ms. Wu as to 30%, 22%, 15%, 12%, 12% and 9%, respectively.

HISTORY, DEVELOPMENT AND REORGANISATION

Transfer of Shares to the Pre-IPO Investors

On 26 February 2016, each of Mr. Ke, Mr. Cai, Mr. Wang, Mr. Lin, Mr. Wu and Ms. Wu transferred the Shares to the relevant Pre-IPO Investors. For further information of such share transfers, please refer to the paragraph headed “Pre-IPO investments” of this section.

The shareholding structure of our Group immediately prior to the completion of the Global Offering and the Capitalisation Issue is as follows:

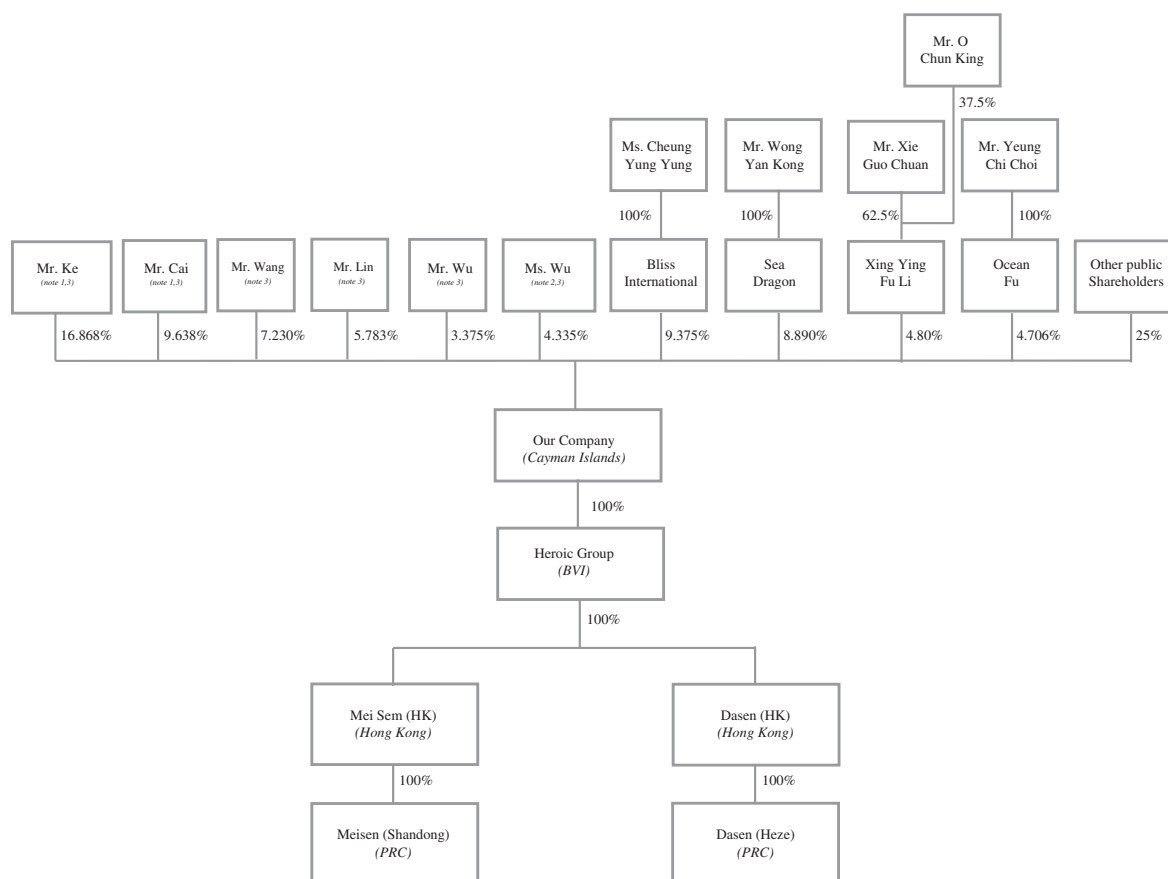


Notes:

1. Mr. Ke, our Chairman and executive Director and Mr. Cai are brothers-in-law.
2. Ms. Wu is the spouse of Mr. Zhang, our executive Director.
3. Mr. Ke, Mr. Cai, Mr. Wang, Mr. Lin, Mr. Wu and Ms. Wu are Concert Parties by virtue of the Concert Party Agreement. Further information of the Concert Party Agreement is set forth in the section headed “Relationship with Controlling Shareholders — Summary of the Concert Party Agreement” in this prospectus.

HISTORY, DEVELOPMENT AND REORGANISATION

Immediately following the completion of the Global Offering and the Capitalisation Issue (assuming the Over-allotment Option is not exercised and no Shares are to be issued upon the exercise of any options which may be granted under the Share Option Scheme), the shareholding structure of our Group will be as follows:



Notes:

1. Mr. Ke, our Chairman and executive Director and Mr. Cai are brothers-in-law.
2. Ms. Wu is the spouse of Mr. Zhang, our executive Director.
3. Mr. Ke, Mr. Cai, Mr. Wang, Mr. Lin, Mr. Wu and Ms. Wu are Concert Parties by virtue of the Concert Party Agreement. Further information of the Concert Party Agreement is set forth in the section headed “Relationship with Controlling Shareholders — Summary of the Concert Party Agreement” in this prospectus.

HISTORY, DEVELOPMENT AND REORGANISATION

PRE-IPO INVESTMENTS

The Pre-IPO Agreements

In order to broaden our shareholders' base and leverage on the investors' experiences to facilitate our Group's expansion, Mr. Ke, Mr. Cai, Mr. Wang, Mr. Lin, Mr. Wu and Ms. Wu entered into the following agreements (the "Pre-IPO Agreements") with the Pre-IPO Investors whereby Mr. Ke, Mr. Cai, Mr. Wang, Mr. Lin, Mr. Wu and Ms. Wu agreed to transfer Shares to the relevant Pre-IPO Investors.

Pursuant to the Pre-IPO Agreements, the shares to be transferred are the shares in the listing vehicle upon completion of the Reorganisation.

The following table sets forth the key details of the Pre-IPO investments:-

Pre-IPO Investor	Date of agreement	Transferor	Transferee	Date of transfer	Number and approximate percentage of Shares transferred before the Capitalisation Issue	Number and approximate percentage upon Listing <i>(note 1)</i>	Consideration and date of final payment <i>(RMB)</i>	Cost per Share <i>(HK\$)</i>	Discount to Offer Price <i>(note 2)</i>
Hong Kong Investments	15 May 2013	Mr. Ke	Bliss International	26 February 2016	750 (3.75%)	—	9,000,000	—	—
		Mr. Cai	Bliss International	26 February 2016	550 (2.75%)	—	6,600,000	—	—
		Mr. Wang	Bliss International	26 February 2016	375 (1.875%)	—	4,500,000	—	—
		Mr. Lin	Bliss International	26 February 2016	300 (1.50%)	—	3,600,000	—	—
		Mr. Wu	Bliss International	26 February 2016	300 (1.50%)	—	3,600,000	—	—
		Ms. Wu	Bliss International	26 February 2016	225 (1.125%)	—	2,700,000	—	—
					2,500 (12.5%)	67,500,000 (9.375%)	30,000,000 (30 July 2013)	0.52	30.7%
Sea Dragon	3 November 2013	Mr. Ke	Sea Dragon	26 February 2016	752 (3.76%)	—	9,400,000	—	—
		Mr. Wu	Sea Dragon	26 February 2016	1,200 (6.00%)	—	15,000,000	—	—
		Ms. Wu	Sea Dragon	26 February 2016	419 (2.095%)	—	5,237,500	—	—
					2,371 (11.855%)	64,008,000 (8.890%)	29,637,500 ^{<i>(note 4)</i>} (15 January 2014)	0.54	28.0%

HISTORY, DEVELOPMENT AND REORGANISATION

Pre-IPO Investor	Date of agreement	Transferor	Transferee	Date of transfer	Number and approximate percentage of Shares transferred before the Capitalisation Issue	Number and approximate percentage upon Listing <i>(note 1)</i>	Consideration and date of final payment <i>(RMB)</i>	Cost per Share <i>(HK\$)</i>	Discount to Offer Price <i>(note 2)</i>
Xing Ying Fu Li	29 September 2015	Mr. Cai	Xing Ying Fu Li	26 February 2016	1,280 (6.4%)	34,560,000 (4.8%)	20,480,000 (23 October 2015)	0.69	8.0%
Ocean Fu	15 May 2013	Mr. Wang	Ocean Fu	26 February 2016	697 (3.485%)	—	8,364,000	—	—
		Mr. Lin	Ocean Fu	26 February 2016	558 (2.79%)	—	6,696,000	—	—
					1,255 (6.275%)	33,883,200 (4.706%)	15,060,000 ^{<i>(note 5)</i>} (4 June 2013)	0.52	30.7%

Notes:

- Based on the number of Shares to be issued upon completion of the Capitalisation Issue but without taking into account any Shares to be issued upon the exercise of the Over-allotment Option.
- Based on the mid-point of the indicative Offer Price range of HK\$0.75 per Share.
- The signing party to the relevant Pre-IPO Agreement is Hong Kong Investments. Hong Kong Investments instructed Mr. Ke, Mr. Cai, Mr. Wang, Mr. Lin, Mr. Wu and Ms. Wu to transfer the Shares to Bliss International.
- The consideration was calculated based on the price per Share. Pursuant to the relevant Pre-IPO Agreement, the parties thereto agreed to round-down the consideration to RMB29,600,000.
- The consideration was calculated based on the price per Share. Pursuant to the relevant Pre-IPO Agreement, the parties thereto agreed to round-down the consideration to RMB15,000,000.

The considerations payable under the Pre-IPO Agreements were reached by the relevant parties by arm's length negotiations and with reference to the expected net profits of the listing vehicle for the year of 2013 and an agreed price-to-earnings ratio (for the Pre-IPO Agreements with Hong Kong Investments, Sea Dragon and Ocean Fu, respectively) or the net profits of the listing vehicle for the year of 2014 and growth in revenues of the listing vehicle in the first half of the year 2014 (for the Pre-IPO Agreement with Xing Ying Fu Li). There is no guaranteed discount to the Offer Price. The Pre-IPO Investors confirmed that the consideration paid by them under the Pre-IPO Agreements was irrevocable.

The Pre-IPO Agreements provide that if the Listing fails to take place by 31 December 2016, each of the transferors has the pre-emptive rights to buy back the Shares transferred at the then market value (or the valuation amount of the shares) but in any event, the buy back price shall not be less than

HISTORY, DEVELOPMENT AND REORGANISATION

the consideration paid by the transferees under the Pre-IPO Agreements. To the best knowledge and belief of our Directors, the Pre-IPO Investors decided to invest in our Group in contemplation of the Listing and the growth of our Group's business. The pre-emptive rights were granted to provide an exit mechanism for the Pre-IPO Investors in case the Listing fails to take place.

The Pre-IPO Agreements provide that when the Pre-IPO Investors sell the Shares in case the Listing fails to take place by 31 December 2016, the transferors will have the first right of refusal to purchase such Shares on the same terms and conditions as the Pre-IPO Investors sell to other parties. No special right was granted to the Pre-IPO Investors under the Pre-IPO Agreements.

Background of the Pre-IPO Investors

Sea Dragon

Sea Dragon is a company incorporated in the BVI on 23 May 2006 and is beneficially wholly-owned by Mr. Wong Yan Kong, an Independent Third Party. To the best knowledge and belief of our Directors, Sea Dragon is an investment holding company and Mr. Wong Yan Kong has extensive experience in the trading business and overseas markets.

We acquainted with Mr. Wong Yan Kong and Sea Dragon through Mr. Lin. Mr. Wong Yan Kong was introduced to Mr. Lin through one of their common friends in 2009.

To the best knowledge and belief of our Directors, Sea Dragon decided to invest in our Group in view of the prospects of our business growth.

Ocean Fu

Ocean Fu is a company incorporated in the BVI on 2 January 2013 and is beneficially wholly-owned by Mr. Yeung Chi Choi, an Independent Third Party. To the best knowledge and belief of our Directors, Ocean Fu is an investment holding company.

We acquainted with Mr. Yeung Chi Choi through Mr. Lin. Mr. Yeung Chi Choi was introduced to Mr. Lin through one of their common friends in 2009.

To the best knowledge and belief of our Directors, Mr. Yeung Chi Choi decided to invest in our Group in view of the prospects of our business growth.

Hong Kong Investments

Hong Kong Investments is a company incorporated in the BVI on 3 January 2006 and is beneficially wholly-owned by Mr. Cheung Chi Mang, the father of Ms. Cheung Yung Yung and an Independent Third Party. To the best knowledge and belief of our Directors, Hong Kong Investments is an investment holding company engaging in investment activities.

We acquainted with Mr. Cheung Chi Mang through Mr. Lin. Mr. Cheung Chi Mang was introduced to Mr. Lin through one of their common friends in 2008.

HISTORY, DEVELOPMENT AND REORGANISATION

To the best knowledge and belief of our Directors, Hong Kong Investments decided to invest in our Group in view of the prospects of our business growth.

Bliss International

Bliss International is a company incorporated in the BVI on 10 August 2015 and is beneficially wholly-owned by Ms. Cheung Yung Yung, the daughter of Mr. Cheung Chi Mang and an Independent Third Party. To the best knowledge and belief of our Directors, Bliss International is an investment holding company engaging in investments activities. Our Directors believe having Bliss International as one of our Shareholders would benefit us through its provision of advice on our future potential fund raising and investments activities.

We acquainted with Mr. Cheung Chi Mang through Mr. Lin. Ms. Cheung Yung Yung was introduced to Mr. Lin through Mr. Cheung Chi Mang in 2015.

Xing Ying Fu Li

Xing Ying Fu Li is a company incorporated in the BVI on 19 August 2015 and is beneficially wholly-owned by Mr. Xie Guo Chuan as to 62.5% and Mr. O Chun King as to 37.5%, each being an Independent Third Party. To the best knowledge and belief of our Directors, Xing Ying Fu Li is an investment holding company engaging in investment activities. Our Directors believe having Xing Ying Fu Li as one of our Shareholders would benefit us through its advice on our future potential fund raising and investments activities.

We acquainted with Mr. Xie Guo Chuan through Mr. Cai. Mr. Xie Guo Chuan was introduced to Mr. Cai through one of their common friends in 2013.

To the best knowledge and belief of our Directors, Xing Ying Fu Li decided to invest in our Group in view of the prospects of our business growth.

To the best knowledge and belief of our Directors and save as disclosed above, each of the Pre-IPO Investors is independent from each other.

Other matters

Each of the Pre-IPO Investors has undertaken to the Company that it shall not offer, sell, transfer or otherwise dispose of part or all of their Shares within six months from the Listing Date. The Shares held by the Pre-IPO Investors will be counted towards the public float after the Listing for purpose of Rule 8.08 of the Listing Rules.

Since the Pre-IPO Investors have fully paid all the investment costs on or before 23 October 2015, the Sole Sponsor is of the view that the Pre-IPO Agreements are in compliance with the interim guidance on pre-IPO investments (HKEx-GL29-12) and the Guidance on Pre-IPO investments (HKEx-GL43-12) issued by the Stock Exchange.

BUSINESS

OVERVIEW

Our principal business is the manufacture and sale of plywood and biomass wood pellets (木製生物質顆粒) in China, and both of which are made from wood. Our plywood products are mainly made of poplars, which consist of furniture board (家具板), ecological plywood (生態板) (also known as melamine faced board (三聚氰胺貼面板)) and hardwood multi-layered board (實木多層板), while we use wood residues (also known as sanshengwu (三剩物)) to produce our biomass wood pellets.

The history of our business and products is short. Our plywood products were first launched in 2011 and our biomass wood pellets were first launched in 2013. Nevertheless, we had recorded a significant growth during the Track Record Period. Our revenue amounted to approximately RMB166.1 million, RMB317.0 million, RMB380.9 million and RMB208.5 million for each of the three years ended 31 December 2013, 2014 and 2015 and for the six months ended 30 June 2016, respectively. Our net profits attributable to owners of the Company were approximately RMB20.3 million, RMB38.9 million, RMB45.2 million and RMB11.9 million for each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, respectively. The reasons for our achievement of significant growth and substantial increase in revenue and net profits during the Track Record Period were mainly due to: (a) we have employed more sales staff during the Track Record Period in promoting our products in the market, and our sales team has made effort in selling our products to both new and recurring customers; (b) the increase in sizeable number of new customers referred by our existing customers; and (c) we participated in industry exhibitions, such as the China Forestry Products Trade Fair and the China International Biomass Conference, in order to promote our plywood products and biomass wood pellets to the relevant markets. The PRC economy has slowed down recently, but this does not have material adverse effect on our plywood and biomass wood pellet businesses.

During the Track Record Period, our plywood products remained as our primary revenue generator, which accounted for over 70% of our total revenue. Our plywood is generally used in furniture making, interior decoration and renovation of buildings. Although the history of our plywood is short, we emphasize the quality control management and environmental management. In 2014, our plywood brand “Bolema (伯樂馬)” was awarded as the top 10 best brands (十佳品牌) through an online evaluation conducted by PRC timber trade website (中國木業網), and according to the Ipsos Report, the PRC timber trade website is a professional business-to-business (b2b) platform for wood product trading companies and manufacturers, which is a popular and well recognised website to wood-based panel manufacturers in the PRC. We have also successfully obtained the qualification of environmental management system “GB/T24001-2004 idt ISO14001:2004” in 2013 and the Hardwood Plywood Veneer Core the Formaldehyde Emission Standard: Phase 2 (0.05 ppm) certificate of conformity under CARB requirement in 2014 for our plywood. According to the Ipsos Report, the plywood is highly fragmented and competitive with the top five companies taking about 0.65% of the share of total industry revenue, and we ranked the fourth in term of market share of total industry revenue in the PRC in 2015. Furthermore, according to the Ipsos Report, applications of wood-based panels (including plywood) to decoration industry and construction industry are two of the most key drivers of the development of wood-based panel (including plywood) manufacturing industry. These downstream industries have developed well enough to create development potential for the wood-based panel manufacturing industry. Our Directors are of the view that, based on the Ipsos Report and our continuously business growth during the Track Record Period, the plywood industry

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will continue to develop steadily, as plywood is generally considered as a primary commodity, like our ecological plywood and hardwood multi-layered board, and our Group can enrich the product lines and produce higher value-added products and be more competitive when the processing technologies and production capacity are improved.

We also produce biomass wood pellets which is a relatively cleaner fuel as compared with other traditional forms of fuel, such as coal. At the beginning of the production in 2013, we used the wood residues generated from our plywood production process to produce biomass wood pellets which enabled us to maintain a cost-competitive operation structure and expanded our source of revenue. With the expansion of our biomass wood pellets business and to meet the increasing demand of our biomass wood pellets from customers, we also purchased wood residues from the suppliers near our production plants. According to the Ipsos Report, the bioenergy industry in China is still under-developed, but it is recently supported by the PRC Government, for example, the State Council released “the Biomass Development Prospect in the Twelfth Five-Year plan 《生物質能發展“十二五”規劃》” in 2012, aiming at regulating and instructing the long-term expansion of bioenergy. According to the Ipsos Report, the biomass wood pellet made of wood is highly fragmented and competitive with the top five companies taking about 1.92% of the total market value, and we ranked the first in term of market share of the total industry revenue in the PRC in 2015. Our Directors are of the view that, the biomass energy market is still under-developed in the PRC, but with the support of the PRC Government and implementation of relevant laws and regulations in promoting bioenergy, the potential growth of biomass wood pellets business in the PRC market is still large. Furthermore, according to Energy Development Strategic Action Plan (2014-2020), the development of clean energy is encouraged, and the percentage of coal consumption should be limited to within 62% nationwide by 2020. Therefore, our Directors are of the view that, based on the Energy Development Strategic Action Plan (2014-2020), the demand for biomass wood pellets will continue to increase and the growth of biomass consumption is expected to sustain in the near future.

According to the Ipsos Report, the plywood product industry in the PRC has medium entry barriers. Nevertheless, to overcome the entry barriers, our production base is strategically located in Sunsi Town, Chengwu County, Heze City, Shandong Province, where we can benefit from the abundant and stable supply of poplars in Shandong, with a location advantage having easy and convenient access to the logistic city, Linyi City, for delivery of our products to the customers in Eastern China and Southern China regions, such as Anhui Province, Fujian Province, Jiangxi Province, Jiangsu Province, Shanghai, Zhejiang Province and Guangdong Province, as well as other cities in the PRC. Our Directors consider that the strategic location is one of our competitive strengths which allows us to maintain a stable supply of raw materials with relatively lower purchase costs and transportation costs from our raw material suppliers. This further enables us to maintain the price competitiveness of our products over other competitors as well as achieving a significant growth over a short period of time. According to the 2015 Shandong Province Forestry Industry Statistical Year Book issued by Forestry Department of Shandong Province (山東省林業廳) in June 2016, Heze City ranked first among other cities in Shandong Province in terms of production volume of wood-based materials in 2015. We are the major customer in purchasing wood-based raw materials such as poplar logs, veneers and plywood cores in Heze City, Shandong Province, and according to the Ipsos Report, our Group ranked second in terms of revenue among other plywood manufacturers in Shandong Province. Accordingly, to the best knowledge of our Directors, our Directors consider that there are no other major competitors competing with our Group for the supply of wood-based raw materials in

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Heze City, Shandong Province. On the other hand, our track record is limited as our history of both plywood products and biomass wood pellets is short, which cannot be indicative of our future performance growth. There is no assurance that we can maintain our competitiveness and high profit margins in the future. Please refer to the paragraphs headed “Our Group has limited track record although we recorded a significant growth of our turnover and profit attributable to owners of our Company during the Track Record Period. Our turnover and profits may not continue to grow at the same rates in the future.” and “Our biomass wood pellet business has limited track record and we cannot guarantee that we can maintain or establish a long-term relationship with our existing customers and develop a good relationship with our potential customers. If there is any decrease in our customers’ demand for biomass wood pellets or if we lose these customers, our business and results of operations may be adversely affected.” in the section headed “Risk factors” for further details.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths have contributed to our success and will continue to enable us to compete effectively and to capitalise on future growth opportunities.

We are strategically located in Shandong Province with close access to our principal raw materials and have established long-term cooperation relationships with our local suppliers.

Back to December 2010, Mr. Zhang, our executive Director and the spouse of Ms. Wu, acquired the entire equity interest in Meisen (Shandong) from Shandong Chengwu Guangda Industrial and Trading Limited (山東成武光達工貿有限公司), an Independent Third Party, after his participation in an investment opportunities event held by Chengwu county local government authorities. Upon the acquisition of Meisen (Shandong) by Mr. Zhang, Mr. Zhang decided to expand the plywood business of Meisen (Shandong) and contacted Mr. Ke, Mr. Wang and Mr. Wu, our executive Directors, and Mr. Cai and Mr. Lin Hongpeng for their support and funding for holding Meisen (Shandong). Our Directors confirm that the then shareholders of Mei Sem (HK) which in turn holds Meisen (Shandong) had considered (i) the abundant supply of poplars and relevant policies of harvesting poplars in Shandong, (ii) the location of the production plants and the transportation networks to other cities from the production plants, as well as the production facilities setting up in the production plants, and (iii) the sales and marketing experience and management skills of Mr. Ke and Mr. Zhang in relation to the plywood business, and therefore Mr. Wang, Mr. Wu, Mr. Zhang, Mr. Cai and Mr. Lin Hongpeng invested in Meisen (Shandong) through Mei Sem (HK) in March 2011. Our production facilities have been then strategically located in Sunsi Town, Chengwu County, Heze City, Shandong Province.

The Forestry Department of Shandong Province (山東省林業局) joined with other government authorities in Shandong Province to issue the “Opinions on Accelerating the Development of Forestry Industry in Shandong” (《關於加快全省林業產業發展的意見》) in 2010, pursuant to which the government encouraged to speed up the development of forestry industry base by building forest base covering an area of about 3,333.3 km², as well as to develop the construction of fast-growing and high-yielding timber base for providing sufficient raw materials to the local wood-based processing manufacturers in Shandong. Our Directors believe that as the principal raw materials to produce our plywood are poplar logs, poplar plywood cores and veneers and the principal raw material to produce biomass wood pellets is wood residues, with the support of the local government to promote and

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develop the timber base near our production facilities, our Group, as one of the plywood manufacturers in Shandong Province, benefits from the abundant and stable supply of raw materials as compared with the competitors in other provinces. Furthermore, according to the 2015 Shandong Province Forestry Industry Statistical Year Book issued by the Forestry Department of Shandong Province in June 2016, Heze City ranked first among other cities in Shandong Province in terms of production volume of wood-based materials in 2015. We are the major customer in purchasing wood-based raw materials such as poplar logs, veneers and plywood cores in Heze City, Shandong Province, and according to the Ipsos Report, our Group ranked second in terms of revenue among other plywood manufacturers in Shandong Province. Accordingly, to the best knowledge of our Directors, our Directors consider that there are no other major competitors competing with our Group for the supply of wood-based raw materials in Heze City, Shandong Province.

Furthermore, we have entered into letters of intent in respect of the long-term supply of logs with the local government of various towns in Chengwu County near our production facilities and hence we can enjoy priority over other competitors in purchasing raw materials from local farmers. According to the Ipsos Report, Shandong Province is rich in poplar resources and has over 3,000 individual farmers providing poplar materials. Our Directors consider that in addition to the advantage of stable supply of raw materials, we purchase raw materials from local farmers and suppliers directly and dominate the purchasing prices in the local markets with relatively large purchasing volumes among their customers.

Our Directors further consider that our production materials are bulky and heavy and therefore our close proximity to poplar forests and our suppliers of raw materials provides us with convenient and abundant supply of materials at a sourcing cost advantage.

We are committed to achieve a stable growth in revenue and profit margin with our plywood and biomass wood pellets businesses.

We are committed to expand our plywood and biomass wood pellets businesses and our revenue and profit margin grow steadily. In 2011, we acquired Meisen (Shandong) for production of plywood products, and in 2013, we established Dasen (Heze) and launched our biomass wood pellets. Although our business history is short, we have managed to develop and maintain good relationship with our customers. The number of our plywood customers increased from 90 in 2013 to 171 in 2015, and the number of our biomass wood pellet customers increased from 22 in 2013 to 79 in 2015, which shows that we have a growing customer base. In addition, the reasons for our achievement of significant growth and substantial increase in revenue and net profits during the Track Record Period were mainly due to: (a) we have employed more sales staff during the Track Record Period in promoting our products in the market, and our sales team has made effort to sell products to both new and recurring customers; (b) the increase in sizeable number of new customers referred by our existing customers; and (c) we participated in industry exhibitions, such as the China Forestry Products Trade Fair and the China International Biomass Conference, in order to promote our plywood products and biomass wood pellets to the relevant markets. The PRC economy has slowed down recently, but this does not have material adverse effect on our plywood and biomass wood pellet businesses.

During the Track Record Period, our plywood customers were in the PRC and were mainly (i) end users, such as furniture manufacturers, equipment manufacturers, decoration or renovation

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companies and packing material producers which used our plywood for making furniture, interior decoration or renovation of building and providing packing materials, and (ii) trading companies which resold our plywood to their customers with or without processing. Our biomass wood pellet customers were in the PRC and were mainly (i) end users of various industries and (ii) trading companies. Our customers are mainly from Eastern China and Southern China. For each of the three years ended 31 December 2015 and the six months ended 30 June 2016, sales to our five largest customers accounted for about 36.1%, 27.9%, 22.7% and 31.3% of our total revenue, respectively. Our Directors believe that we are not dependent on any single customer or group of customers, especially we have a diversified customer base across various industries for our biomass wood pellets.

Furthermore, our revenue has increased significantly during the Track Record Period, which made us, according to the Ipsos Report, rank within top five among other China plywood manufacturers and biomass wood pellet manufacturers in term of market share of total industry revenue in 2015. As confirmed by Heze City Statistical Bureau (荷澤市統計局), as at 31 December 2015, there were approximately 383 manufacturers with an annual revenue of approximately RMB20 million or above engaging in wood processing production in Heze City, and Meisen (Shandong) ranked first in terms of operating revenue among these manufacturers, and there were only four manufacturers with an annual revenue of approximately RMB20 million or above engaging in biomass pellet production in Heze City, Dasen (Heze) ranked first in terms of operating revenue among these manufacturers. The table below sets out the breakdown of our revenue, gross profit and gross profit margin for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016.

	Year ended 31 December									Six months ended 30 June		
	2013			2014			2015			2016		
	Revenue	Gross profit	Gross profit margin	Revenue	Gross profit	Gross profit margin	Revenue	Gross profit	Gross profit margin	Revenue	Gross profit	Gross profit margin
RMB'000	RMB'000	%	RMB'000	RMB'000	%	RMB'000	RMB'000	%	RMB'000	RMB'000	%	
Plywood	149,172	27,244	18.3	250,504	45,240	18.1	284,204	53,613	18.9	159,216	31,745	19.9
Biomass wood pellets	16,913	7,800	46.1	66,518	29,797	44.8	96,656	29,877	30.9	49,243	14,201	28.8
Total:	<u>166,085</u>	<u>35,044</u>	<u>21.1</u>	<u>317,022</u>	<u>75,037</u>	<u>23.7</u>	<u>380,860</u>	<u>83,490</u>	<u>21.9</u>	<u>208,459</u>	<u>45,946</u>	<u>22.0</u>

We fully utilise raw materials and automated production lines to enable us to control our production costs and maintain a high environmental protection standard.

We generally maximise the value of raw materials. Our operations are currently focused on the manufacture and sale of plywood and biomass wood pellets. In our plywood production process, wood residues are generated and we add further value by using these wood residues as raw material for producing our biomass wood pellets. During the Track Record Period, we used the wood residues from our plywood to produce biomass wood pellets, amounting to approximately 16,984 tons, 20,769 tons, 19,571 tons and 11,629 tons, respectively. Although our sales in plywood increased, the amount of wood residues generated during the production process of our plywood products decreased from 2014 to 2015, as we purchased more poplar plywood cores and veneers in producing our plywood products which produced fewer wood residues than those produced from using poplar logs. On the other hand, we utilise our biomass wood pellets as energy source in our production process. The internal

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consumption of biomass wood pellets amounted to approximately RMB1.8 million, RMB3.4 million, RMB4.0 million and RMB2.0 million during each of three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 respectively. Our Directors believe that our Group benefit from maximum utilisation of our raw materials which lowers our production costs, as well as benefits our environmental friendliness. Our Directors further consider that our ability to produce and sell a wide range of products enables us to maximise the recovery of our wood resources, optimise our margins across our product range, diversify our revenue base and respond to changes of our customers' needs. According to the Ipsos Report, the use of internally generated wood residues as raw materials for biomass wood pellet production was not common in the industry.

In addition, we are one of the few companies which adopt automated production lines in biomass wood pellet manufacturing that can save about half of the manpower required comparing to a non-automated production process. Our annual designed production capacity of biomass wood pellets in 2015 was approximately 130,560 tons. Please refer to the paragraph headed "Our production process and facilities — Production capacity, production volume and utilisation rate" in this section for our production capacity of both plywood and biomass wood pellets. Our Directors consider that, with higher manufacturing efficiency and economies of scale, we are able to achieve cost saving effect and gain a higher profit margin than the industry average. Our Directors also believe that these improvements to our production process, including labour efficiency, system automation and energy conservation, will help to reduce our costs and hence increase our profitability.

We emphasize high quality products and stringent quality control in both plywood and biomass wood pellets.

Our Directors believe that the quality and reliability of products are essential to our customers. Hence, we have established a comprehensive quality control system, and we have our in-house testing facilities, testing equipment and technical personnel, for raw materials inspection and stringent quality control measures at all main stages of the production process and final testing of finished products for plywood and biomass wood pellets.

Our Directors consider that it is important to maintain a high quality of products in line with the statutory or industry standard. We have obtained the "Hardwood Plywood Veneer Core with Formaldehyde Emission Standard: phase 2 (0.05 ppm)" certificate of conformity under CARB requirements for our plywood, which was first issued in March 2014. We also engaged a reputable and independent test institution to inspect our biomass wood pellets for ensure fulfilment of relevant industry standards. We believe that through maintaining a high reliability of our products, we are able to gain credibility and loyalty from our customers.

Our Group further cooperates with several key universities to carry out research on our product quality, formaldehyde elimination, moth protection and aromatisation. The emphasis on production technologies increases productivity and adds more value to the products, priding us with a reputation as a credible and innovative supplier, thus effectively differentiating itself.

We have an experienced management team with extensive industry knowledge.

We have built up an experienced and stable executive team of professional management that is committed to our long term success. With respect to our plywood and biomass wood pellets, we have

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recruited personnel with extensive experience in sustainable manufacturing and distribution and marketing. Our management team has developed our operations to meet changing market requirements, including complying with the stringent certification processes. We have demonstrated our ability to work effectively both during periods of high growth as well as in challenging market conditions.

OUR BUSINESS STRATEGIES

We aim to strengthen our market position as a leading plywood and biomass wood pellet manufacturer and to increase our market share by pursuing the following strategies:

We plan to expand production capacity to meet demands for our plywood products and biomass wood pellets.

In view of the increasing demands for our plywood products and biomass wood pellets and to expand our customer base, we plan to expand the production facilities by installing an additional production line, as well as upgrading our existing production equipment in both our plywood and biomass wood pellet production plants.

(i) *Expansion of our plywood production capacity*

Plywood is generally considered as a primary commodity, and according to the Ipsos Report, the market demand for plywood will continue to grow steadily in the next couples of years. The total sales volume of our plywood amounted to approximately 56,231 m³, 90,964 m³, 102,689 m³ and 55,036 m³ for the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 respectively. Our Directors believe that based on the growth rate of our plywood products during the Track Record Period and the existing stable customer base, and on the basis that the utilisation rate of our plywood production facility has increased to 76.0% for the six months ended 30 June 2016, it is expected that the existing production capacity will be nearly fully utilised by end of 2017 and our Group is well positioned to implement expansion plans in production as well as sales and marketing. Hence, through the expansion of the production capacity, we believe that we can accommodate the estimated demand of our new and recurring customers and allow us to benefit from economies of scale. We intend to install one additional production line to increase annual production capacity by 50%, with approximately 75,000 m³. As at the Latest Practicable Date, our existing plywood production plant has approximately 47,000 sq. m.. Our Group intends to construct a new production plant near our existing plywood production plant in Shandong.

As at the Latest Practicable Date, our Group had not identified the exact location of the land for the new plywood production plant. Nevertheless, Meisen (Shandong) has entered into a letter of intent with the People's Government of Sunsi Town of Chengwu County (成武縣孫寺鎮人民政府), pursuant to which we intended to purchase the land near our existing production plant in the Sunsi Town Industrial Park. Once the relevant government authority commences the bidding procedure for sale of land, we will participate in such bidding process. Generally, the bidding process will take about three to four months. We will also purchase production equipment from domestic suppliers, including composing and bonding machines, hot-pressing machines and sawing machines.

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Our Directors estimate that the bidding procedure for sale of land by the relevant government authority will take place in second quarter of 2017, and the construction of the new plywood production plant is expected to commence in the fourth quarter of 2017 and will be completed in the second quarter of 2018. We expect that the plywood production will commence in the third quarter of 2018.

It is estimated that the total capital expenditure for the expansion of our plywood production plant will be approximately RMB49.9 million, including the purchase of land at approximately RMB7.8 million, construction costs at approximately RMB26.0 million and purchase of machinery and equipment at approximately RMB16.1 million. We plan to utilise approximately RMB34.4 million (equivalent to approximately HK\$39.9 million), representing approximately 32.1% of the net proceeds from the Global Offering, and the remaining balance will be funded by internal resources and bank borrowings.

The breakeven and payback period with respect to the expansion of plywood production plant is expected to be within 1.5 years and 2.5 years, respectively. Our breakeven and payback period estimates are based on our historical performance, various assumptions and estimates, and are not indicative of the future financial performance of our Group.

Our Group expects to achieve a higher level of operational efficiency through expanding the plywood production capacity. The whole manufacturing process of plywood products involves a number of procedures with different machineries, and the additional capacity with new machines installed at the production facilities can relieve the bottleneck of the existing production capacity. We consider that it can achieve a higher operational efficiency for the utilisation of machineries of both the existing and the new production lines. In addition, our Group is expected to benefit from economy of scale on certain procedures of the production cycle of plywood products after such expansion, such as the procurement of raw materials and the inventory management where they can be consolidated and handled by similar staff level of the existing production line after the expansion.

It is expected that the total capital expenditure for the extended production line for plywood products will be approximately RMB49.9 million, which is estimated to be paid throughout the year 2017 and 2018, financed by the net proceeds of the initial public offering of the Global Offering and the cash inflows from the operating activities. After such capital expenditure, our Group is also expected to incur additional operating costs mainly for employing more production staff and purchase more raw materials for production in return for producing profitable plywood products.

(ii) *Expansion of our biomass wood pellets production capacity*

Our Directors consider that the utilisation rate of our biomass wood pellet production is over 90%, with the increasing demand of our biomass wood pellets, we intend to install one additional production line to increase annual production capacity to approximately 230,000 tons. To cater for the expansion, our Group will construct new production facilities near our existing biomass wood pellet production plant, including production plant, offices and employee dormitory in the first quarter of 2017. Upon commencement of biomass wood pellet production after completion of new production

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plant which is expected to take place in the second quarter of 2017, it is estimated that our annual production capacity will increase by approximately 100,000 tons. Together with the installation of an additional production line, such expansion of our production capacity will enable us to increase our market share in the coming years.

As at the Latest Practicable Date, Dasen (Heze) entered into a letter of intent with the People's Government of Nanluji Town of Chengwu County (成武縣南魯集鎮人民政府), pursuant to which our Group intends to invest in a parcel of land located at Chengwu County Development Area, and once the relevant government authority commences the bidding procedure for sale of land, we will participate in such bidding process. The exact location has not been identified by the parties. Generally, the bidding process will be completed within three to four months from the commencement of bidding procedure initiated by the government authority. Our Group estimates that the construction of the production plant will be completed within three to four months after we are granted the parcel of land. The expansion will also include the purchase of new machinery and equipment, including screening machines, drying machines, and pelleting machines in the PRC.

Our Directors expect that the expansion of our new production plant at our biomass wood pellets will require capital expenditure of approximately RMB30.7 million, of which approximately RMB5.0 million will be applied for acquisition of the land, approximately RMB17.0 million will be used for construction costs of the production plant, and approximately HK\$8.7 million will be used for purchasing machinery and equipment for use in the new production plant. We plan to utilise approximately RMB30.7 million (approximately HK\$35.6 million), representing approximately 28.6% of the net proceeds from the Global Offering for the acquisition of land, construction of the new production plant and acquisition of machinery and equipment for the new production plant in the PRC.

The breakeven point, which refers to the point at which the revenue generated by the new production and processing facilities equals their operating cost, is expected to be approximately 25,000 tons of biomass wood pellets sold annually, assuming an average selling price of RMB825 per ton that is estimated with reference to our current average selling price. The payback period, which refers to the period of time required to recover the initial set up costs, assuming the revenue increases in line with our overall business growth and there will be no material adverse impact on the business and operating result of the production facilities due to fluctuation in market demand, inflation, increase in raw material and energy costs and labour expenses throughout the operating period, change in government policy, is expected to be 2.5 years after the commencement of production.

Our Group expects to have a low operational impact upon installing an additional production line for biomass wood pellets. Production process for biomass wood pellets achieves a high level of automation and it involves single type of raw materials and also finished goods, therefore we require only limited number of additional staff for operating the new production line for biomass wood pellets.

It is expected that total capital expenditure for the extended production line for biomass wood pellets will be approximately RMB30.7 million, which is estimated to be paid throughout the year 2017, financed by the net proceeds of the initial public offering of the shares of the Company. After such capital expenditure, our Group is also expected to incur additional operating costs mainly for purchasing more raw materials for production in return for producing profitable biomass wood pellets.

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We plan to expand our sales coverage within the PRC.

We expect the demand for our products in the PRC will continue to grow. We plan to expand our sales networks by establishing additional sales offices for our products to increase our coverage within the PRC. During the Track Record Period, our Group's sales were conducted through our own sales and marketing team in our headquarters in Chengwu County, Heze City, Shandong Province, directly with our customers. In addition to our sales office in Shandong headquarter, our Group intends to set up branch offices in Eastern China and Southern China regions such as Guangdong Province, Shanghai, Fujian Province, Jiangsu Province and Zhejiang Province to promote and strengthen our sales and business in those regions, as well as provide supporting services to our customers in these areas, and to enable us to have direct access to customers and potential customers of different industries in different parts of the PRC.

Furthermore, our Group will continue to recruit experienced sales and marketing employees and provide regular training to these employees. Our Group aims to establish an energetic, self-motivated, experienced and well-trained sales and marketing team equipped with the technical knowledge to provide professional services to our customers.

We also intend to promote our products by participating in industry exhibitions and trade fairs, and advertising in media. Our Directors believe that if we can expand our clientele and sales networks, our profitability can be further increased.

We plan to further develop our research and development capabilities.

During the Track Record Period, we have collaborated with research institutes to improve our production technologies and continue to strengthen our research and development. We intend to expand our research capabilities to further refine our production technologies, particularly, our technology in developing new plywood products and biomass wood pellets. We will also focus on the research and development of technologies relating to energy saving, emission reduction, environmental protection. We shall look for opportunities in collaborating further with various universities, colleges, and other research and academic institutes in the PRC and overseas specialising in areas of wood processing to strengthen our product development capability, enhance operational efficiencies and costs savings.

In addition to the collaborations with research institutes, we also intend to strengthen our research and development capability by: (1) purchasing advanced equipment and materials for research and development; (2) hiring research and development specialists who possess relevant knowledge and experience in wood preservation, chemistry or technology related to biomass wood pellet production process; and (3) hiring technicians for our laboratory.

Furthermore, our Directors consider that there will be a growing demand for products featuring these technologies as businesses and governments become increasingly focused on sustainable economic growth and environmental protection. Therefore, we are currently utilising our research and development capabilities to develop new technologies to introduce products with environment friendly features which are in line with the market trends. We will apply approximately 5.6% of the net proceeds from the Global Offering to enhance our research and development capability involving

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hardware and software upgrade, including acquiring computers and testing equipment as well as upgrading our design, technology and design plan management system, and investment in research and development projects, including those relating to the development of new products. We will further apply 4.6% of the net proceeds from the Global Offering to fund our technical support team in order to assist our new and long term customers in modification of their existing equipment to transform from the old energy fuel to using our biomass wood pellets. We believe that our continued enhancement in our research and development capabilities will increase our competitiveness, thereby helping us to maintain our leading position in both plywood and biomass wood pellets industries.

OUR BUSINESS MODEL

Our business consists of the manufacture and sale of plywood and biomass wood pellets. During the Track Record Period, revenue generated from the sale of plywood accounted for over 70% of our total revenue. With respect to our plywood products, we usually confirm the purchase orders with customers on product specifications, like the size, thickness and water resistance, as well as confirm the sufficient supply of the raw materials, before we proceed to the plywood production process. It generally takes about 15 days to 30 days from the confirmation of purchase order to the delivery of our plywood products, subject to various factors such as the quantities of each order, supplies of raw materials and the specification of the plywood products. As our biomass wood pellets are produced with a standard specification, we usually produce biomass wood pellets before confirmation of purchase orders, and we can produce approximately 384 tons per day and our inventory level for finished biomass wood pellets maintains at about 7 days to 14 days.

Plywood

Our plywood products consist of furniture board, ecological plywood and hardwood multi-layered board, which are mainly made of poplar. In the manufacture and sale of our plywood products, we maintain and enhance business relationship with our existing customers and also attract potential customers through various means, such as exhibitions. Our customers generally confirm the specifications of the plywood products and request the quotations from our sales team. Once our sales department confirms the purchase orders with quotations from customers, they then communicate with our production and procurement departments, where our procurement department monitors the inventory level of raw materials and communicates with our production team and our production department places raw material order requests to our procurement department in accordance with the inventory level and purchase orders received. After production, our customers will arrange for collecting our products. Although we do not provide any after-sale service, our sales and marketing department addresses concerns raised by our customers and takes necessary steps to resolve those issues after delivery of products.

Biomass wood pellets

We produce biomass wood pellets by using wood residues from our internal source or external suppliers. Generally, our sales, production and procurement departments set out the sales budget and production volume on a monthly basis, and then the procurement department monitors the inventory level of raw materials, including wood residues. We sell biomass wood pellets to customers of various industries, as well as biomass wood pellet trading companies in the PRC.

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OUR PRODUCTS

Our principal business is the manufacture and sale of plywood products, which mainly consist of furniture board (家具板), ecological plywood (生態板) (also known as melamine faced board (三聚氰胺貼面板)) and hardwood multi-layered board (實木多層板), and manufacture and sale of biomass wood pellets. Our customers may require different specifications of our plywood products, such as thickness, size, moisture contents and water resistance, and our plywood is generally used in furniture making and interior applications of buildings, while our biomass wood pellet is in a standard specification and is a relatively cleaner fuel as compared with other traditional forms of fuel, such as coal.

Plywood

During the Track Record Period, our plywood products were mainly divided into three categories: (i) furniture board, (ii) ecological plywood and (iii) hardwood multi-layered board.

Furniture board

Furniture board is widely used in interior decoration and furniture making, such as tables and chairs, because of its strength, appearance and low cost. We produce different sizes and thickness of furniture board.

Summarised below are the specifications of our furniture board:

Thickness (mm):	2.4 - 25
Size:	2440 x 1220, and other customised sizes
Glue type:	Urea-formaldehyde resin (E1)
Usage:	Interior decoration of building and furniture making, such as tables and chairs
Selling prices:	2013: RMB1,737 per m ³ — RMB4,785 per m ³ 2014: RMB2,285 per m ³ — RMB4,996 per m ³ 2015: RMB2,285 per m ³ — RMB4,905 per m ³ 2016 (during the first six months): RMB1,755 per m ³ — RMB4,666 per m ³

During the Track Record Period, the selling prices of our furniture board varied subject to various factors such as, among others, the specifications, such as size and thickness. The sales volumes of our furniture board were approximately 42,523 m³, 75,011 m³, 81,470 m³ and 33,517 m³ for the three years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016 respectively, which accounted for approximately 66.2%, 60.9%, 55.8% and 41.9% of the total revenue of our Group respectively in the corresponding periods.

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Ecological plywood (also known as melamine faced board)

Ecological plywood, which is also known as melamine faced board, is considered to have fewer adverse environmental impacts than the traditional lacquered board. In order to satisfy the requisite requirements for the heat pressing process to attach the top sticker sheets, the production process of ecological plywood generally involves multiple heat pressing processes in order to achieve a higher level of smoothness of its surfaces and stricter moisture content requirements. Ecological plywood can be used in interior applications of buildings and furniture making. We produce different sizes and thickness of ecological plywood.

Summarised below are the specifications of our ecological plywood:

Thickness (mm):	2.4 - 25
Size:	2440 x 1220, and other customised sizes
Glue type:	Urea-formaldehyde resin (E1 and E0)
Usage:	Interior applications of buildings and furniture making
Selling prices:	2013: RMB2,267 per m ³ — RMB8,374 per m ³ 2014: RMB2,632 per m ³ — RMB8,494 per m ³ 2015: RMB2,584 per m ³ — RMB8,614 per m ³ 2016 (during the first six months): RMB2,622 per m ³ — RMB5,053 per m ³

During the Track Record Period, the selling prices of our ecological plywood varied subject to various factors such as, among others, the specifications of size and thickness. The sales volumes of our ecological plywood were approximately 11,744 m³, 5,890 m³, 14,430 m³ and 14,802 m³ for the three years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016 respectively, which accounted for approximately 19.2%, 5.5%, 11.6% and 21.5% of the total revenue of our Group respectively in the corresponding periods.

Hardwood multi-layered board

Hardwood multi-layered board is widely used in high-quality furniture, kitchen furniture and bathroom furniture. Generally, the quality of hardwood multi-layered board is made of better quality raw materials, with a more complicated production process. We produce different sizes and thickness of hardwood multi-layered board.

Summarised below are the specifications of our hardwood multi-layered board:

Thickness (mm):	6 - 25
Size:	2440 x 1220, and other customised sizes
Glue type:	Urea-formaldehyde resin (E0)
Usage:	High-quality furniture, kitchen furniture and bathroom furniture

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Selling prices:	2013: RMB3,254 per m ³ — RMB6,891 per m ³
	2014: RMB3,350 per m ³ — RMB6,783 per m ³
	2015: RMB3,466 per m ³ — RMB5,679 per m ³
	2016 (during the first six months): RMB3,641 per m ³ — RMB5,679 per m ³

During the Track Record Period, the selling prices of our hardwood multi-layered board varied subject to various factors such as, among others, the specifications of size and thickness. The sales volumes of our hardwood multi-layered board were approximately 1,964 m³, 10,063 m³, 6,789 m³ and 6,717 m³ for the three years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016 respectively, which accounted for approximately 4.4%, 12.6%, 7.2% and 13.0% of the total revenue of our Group respectively in the corresponding periods.

Biomass wood pellets

Biomass wood pellet is made of wood residues, which is a relatively cleaner fuel as compared with other traditional forms of fuel, such as coal. According to the Ipsos Report, as compared to traditional fuel, such as coal, biomass wood pellets have competitive edge in transport, storage, combustibility, and emission, as it is solid, smaller in size than coal and packed in sealed-package which make it easier for transportation and storage, and helps energy (electricity) companies save cost due to the relatively lower price than natural gas and oil. Generally, the sources of biomass wood pellets are renewable, biological and wood residues (also known as sanshengwu (三剩物), such as recycled and converted residue materials generated from the production process of plywood, forestry logging residues, bucking residues and processing residues so as to improve environmental resources efficiency. Furthermore, according to the Ipsos Report, biomass wood pellet contains zero sulfate and phosphorous, therefore no pollution gas and contents would be released after burning. These enable biomass wood pellets to become the symbol of new generation fuel.

We manufacture and sell biomass wood pellets via our operating subsidiary, Dasen (Heze), since 2013. Prior to March 2015, we offered delivery services to the customers which resulted in a range of selling prices charged for different purchase orders from customers in different regions. The average selling prices of our biomass wood pellets (after deduction of delivery cost) for the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 were RMB810.2, RMB843.6, RMB836.5 and RMB843.6, per ton, respectively, and the sales volumes were approximately 24,552 tons, 76,323 tons, 119,822 tons and 62,367 tons respectively, which accounted for approximately 10.2%, 21.0%, 25.4% and 23.6% of the total revenue of our Group respectively in the corresponding periods.

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The following table sets forth the revenue breakdown by product segment during the Track Record Period:

Product Type	Year ended 31 December						Six months ended 30 June	
	2013		2014		2015		2016	
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
<i>Plywood</i>								
Furniture board	109,955	66.2	193,154	60.9	212,471	55.8	87,368	41.9
Ecological plywood	31,928	19.2	17,323	5.5	44,329	11.6	44,842	21.5
Hardwood multi-layered board	7,289	4.4	40,027	12.6	27,404	7.2	27,006	13.0
Sub-total:	149,172	89.8	250,504	79.0	284,204	74.6	159,216	76.4
<i>Biomass wood pellets</i>	16,913	10.2	66,518	21.0	96,656	25.4	49,243	23.6
Total:	<u>166,085</u>	<u>100.0</u>	<u>317,022</u>	<u>100.0</u>	<u>380,860</u>	<u>100.0</u>	<u>208,459</u>	<u>100.0</u>

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

Product Type	Year ended 31 December						Six months ended 30 June	
	2013		2014		2015		2016	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
<i>Plywood</i>								
Furniture board	20,162	18.3	33,765	17.5	39,263	18.5	16,255	18.6
Ecological plywood	5,573	17.5	3,058	17.7	8,347	18.8	9,316	20.8
Hardwood multi-layered board	1,509	20.7	8,417	21.0	6,003	21.9	6,174	22.9
Sub-total:	27,244	18.3	45,240	18.1	53,613	18.9	31,745	19.9
<i>Biomass wood pellets</i>	7,800	46.1	29,797	44.8	29,877	30.9	14,201	28.8
Total:	<u>35,044</u>	<u>21.1</u>	<u>75,037</u>	<u>23.7</u>	<u>83,490</u>	<u>21.9</u>	<u>45,946</u>	<u>22.0</u>

OUR PRODUCTION PROCESS AND FACILITIES

Our production facilities are based at our self-owned premises, situated at Sunsi Town, Chengwu County, Heze City, Shandong Province, which comprise factory, warehouses, office buildings and

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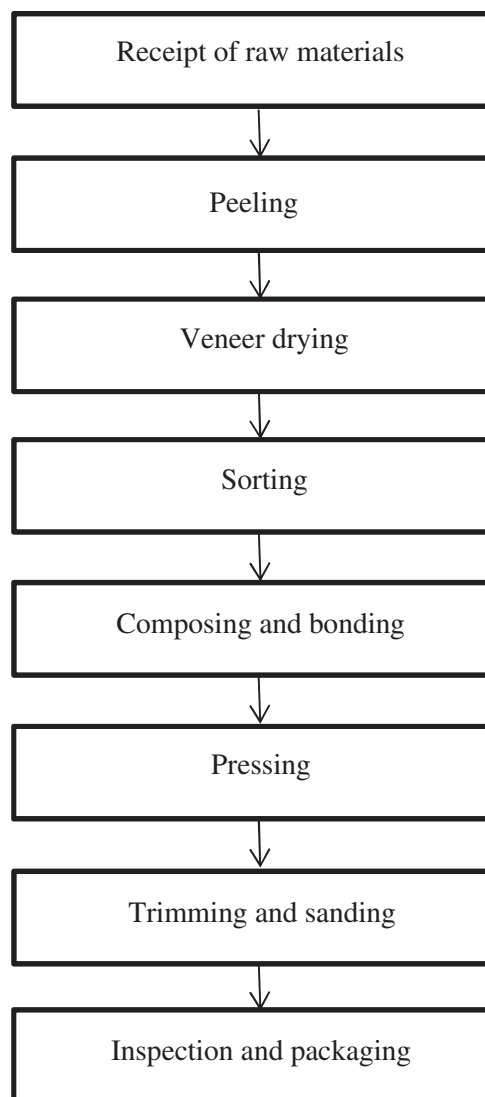
staff dormitory. Our Directors believe that timely delivery of our products to the customers and the quality of products are essential for our Group to maintain our success, and the strategic location of our production facilities has advantage with easy and convenient access to the logistic city, Linyi City, Shandong Province for delivery of our products to the customers in Beijing, Shanghai and other cities in China.

Plywood

Production process

During the Track Record Period, our plywood production was driven by sale on the basis of receipt of sale orders. Upon confirmation of the sale orders from our customers, we commence production planning and the production cycle, from procurement of raw materials to finished products. This process takes about 15 days to 30 days, depending on various factors, such as the quantities of each order, the supplies of raw materials and the specification of the plywood products.

Our production process of plywood products is generally as follows:



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- (i) *Receipt of raw materials:* Upon receipt of raw materials, our procurement department will check quantity and quality of raw materials received, and our quality control personnel will conduct quality test on the sample of raw materials.
- (ii) *Peeling:* If we purchase logs, then plywood veneer is rotarily cut, in that the peeler block is rotated around the axis in a lathe, whilst a continuous veneer sheet is cut by a knife mounted parallel to the block's axis.
- (iii) *Veneering drying:* Peeled veneers are sent to a veneer dryer and are dried to a certain range of moisture contents.
- (iv) *Sorting:* The veneers are sorted by quality, grade and species manually. Grading is a means to segregate the veneers according to the overall quality, presence of knots and defects, and general appearance, etc.
- (v) *Composing and bonding:* Glue is then applied to the inner veneers or plywood cores, which in turn, are laid between the outer veneers ready for bonding. This operation takes up a large share of the manual labour employed in the production process.
- (vi) *Pressing:* Once the veneers and/or plywood cores are cooled, polished and laid-up as assembly plywood sheets, such plywood sheets are then pressed by hydraulic or pneumatic machines at high temperature and pressure. With the combined effect of heat and pressure the glue will harden after a certain period of time, firmly binding the veneers.
- (vii) *Trimming and sanding:* After the veneers are found together by pressing, the semi-completed plywood is trimmed down to the size as required by the customers and the edges are polished.
- (viii) *Inspection and packaging:* Our quality control personnel conducts testing on each plywood to ensure the quality of plywood products. Upon the completion of quality testing, the plywood products are then packed and ready for delivery to our customers.

Production capacity, production volume and utilisation rate

Our production facilities are located in Chengwu County, Shandong Province, with a gross floor area of approximately 47,000 sq.m. As at the Latest Practicable Date, we had one integrated production line with an annual production capacity of 149,600 m³, and 429 production employees. We typically conduct monthly review to determine the production plan for the following month. Our plywood production line operates 16 hours per day, for approximately 340 days per year.

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The following table shows our annual designated production capacity, total production volume and utilisation rate of our production line during the Track Record Period:

Year ended 31 December	Annual designated production capacity (m³)	Actual production volume (m³)	Utilisation rate (%)
2013	114,240	56,231	49.2%
2014	145,744	90,964	62.4%
2015	149,600	102,786	68.7%

Six months ended 30 June	Six-month designated production capacity (m³)	Actual production volume (m³)	Utilisation rate (%)
2016	72,400	55,036	76.0%

The average utilisation rate of our plywood production line is affected by a number of factors such as the number of orders received from our customers, the types of products manufactured and our production schedule. During the Track Record Period, we did not encounter any material interruptions of our production.

Production equipment

The major equipment used in our plywood production process includes 24 composing and bonding machines, 18 hot-pressing machines, and 18 veneer drying machines. We have a maintenance place for each of our major production equipment. We usually perform the maintenance and repairs for our equipment when they are not in use, or when it does not cause any suspension in our production. We procure our production equipment and components from machinery manufacturers in China and we select our equipment suppliers taking into account, among other factors, the prices and technology.

Biomass wood pellets

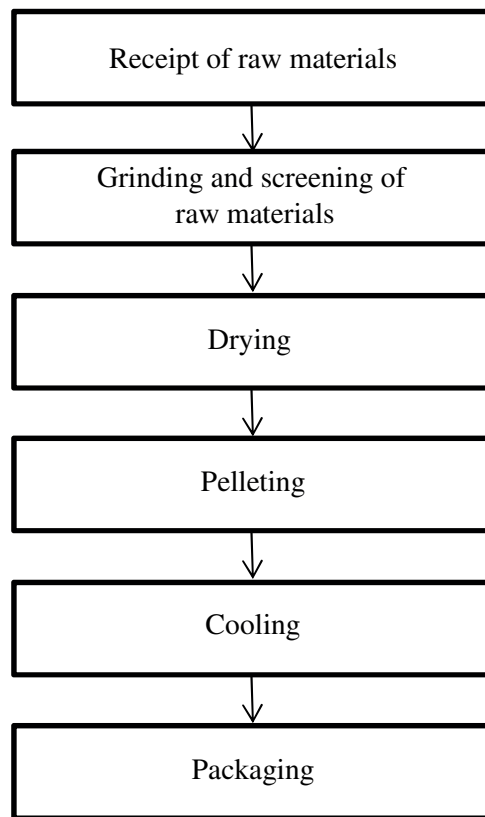
Our biomass wood pellet production facilities are based at our self-owned premises, located in Heze City, Shandong Province, which also comprise factory, warehouses, office buildings and staff dormitory.

Production process

As our biomass wood pellets are produced with a standard specification, we usually produce biomass wood pellets before confirmation of purchase orders, and we can produce approximately 384 tons per day.

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Our production process of biomass wood pellets is generally as follows:



- (i) *Receipt of raw materials:* The principal raw material is the wood residues from our production of plywood, as well as wood residues suppliers.
- (ii) *Grinding and screening of raw materials:* The wood residues are grinded, and then screened with a screener for any foreign materials, such as stones and metal, in order to ensure a safe quality output and to protect our process machinery.
- (iii) *Drying:* The raw material (wood residues) will go through the drying process before it can be pressed.
- (iv) *Pelleting:* The wood residues need to be warmed up to certain degree celsius in dry steam. The heat makes the lignin in the wood become more plastic which helps to stick the particles together. The wood residue is extruded through a matrix and the pellets are cut off on the outside of the matrix. The wood is pressed through the matrix under very high pressure.
- (v) *Cooling:* Once the pellets leave the press, they are plastic and hot. During cooling, the pellets become rigid and lose moisture, so that the final moisture content after the cooler can be lower.

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- (vi) *Packaging*: Pellets should be screened for fines before packaging and delivery. The fines can be returned to the production line. Our customers prefer to receive them in bags, and these bags typically come in 960 kg sizes.

Production capacity, production volume and utilisation rate

We commenced production of biomass wood pellets in March 2013 at our production facilities located in Heze City, Shandong Province, with a total of gross floor area of approximately 12,700 sq.m. As at the Latest Practicable Date, we had two production lines with its aggregated designed annual production capacity of 130,560 tons and 84 production employees. We typically conduct monthly review to determine the production plan for the following month. Our production line operates 16 hours per day, for approximately 340 days per year.

The following table shows our estimated production capacity, total production volume and utilisation rate of our production lines during the Track Record Period:

	Year ended 31 December						Six months ended 30 June					
	2013			2014			2015			2016		
	Annual designated capacity (tons)	Annual production volume (tons)	Average utilisation rate	Annual designated capacity (tons)	Annual production volume (tons)	Average utilisation rate	Annual designated capacity (tons)	Annual production volume (tons)	Average utilisation rate	Six-month designated capacity (tons)	Actual production volume (tons)	Average utilisation rate
Biomass wood pellets	54,400	29,637	54.5%	130,560	80,734	61.8%	130,560	115,647	88.6%	65,280	62,766	96.1%

The average utilisation rate of our biomass wood pellet production line is affected by a number of factors such as the number of orders received from our customers and our production schedule. During the Track Record Period, we did not encounter any material interruptions of our production.

Production equipment

The major equipment used in our production process includes 4 screening machines, 3 drying machines and 12 pelleting machines. We have a maintenance place for each of our major production equipment. We usually perform the maintenance and repairs for our equipment when they are not in use, or it does not cause any suspension in our production. For production of biomass wood pellets, we also procure our production equipment and components from machinery manufacturers in China and we select our equipment suppliers taking into account, among other factors, the prices and technology.

CUSTOMERS, SALES AND MARKETING

Sales and marketing

Our Group mainly promotes its products through the following marketing channels for its sale operations, namely (i) sales teams; and (ii) domestic industry trade exhibitions. We did not have any retail store or consignment sale during the Track Record Period.

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Our sales team

As at the Latest Practicable Date, our Group's sales teams comprise 12 employees and 7 employees for our plywood products and biomass wood pellets, respectively and our Group's sales and marketing strategies are planned by our senior management, led by Mr. Zhang. The senior sales management team is responsible for formulating strategies and coordinating sales personnel. The senior sales management team is strategically centralized at our Group's headquarters so as to enhance operation efficiency, especially internal communications with the production and research and development teams. Our sales team is responsible for identifying business and market opportunities through referral by existing customers, enquiry by call and emails, direct customer visits, exposition and trade exhibitions, search through internet and magazines.

Domestic industry trade exhibitions

As part of our sale strategies, we also participated in domestic industry trade exhibitions to introduce and market our products to potential customers and to solicit direct sales order. Generally, we distribute product catalogues, promote our brand, such as "Bolema (伯樂馬)", and collect information of potential customers at the exhibition, in order to understand the needs of our potential customers.

During the Track Record Period, our Group has participated in the following industry trade exhibitions:

Year	Name	Organisers	Products
2013	The Tenth China (Heze) Forestry Products Trade Fair (第十屆中國(荷澤)林產品交易會)	China Forestry Products Trade Fair (中國林產品交易會)	Plywood
2013	China International Biomass Conference & Exhibition 2013 (2013年中國國際生物質大會暨展覽會)	China International Biomass Conference (中國國際生物質大會)	Biomass wood pellets
2013	The 2nd China (Guangzhou) International Biomass Energy Exhibition 2013	Guangdong Foreign Economic Cooperation Enterprise Association (廣東省對外經濟合作企業協會) (as one of the organisers)	Biomass wood pellets
2014	The 3rd China (Guangzhou) International Biomass Energy Exhibition 2014	Guangdong Foreign Economic Cooperation Enterprise Association (廣東省對外經濟合作企業協會) (as one of the organisers)	Biomass wood pellets

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Other promotional activities

Our sales personnel regularly meet with customers to promote our Group's products, as well as to collect customers' feedback. We aim to adjust the products specifications whenever necessary to best suit the customers' needs, for better penetration to the consumer market.

Customers

Geographic distribution

We sell our plywood products principally to our customers located in various provinces in China, while we sell biomass wood pellets mainly in Shandong Province.

The following table sets out, for the periods indicated, the percentage breakdown of sales of our plywood products and biomass wood pellets by the location of our customers:

	Years ended 31 December						Six months ended 30 June	
	2013		2014		2015		2016	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
<i>Plywood</i>								
Eastern China region ⁽¹⁾	95,369	63.9	190,368	76.0	199,664	70.2	125,156	78.6
Southern China region ⁽²⁾	19,266	12.9	17,785	7.1	64,396	22.7	29,856	18.8
Southwest China region ⁽³⁾	1,266	0.9	2,909	1.2	8,681	3.1	—	—
Central China region ⁽⁴⁾	10,710	7.2	11,234	4.5	6,556	2.3	192	0.1
Northern China region ⁽⁵⁾	22,529	15.1	28,208	11.2	4,801	1.7	3,863	2.4
Northwest China region ⁽⁶⁾	—	—	—	—	106	0.0	—	—
Northeast China region ⁽⁷⁾	32	0.0	—	—	—	—	149	0.1
Total:	<u>149,172</u>	<u>100.0</u>	<u>250,504</u>	<u>100.0</u>	<u>284,204</u>	<u>100.0</u>	<u>159,216</u>	<u>100.0</u>
<i>Biomass wood pellets</i>								
Eastern China region ⁽¹⁾	16,913	100.0	53,782	80.9	63,806	66.0	28,019	56.9
Southern China region ⁽²⁾	—	—	11,209	16.8	29,952	31.0	20,122	40.9
Central China region ⁽⁴⁾	—	—	1,527	2.3	2,898	3.0	1,102	2.2
Total:	<u>16,913</u>	<u>100.0</u>	<u>66,518</u>	<u>100.0</u>	<u>96,656</u>	<u>100.0</u>	<u>49,243</u>	<u>100.0</u>

Notes:

- (1) Eastern China region comprises Anhui Province, Fujian Province, Jiangxi Province, Jiangsu Province, Shandong Province, Shanghai and Zhejiang Province.
- (2) Southern China region comprises Guangdong Province.

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- (3) Southwest China region comprises Chongqing, Sichuan Province and Yunnan Province.
- (4) Central China region comprises Henan Province and Hubei Province.
- (5) Northern China region comprises Beijing and Hebei Province.
- (6) Northwest China region comprises Shaanxi Province.
- (7) Northeast China region comprises Liaoning Province.

There is a significant drop in the revenue of our plywood products for the Northern China region and Central China region for the year ended 31 December 2015, amounting approximately RMB23.4 million and RMB4.7 million respectively, or a drop of approximately 83.0% and 41.6% respectively. We have concentrated sales of plywood products to few customers for Northern China and Central China regions. The significant drop in revenue of our plywood products for the Northern China region for the year ended 31 December 2015 was mainly because of the temporary closure of the production plant of one of our top five customers for the years ended 31 December 2013 and 2014 located in Beijing during the year ended 31 December 2015, resulting in no revenue earned from such large customer in Northern China region during the year ended 31 December 2015. As at the Latest Practicable Date, such large customer has yet to re-open and we had no information on when it will re-open. The significant drop in revenue of our plywood products for the Central China region for the year ended 31 December 2015 and minimal revenue of our plywood products for the Central China region had been generated for the six months ended 30 June 2016, were mainly due to the loss of one of our major customers located in Henan Province during the year ended 31 December 2015. The reason for the loss of such customer is that the customer required the specification of the plywood products which our Group could not provide at a competitive price. For Northeast China region, the revenue was relatively small so the drop in revenue for this region had no material adverse effect to our Group during the Track Record Period.

Many of our plywood customers are furniture manufacturers, and according to the Ipsos Report, the furniture manufacturers are concentrated in eastern and southern regions in the PRC, in particular, in Guangdong and Fujian Provinces. Furthermore, according to the Ipsos Report, the plywood products manufactured in Shandong are generally of a higher quality as compared to those manufactured in other regions in the PRC. To the best knowledge of our Directors, it is a general market practice that the customers bear their transportation costs for delivery of plywood to the designated address of customers. Our Directors also believe that we produce high quality standard plywood products which can be proved by the CARB certification, as our plywood products meet certain international industry standards, and our plywood products are manufactured to meet the low and stable moisture content or specifications as requested by our customers, and therefore, the furniture manufacturers prefer purchasing our plywood products over other manufacturers in other regions in the PRC, despite the fact that these customers may incur higher transportation cost.

By type of customers

Plywood

Our plywood customers are mainly (i) end users, such as furniture manufacturers, equipment manufacturers, decoration or renovation companies and packing material producers, and (ii) trading companies, in China. Most of which are located at Eastern China and Southern China regions.

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During the Track Record Period, our sales to the furniture manufacturers amounted to approximately 32.1%, 42.4%, 41.6% and 38.3% of our total revenue for plywood, which became the major type of our plywood customers, and we had 44, 69, 60 and 36 furniture manufacturers as our plywood customers for the three years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016 respectively. We also had 22, 40, 29 and 23 equipment manufacturers as our plywood customers during the Track Record Period, which is one of the important types of our plywood customers, and some of which use our plywood for making stage facilities and equipment. Other customers include decoration or renovation companies and packing material producers, as well as some individuals. We also sell our plywood to trading companies which on-sell our plywood to other downstream users with or without processing, and we had 5, 10, 19 and 9 trading companies as our plywood customers for the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 respectively.

Biomass wood pellets

Our biomass wood pellet customers are mainly (i) end users and (ii) trading companies. Our end-users are usually from various industries using biomass wood pellets in China. As we promote our biomass wood pellets as relatively cleaner fuels to the end users, and during the Track Record Period, our end-user customers had been increased from 12 for the year ended 31 December 2013, to 56 for the year ended 31 December 2014 and then to 73 for the year ended 31 December 2015 and then decreased to 67 for the six months ended 30 June 2016, which amounted to approximately 45.9%, 73.4%, 90.9% and 93.8% of our total revenue for biomass wood pellets for the three years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016, respectively. We sell our biomass wood pellets to the trading companies which on-sell to other end-users, and we had 10, 9, 6 and 1 trading companies as our biomass wood pellets customers for the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, respectively.

During the Track Record Period and up to the Latest Practicable Date, we did not engage any distribution nor enter into any distribution agreement for the sales of our plywood and biomass wood pellets.

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The following table illustrates the breakdown of our Group's total revenue by the customers' industries/type of product usage by our customers for the Track Record Period:

Customer type	Year ended 31 December						Six months ended 30 June	
	2013		2014		2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
<i>Plywood</i>								
Furniture manufacturers	47,884	32.1	106,298	42.4	118,177	41.6	60,937	38.3
Trading companies	7,465	5.0	30,535	12.2	67,602	23.8	37,718	23.7
Equipment manufacturers	49,865	33.4	55,298	22.1	49,161	17.3	35,992	22.6
Decoration / renovation companies	42,043	28.2	47,678	19.0	21,395	7.5	17,867	11.2
Packing material production companies	—	—	2,767	1.1	14,856	5.2	4,540	2.8
Others ⁽¹⁾	1,915	1.3	7,928	3.2	13,013	4.6	2,162	1.4
	<u>149,172</u>	<u>100.0</u>	<u>250,504</u>	<u>100.0</u>	<u>284,204</u>	<u>100.0</u>	<u>159,216</u>	<u>100.0</u>
<i>Biomass wood pellets</i>								
Fuel — end users	7,768	45.9	48,810	73.4	87,859	90.9	46,202	93.8
Trading companies	9,145	54.1	17,708	26.6	8,797	9.1	3,041	6.2
	<u>16,913</u>	<u>100.0</u>	<u>66,518</u>	<u>100.0</u>	<u>96,656</u>	<u>100.0</u>	<u>49,243</u>	<u>100.0</u>

(1) Others include ceramics manufacturers, art craft manufacturers and audio equipment manufacturers.

BUSINESS

The following table sets forth information on our five largest customers for each of the three years ended 31 December 2015 and the six months ended 30 June 2016:

Year ended 31 December 2013

Rank	Customer	Background	Location	Year of business relationship with our Group up to the corresponding year end	Principal products sold	Approximate percentage of our total revenue
1	Customer A	Decoration/renovation company (a private company incorporated in the PRC)	Beijing	2 years (since 2012)	Plywood	11.8%
2	Customer B	Equipment manufacturer (a private company incorporated in the PRC)	Fujian	2 years (since 2012)	Plywood	8.7%
3	Customer C	Equipment manufacturer (a private company incorporated in the PRC)	Henan	1 year (since 2013)	Plywood	6.4%
4	Customer D	Equipment manufacturer (a private company incorporated in the PRC)	Shanghai	2 years (since 2012)	Plywood	5.3%
5	Customer E	Furniture manufacturer (a private company incorporated in the PRC)	Fujian	1 year (since 2013)	Plywood	3.9%

BUSINESS

Year ended 31 December 2014

Rank	Customer	Background	Location	Year of business relationship with our Group up to the corresponding year end	Principal products sold	Approximate percentage of our total revenue
1	Customer A	Decoration/ renovation company (a private company incorporated in the PRC)	Beijing	3 years (since 2012)	Plywood	6.9%
2	Customer F	Furniture manufacturer (a private company incorporated in the PRC)	Fujian	2 years (since 2013)	Plywood	6.2%
3	Customer G	Furniture manufacturer (a private company incorporated in the PRC)	Fujian	3 years (since 2012)	Plywood	5.9%
4	Customer H	Trading company (a private company incorporated in the PRC)	Fujian	1 year (since 2014)	Plywood	5.0%
5	Customer I	Plastic manufacturer (as end user) (a private company incorporated in the PRC)	Fujian	2 years (since 2013)	Biomass wood pellets	3.9%

BUSINESS

Year ended 31 December 2015

Rank	Customer	Background	Location	Year of business relationship with our Group up to the corresponding year end	Principal products sold	Approximate percentage of our total revenue
1	Customer H	Trading company (a private company incorporated in the PRC)	Fujian	2 years (since 2014)	Plywood	8.1%
2	Customer F	Furniture manufacturer (a private company incorporated in the PRC)	Fujian	3 years (since 2013)	Plywood	6.6%
3	Customer J	Equipment manufacturer (a private company incorporated in the PRC)	Fujian	3 years (since 2013)	Plywood	2.9%
4	Customer K	Trading company (a private company incorporated in the PRC)	Guangdong	4 years (since 2012)	Plywood	2.6%
5	Customer L	Plastic manufacturer (as end user) (a private company incorporated in the PRC)	Guangdong	2 years (since 2014)	Biomass wood pellets	2.5%

BUSINESS

Six months ended 30 June 2016

Rank	Customer	Background	Location	Year of business relationship with our Group up to the corresponding quarter end	Principle products sold	Approximate percentage of our total revenue
1	Customer H	Trading company (a private company incorporated in the PRC)	Fujian	2 years (since 2014)	Plywood	12.7%
2	Customer F	Furniture manufacturer (a private company incorporated in the PRC)	Fujian	3 years (since 2013)	Plywood	7.3%
3	Customer M	Furniture manufacturer (a private company incorporated in the PRC)	Guangzhou	1 year (since 2015)	Plywood	3.9%
4	Customer N	Furniture manufacturer (a private company incorporated in the PRC)	Fujian	3 years (since 2013)	Plywood	3.8%
5	Customer J	Equipment manufacturer (a private company incorporated in the PRC)	Fujian	3 years (since 2013)	Plywood	3.6%

We have maintained more than two years of relationship with our five largest customers in average. For each of the three years ended 31 December 2015 and the six months ended 30 June 2016, sales to our five largest customers accounted for about 36.1%, 27.9%, 22.7% and 31.3% of our total revenue, respectively. For the same period, sales to our largest customer accounted for about 11.8%, 6.9%, 8.1% and 12.7% of our total revenue, respectively. The profit margin attributable to sales to our five largest customers is in line with our Group's overall profit margin during the Track Record Period. To the best knowledge and belief of our Directors, none of our five largest customers is also our supplier. None of our Directors, their respective associates or, so far as our Directors are aware, Shareholders who own 5% or more of the issued share capital of our Company immediately following completion of the Global Offering and the Capitalisation Issue have any interest in any of the five largest customers during the Track Record Period.

BUSINESS

Pricing

Our Group has adopted a pricing policy largely based on production costs, profit margin and market price of similar products, taking into account factors such as costs of major raw materials, in particular, logs and veneers, the prices of which may fluctuate from time to time. With respect to our plywood products, generally, our actual purchases of raw materials are primarily based on confirmed sales orders from our customers. The prices of our plywood products are indicated to our customers during the communication. We also communicate with our customers in respect of quantities of the estimated sales orders in order to confirm the availability of raw material without commitments. Since we usually place our raw material purchase orders immediately after receiving sales orders, there is no material timing difference between purchase orders and sales orders. Our Group can therefore pass on part of or all of the production cost to the customers when the cost of raw materials increases. In order to ensure the increase in raw material costs can be passed to our customers, the procurement department will often check and update sales department on the latest prices of major raw materials before the conclusion of sales orders to customers. We will not accept customers' orders if our Group is unable to pass the increase in cost of raw materials on to the customers which will make our sales at loss. Besides, our Group's purchase plans will match with customers' orders so to avoid accumulation of inventories. Since the sales of our Group are made on a made-to-order basis and the pricing policies of our Group are primarily on a cost-plus basis without selling at loss, which will take into account of the market selling price, negotiations with customer and price competitiveness of our Group, our Group can pass on part of the production cost to the customers when the cost of raw materials increases. Our Directors confirm that, during the Track Record Period, there was no substantial increase in the market price of raw materials after receipt of confirmed orders from our customers. Nevertheless, according to the Ipsos Report, the price of major raw materials will increase steadily in the next 5 years.

With respect to our biomass wood pellets, unlike the plywood products, our sales, production and procurement departments communicate on a monthly basis on the estimated sales target and production volume, as well as the selling price of the biomass wood pellets. The selling price will be determined based on the costs of raw materials, production costs, profit margins and estimated demand for biomass wood pellets. As we produce biomass wood pellets in a standard specification before the customers place their order, we can usually pass the production costs to our customers even if the raw material costs fluctuate.

Sales terms and credit policy

During the Track Record Period and up to the Latest Practicable Date, we did not enter into any long-term sales agreements with any of our customers. Sales were made on the basis of individual sales order, and all of our sales were denominated in RMB and settled by bank transfer or cash. In certain cases, the customers with outstanding creditworthiness, we offer a credit period of generally 90 days, subject to the approval of the senior management of our Group. Our Group's accounting department reviews the aging receivables on a monthly basis and works with the responsible sales personnel to follow up and collect the overdue trade receivables balances.

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As at 31 December 2013, 2014, 2015 and 30 June 2016, our trade receivables that were past due but not impaired amounted to approximately RMB1.7 million, RMB37.7 million, RMB9.9 million and RMB27.3 million, respectively. Our Group did not record provision for impairment of trade receivables during the Track Record Period. Our Group considers that it has adopted effective control measures and has not encountered material difficulty in the enforcement of debt collection during the Track Record Period.

Logistics

Our products are usually delivered to our customers through road transportation. During the Track Record Period, all our plywood customers, including those from distant geographical regions such as Southern China, arranged for product transportation or collection and thus bore the transportation cost themselves. Prior to March 2015, we arranged delivery services for some of our biomass wood pellet customers and bore the transportation costs, while the remaining biomass wood pellet customers arranged for product transportation or collection themselves. From March 2015 onwards, all our biomass wood pellet customers arranged for product transportation or collection themselves.

Products return, warranty policy and after-sale services

We usually do not allow product returns and there is no warranty for our final products. If there are material manufacturing defects or defects arising during the course of delivery, we offer replacement to the affected customers. During the Track Record Period, we did not experience any material quality defects to our products, nor did we experience any material product returns, recall or replacement incidents. Our sales and marketing department addresses any concerns raised by our customers and takes necessary actions to resolve any after-sale issues even though we do not provide any after-sale service.

PROCUREMENT, RAW MATERIALS AND SUPPLIERS

We source our raw materials from suppliers in the PRC based on the required product specifications, price trends of raw materials and demand for our products.

We have a well-managed procurement system and strict supplier selection process, including qualification authentication, laboratory testing, production examinations as well as annual review and reassessment. Our major raw materials, namely poplar logs, poplar plywood cores, veneers and wood residues are generally available from multiple sources in sufficient quantities to meet our demands. Furthermore, in order to avoid the adverse impact of reliance on certain major suppliers and to guarantee better price and quality, we usually procure each type of raw materials from multiple suppliers and we also obtain quotes from at least three qualified suppliers for each procurement. We typically enter into procurement agreements with our suppliers based on our assessment of inventory level of raw materials and shortly after our customers have confirmed us with the sales order. We have established stable relationship with our suppliers.

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During the Track Record Period, we did not encounter any material production disruption resulting from shortage or delay in the supply of raw materials. Having considered our extensive supplier networks, our Directors believe that we are able to maintain a stable supply of major raw materials without a substantial increase in procurement costs in the event that we experience any unexpected disruption in supplies from our major suppliers, and we will be able to find alternative suppliers in the market in the event that there is any increase in price of major raw materials.

Raw materials

In relation to our plywood products, the key raw materials are poplar logs, poplar plywood cores and veneers. We purchase the poplar logs, plywood cores and veneers from local farmers and veneer manufacturers in the PRC. The key raw material for the production of our biomass wood pellets is wood residues. We are able to utilise wood residues from our own plywood production and purchase additional wood residues from local wooden floor factories and wooden furniture factories. The prices of poplar logs, poplar plywood cores, veneers and wood residues fluctuate from time to time depending on various factors including, among other things, (i) types and quality of poplar logs, poplar plywood cores and veneers; (ii) market supply and demand; (iii) climate and seasonal conditions of the respective markets; and (iv) transportation costs. During the Track Record Period, all of our purchase of raw materials were from the PRC suppliers and such purchases were denominated in RMB. According to the Ipsos Report, Shandong Province has abundant resources of poplars, which provide a solid supply base for wood-based manufacturers. Therefore, the amount of poplars available in Shandong Province is sufficient for our Group's production on a sustainable basis, and in addition, we are the major customer in purchasing wood-based raw materials in Heze City, Shandong Province and have entered into letters of intent in respect of the long-term supply of logs with the local government of various towns in Chengwu County near our production facilities and hence we can enjoy priority over other competitors in purchasing raw materials from local farmers. In the event that Heze City, Shandong Province has no sufficient supply for our plywood production, we will purchase the poplars from other cities in Shandong Province as well as other provinces with rich poplars resources, such as Guangxi Province.

The total costs of our raw materials with respect to the sale of our products for each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 were RMB117.2 million, RMB219.3 million, RMB271.6 million and RMB146.4 million, respectively accounting for approximately 89.5%, 90.6%, 91.3% and 90.1% of the total cost of sales, respectively.

For plywood products, since we usually place our raw material purchase orders immediately after receiving sales orders, there is no material timing difference between purchase orders and sales orders. Our Group can therefore pass on part of or all of the production costs to our customers when the cost of raw materials increases. With respect to our biomass wood pellets, the selling price will be determined based on the costs of raw materials, production costs, profit margins and estimated demand for biomass wood pellets. Hence, our Group can also pass on part of or all of the increase in production costs to our customers.

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Suppliers

Our Group selects suppliers based on pricing, quality and reliability and we usually procure each type of raw materials from multiple suppliers and we also obtain quotes from at least three qualified suppliers for each procurement. We place our orders with the suppliers through purchase contracts initiated by quotations, which generally set out the types of raw materials to be purchased, the specifications and the price. The price of raw materials generally reflects the prevailing market price which fluctuates from time to time according to market demand and supply of such raw materials. We did not rely on any one single supplier to source the raw materials during the Track Record Period.

For each of the three years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016, we purchased raw materials from 625, 573, 383 and 68 suppliers respectively. The decrease in the suppliers during the Track Record Period was due to the increase in purchasing volumes from corporate suppliers for wood-based raw materials. For each of the three years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016, our purchases of wood-based raw materials from corporate suppliers accounted for approximately 18.4%, 70.2%, 75.5% and 72.7% respectively of the total costs of wood-based raw materials, and our purchases of wood-based raw materials from rural farmers accounted for approximately 81.6%, 29.8%, 24.5% and 27.3% respectively of the total costs of wood-based raw materials.

During the Track Record Period, we have purchased raw materials from numerous suppliers. Our management observes that the unit price and quality of raw materials offered by different suppliers in our region have no material difference and one of the major factors that the suppliers differentiate from each other is the delivery schedule of raw materials upon placing of the purchase order. Some of the suppliers may not be able to provide sufficient raw materials on time to meet our production schedule and we generally purchase raw materials from different suppliers who can provide the raw materials on a timely basis. As a result, our top five suppliers changed across the years during the Track Record Period.

Our major suppliers are located in the PRC. We have established good relationship with suppliers, and our purchases of raw materials were generally settled on an open account basis with a credit term of 30 days to 60 days. For the three years ended 31 December 2015 and the six months ended 30 June 2016, the largest supplier of our Group accounted for approximately 5.5%, 11.9%, 8.6% and 7.0% respectively of our Group's total purchase, and the top five suppliers of our Group together accounted for approximately 14.9%, 37.1%, 32.7% and 30.3% respectively of the total purchase of our Group. Our Group has maintained good relationship with the suppliers and have not experienced any difficulties in obtaining supplies of raw materials. None of our Directors or their associates or any Shareholder who owns more than 5% of our Company's issued share capital has, to the best knowledge and belief of our Directors, any interest in any of the top five suppliers of our Group during the Track Record Period.

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Our Directors consider that our Group had not relied on any particular supplier during the Track Record Period. Set out below are the brief particulars of our top five suppliers during the Track Record Period:

Year ended 31 December 2013

Rank	Supplier	Background	Location	Year of business relationship with our Group up to the corresponding year end	Principal raw materials sourced	Approximate percentage of our total purchase
1	Supplier A	Plywood cores, veneers and glue manufacturer (a private company incorporated in the PRC)	Shandong	3 years (since 2011)	Poplar plywood cores, veneers and wood residues	5.5%
2	Supplier B	Plywood cores and veneers manufacturer (a private company incorporated in the PRC)	Jiangsu	1 year (since 2013)	Poplar plywood cores	3.5%
3	Supplier C	Glue manufacturer (a private company incorporated in the PRC)	Shandong	3 years (since 2011)	Glue	2.5%
4	Supplier D	Plywood cores and veneers manufacturer (a private company incorporated in the PRC)	Jiangsu	1 year (since 2013)	Poplar plywood cores	2.2%
5	Supplier E	Flour manufacturer (a private company incorporated in the PRC)	Shandong	2 years (since 2012)	Flour	1.2%

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Year ended 31 December 2014

Rank	Supplier	Background	Location	Year of business relationship with our Group up to the corresponding year end	Principal raw materials sourced	Approximate percentage of our total purchase
1	Supplier F	Supplier of wood residues (a private company incorporated in the PRC)	Shandong	1 year (since 2014)	Wood residues	11.9%
2	Supplier A	Plywood cores, veneers and glue manufacturer (a private company incorporated in the PRC)	Shandong	4 years (since 2011)	Poplar plywood cores, veneers and wood residues	7.5%
3	Supplier B	Plywood cores and veneers manufacturer (a private company incorporated in the PRC)	Jiangsu	2 years (since 2013)	Poplar plywood cores, poplar veneers and glue	6.7%
4	Supplier G	Plywood cores and veneers manufacturer (a private company incorporated in the PRC)	Jiangsu	1 year (since 2014)	Wood residues	6.6%
5	Supplier H	Plywood cores and veneers manufacturer (a private company incorporated in the PRC)	Shandong	2 years (since 2013)	Poplar veneers, glue and wood residues	4.4%

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Year ended 31 December 2015

Rank	Supplier	Background	Location	Year of business relationship with our Group up to the corresponding year	Principal raw materials sourced	Approximate percentage of our total purchase
1	Supplier F	Supplier of wood residues (a private company incorporated in the PRC)	Shandong	2 years (since 2014)	Wood residues	8.6%
2	Supplier I	Plywood cores, veneers and glue manufacturer (a private company incorporated in the PRC)	Shandong	2 years (since 2014)	Poplar plywood cores	7.8%
3	Supplier J	Plywood cores and veneers manufacturer (a private company incorporated in the PRC)	Shandong	2 years (since 2014)	Poplar plywood cores, poplar veneers and glue	6.0%
4	Supplier K	Plywood cores and veneers manufacturer (a private company incorporated in the PRC)	Shandong	2 years (since 2014)	Poplar plywood cores, poplar veneers and glue	5.5%
5	Supplier B	Plywood cores and veneers manufacturer (a private company incorporated in the PRC)	Jiangsu	3 years (since 2013)	Poplar plywood cores, poplar veneers and glue	4.8%

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Six months ended 30 June 2016

Rank	Supplier	Background	Location	Year of business relationship with our Group up to the corresponding period end	Principle raw material sourced	Approximate percentage of our total purchase
1	Supplier I	Plywood cores, veneers and glue manufacturer (a private company incorporated in the PRC)	Shandong	2 years (since 2014)	Poplar plywood	7.0%
2	Supplier L	Plywood cores, veneers and glue manufacturer (a private company incorporated in the PRC)	Shandong	less than 1 year (since 2016)	Poplar plywood, veneers and glue	7.0%
3	Supplier M	Plywood cores, veneers and glue manufacturer (a private company incorporated in the PRC)	Shandong	less than 1 year (since 2016)	Poplar plywood, veneers and glue	7.0%
4	Supplier N	Supplier of wood residues (a private company incorporated in the PRC)	Shandong	less than 1 year (since 2016)	Wood residues	4.9%
5	Supplier O	Plywood cores, veneer and glue manufacturer (a private company incorporated in the PRC)	Shandong	less than 1 year (since 2016)	Poplar plywood, veneers and glue	4.4%

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We have adopted certain measures to ensure the legality of the source of poplar logs, poplar plywood cores and veneers. Generally, we source poplar logs, poplar plywood cores and veneers from rural farmers in Shandong Province and corporate suppliers in Shandong and other provinces.

- (a) For rural farmer suppliers in Shandong Province, as advised by our PRC Legal Advisers, pursuant to the Forestry Law of the PRC, the trees grown neighbouring their homes, on their private lands or private hills can be freely cut or logged without obtaining a logging permit (採伐許可證), and therefore timber supplied by such rural farmers logged from land neighbouring their homes or their private lands or private hills are legal. When we select rural farmer suppliers, it is our policy to conduct on-site inspections of the suppliers to ensure that trees felled from land neighbouring their homes, on their private land or private hills and logging of such trees are legal.
- (b) When we select the corporate suppliers, it is our policy that (i) we review the relevant operation permits possessed by the suppliers such as the business licenses and timber operation and processing permit (木材加工經營許可證); (ii) we conduct on-site inspections to the suppliers; (iii) we assess the reputation of the suppliers; and (iv) poplar logs, poplar plywood cores and veneers purchased by us shall be issued with the valid value-added-tax invoices, and such original value-added-tax invoices will be kept by our Group. It is also our policy to check the suppliers' business licenses and other licenses or approvals associated with their operations, such as business licenses and timber operation and processing permits on an annual basis. As the PRC legal practice, it would generally be accepted as a purchase from a legitimate source if a supplier has the timber operation and processing permit and the value-added-tax invoices are issued for the transactions, and it would generally be considered that the ultimate source of timber is legal. Our Directors confirm that, during the Track Record Period, the raw materials (including poplar logs, poplar plywood cores and veneers) purchased by our Group from the PRC corporate suppliers were issued with the valid value-added-tax invoices.

Furthermore, on 30 November 2016, we have obtained the confirmation from Forestry Department of Chengwu County (成武縣林業局) (the “**Forestry Department**”) that (i) pursuant to the Forestry Law of the PRC, the trees grown by rural farmers neighbouring their homes, on private lands or private hills belong to such residents, rural farmers can cut/log all scattered trees neighbouring their homes, on private lands or private hills without obtaining a logging permit (採伐許可證), and therefore the purchases from the rural farmers are legal, and (ii) if the supplier has obtained the business license, and a legal and binding transaction agreement is entered into, and the valid value-added-tax invoices are issued for the transactions, the purchases of raw materials of wood from the supplier are from a legitimate source. The Forestry Department further confirmed that from the incorporation of our PRC subsidiary, namely Meisen (Shandong) , and up to the date of the confirmation, the purchase of wood materials from the local farmers and wood materials suppliers were legal and in compliance with the relevant laws and regulations, and we did not violate any regulations and therefore had not been imposed on any administrative penalties nor subject to any potential investigations. Based on the aforesaid confirmation issued by the competent authority, our PRC Legal Advisers are of the view that our purchase of wood materials had materially complied with

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wood material related laws and regulations and the Forestry Department is an appropriate and competent government authority to issue the confirmation. Our Directors are not aware of any challenge of any kind from relevant higher government authority regarding the legality of the wood materials we purchased.

Our Directors are of the view, and the Sole Sponsor concurs, having considered our Group's policies and procedures adopted for each type of suppliers are in line with the PRC generally accepted legal practice, as well as based on the confirmation from the Forestry Department and the above advice of our PRC Legal Advisers, that our Group has adequate and effective internal control policies and procedures in place to ensure that the poplar logs, poplar plywood cores and veneers purchased from both rural farmers and corporate suppliers are from legitimate sources.

INVENTORY CONTROL

Our Group's production materials and inventories are stored in warehouses. We regularly monitor our inventory, including inventory levels and age, and our Group has established policies with regard to warehouse management, such as a labelling system to categorise materials and items. Production materials and finished goods will be received and documented by the warehouse. In particular, production materials received by the warehouse have to be documented and verified by responsible warehouse employees against the invoices and/or delivery notes issued by the suppliers. Our warehouse employees have to verify whether proper approvals have been obtained for any materials taken from our warehouses.

With respect to our plywood products, as all our purchase orders are produced based on our customers' specifications, we generally purchase the principal raw materials, such as poplar logs, poplar plywood cores and veneers, upon receiving a purchase order. Our sales team will also liaise with some of our major customers in respect of their forecasts of purchase orders during the year, so that it can facilitate our plan for procurement of raw materials and production schedules.

With respect to our biomass wood pellets, we generally sell the finished products on a first-in-first-out basis. To minimise the risk of building up inventory, we adopt inventory management policies and based on our internal production plan, our production department would devise and circulate a production material plan to our procurement team, while our procurement team will in accordance with the production material plan to prepare a procurement plan. We regularly review our inventory level and carry out physical stock counts and stock inspections internally, generally on a monthly basis, to monitor inventory movements of raw materials and finished products, and to make production and procurement plan as necessary to maintain a reasonable inventory level. Our inventory level for finished biomass wood pellets maintains at about 7 days to 14 days.

As at 31 December 2013, 2014, 2015 and 30 June 2016, the inventory level of our Group, including production materials, work in progress and finished goods, amounted to about RMB31.7 million, RMB24.3 million, RMB34.5 million and RMB47.0 million respectively. The average inventory turnover days of our Group for each of the three years ended 31 December 2015 and the six months ended 30 June 2016 were about 63 days, 42 days, 36 days and 46 days, respectively. During the Track Record Period, there was no provision for obsolete inventories.

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QUALITY CONTROL

As at the Latest Practicable Date, we had 3 quality control employees who are responsible for implementing quality control procedures. As our quality control procedures mostly involve basic inspection and operation of simple equipment, we in general do not require our quality control employees to possess any professional qualifications.

We maintain and perform comprehensive quality control measures throughout our production process, including conducting quality checks for production of raw materials and during all major stages of production and performing inspection procedures for both plywood products and biomass wood pellets. Our quality benchmarks are formulated with reference to the applicable PRC standards. Our products have passed all necessary product verification tests commissioned by our Group. These verification tests are conducted by independent testing and inspection institutions. Our plywood products satisfy the CARB requirements in respect of formaldehyde emission standard.

The quality control procedures undertaken by us are as follows:

- (i) Raw material inspection: We have formulated stringent supplier selection criteria based on product quality, delivery and costs, and have maintained relationships with our raw material suppliers. Such relationships enable us to procure quality raw materials with stable supplies. Our quality control personnel runs the laboratory test and examines the raw materials upon delivery to ensure that they meet our requirements before we use them for production. If such raw materials fail to meet our standards, we will return such raw materials to the suppliers and ask them to redeliver raw materials that are up to our standards.
- (ii) Process control and finished product inspection: We have implemented quality control measures in certain key stages of our production process. Our quality control personnel attends to the production lines and conducts random testing to ensure that the product quality adheres to the agreed production benchmarks. The tests include stress grading, thickness measurements, formaldehyde emission amount test and face quality test. The quality control personnel will also conduct random checking during the production process, and on the finished products upon completion of the production process, in order to ensure that our Group's products meet the specifications set out by the customers. During the Track Record Period and up to the Latest Practicable Date, our Group did not experience any material complaints or product liabilities or other legal claims involving problems relating to our products.

RESEARCH AND DEVELOPMENT

We consider research and development techniques and expertise in plywood processing and biomass wood pellets are vital to the success of our business. Our research and development team focuses on the research, development, modification and fine-tuning of our processing procedure, for further enhancing the quality and different features of our products, and also for lowering the production costs.

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We have established a research and development team, comprising of 9 employees as at the Latest Practicable Date who have a bachelor's degree or higher. Research expenses are recognised as expenses immediately. For each of the three years ended 31 December 2015 and the six months ended 30 June 2016, our costs on research amounted to about RMB2.6 million, RMB4.1 million, RMB4.5 million and RMB2.9 million, respectively. We are in the process of applying patents for the chemical agents for wood processing developed by us. For further information on these patents, please refer to the section "Further information about the business of our Group — Intellectual property rights of our Group" in Appendix V to this prospectus.

COMPETITION

The plywood manufacturing industry in the PRC is highly fragmented according to the Ipsos Report. Despite the fact that there are numerous local enterprises engaging in the manufacture of different kinds of plywood, the majority of these enterprises are run on a small scale operation with minimal technical research and product development capability. In the PRC market, price is also an important factor, especially in the low to mid-end markets. With many products of low value added and of poor quality, price becomes a major form of competition. In term of plywood quality, many downstream purchasers prefer to buy imported plywood for its high quality. Demand for Chinese-made plywood in global markets has also experienced slower growth in recent years due to quality problems. Plywood manufacturers that are able to provide good quality products at a competitive price are likely to gain advantages over their competitors. Our Directors believe that our Group primarily competes with a number of PRC enterprises which produce consistent quality products. Foreign enterprises may possess competitive edge over our Group with respect to technological advancement, production efficiency and varieties and quality of plywood products. In addition, some of these competitors may have more financial and other resources than our Group. For details, please refer to the sections headed "Industry overview — Price and sales value of poplar plywood in the PRC — Competition analysis of plywood manufacturing industry in the PRC" and "Industry overview — Price and sales value of poplar plywood in the PRC — Entry barriers of plywood manufacturing industry in the PRC" in this prospectus.

With respect to biomass wood pellets, the biomass wood pellet manufacturing industry in China is highly fragmented and competitive. The biomass wood pellet manufacturing industry in China is still at the initial stage of development, and the majority of biomass wood pellet manufacturing companies are small-scale factories due to the government support policies and low entry barrier. The small-scale factories have low competitive capacity given their immature technology, instability of technological process, high equipment failure rate, and poor customer development in downstream application areas. Furthermore, due to the high transportation cost, the biomass wood pellet manufacturing enterprise clusters are mainly in the coastal areas of the Yangtze River Delta, Pearl River Delta and Bohai Bay, where the biomass wood pellet manufacturing industry is well-developed. For details, please refer to the sections headed "Industry overview — Overview of BMF manufacturing industry in the PRC — Competitive analysis of biomass wood pellet manufacturing industry in the PRC" and "Industry overview — Overview of BMF manufacturing industry in the PRC — Entry barriers of biomass wood pellet manufacturing industry in the PRC" in this prospectus.

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PROPERTIES

Our head office is located in Heze City, Shandong Province, China. We own certain properties in the PRC in connection with our business operations. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. They include our production plants, offices, warehouses, staff dormitories and ancillary buildings. Except for the property interests in the property valuation report in Appendix III to this prospectus, no single property interest that forms part of our non-property activities has a carrying amount of 15% or more of our total assets.

Land

As at the Latest Practicable Date, Meisen (Shandong) and Dasen (Heze) owned four parcels of land with an aggregate site area of approximately 120,206 sq. m., with the valid land use rights certificates. As confirmed by our PRC Legal Advisers, Meisen (Shandong) and Dasen (Heze) are entitled to use all of our land within the scope of use and the period specified in the land use right certificates respectively.

Buildings

As at the Latest Practicable Date, Meisen (Shandong) and Dasen (Heze) owned buildings with an aggregate floor area of approximately 70,990.33 sq. m., which are used for our production plants, offices, warehouses, employee dormitories, ancillary buildings and workshops buildings. Meisen (Shandong) and Dasen (Heze) have obtained building ownership certificates for the buildings. As confirmed by our PRC Legal Advisers, Meisen (Shandong) and Dasen (Heze) are the legal owners of such buildings and have the rights to occupy, utilise, generate income from and dispose of such buildings within the period specified in the land use right certificates respectively.

Properties with defective titles

As at the Latest Practicable Date, our Group had not obtained the land use right certificates and building ownership certificates for a piece of land of a total site area of approximately 22 mu (approximately 14,666.67 sq. m.) and buildings for a total gross area of approximately 1,770 sq. m., for the reasons that:

- (a) Meisen (Shandong) occupied a parcel of land of a total site area of approximately 20 mu (approximately 13,333.33 sq. m.) and buildings for a total gross area of approximately 1,770 sq. m., for offices and staff canteen. On 30 November 2016, the Bureau of Land and Resources of Chengwu County (成武縣國土資源局) (the “**Bureau**”) issued a confirmation setting out that as the defense optical cables are laid under the relevant buildings, the Bureau is unable to issue the land use right certificate of such parcel of land and buildings. Pursuant to such confirmation, it is further confirmed that (i) our Group is allowed to use such land and buildings in current as-is basis, and (ii) no administrative penalties will be imposed and no compulsory administrative measures (including ordering to demolish within a prescribed time period) will be taken for our failure to obtain the relevant land use right certificate. Furthermore, Housing and Urban-Rural Development of Chengwu County (成武縣住房和城鄉建設部) (the “**Department**”) issued a confirmation on 30 November

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2016 setting out that (i) at the date of confirmation, Meisen (Shandong) used the buildings as offices (of approximately 1,170 sq. m.) and staff canteen (of approximately 600 sq. m.), (ii) for the reason that the defence optical cables are laid under the relevant buildings, the Department is unable to issue the building ownership certificate for those buildings, (iii) Meisen (Shandong) is allowed to continue to use the buildings at no costs, and is not required to demolish the buildings, and (iv) the Department will not impose any form of penalties on or take legal proceedings against Meisen (Shandong) and/or its management.

- (b) Meisen (Shandong) occupied a parcel of land of a total site area of approximately 2 mu (approximately 1,333.33 sq. m.) as warehouse for raw materials and old and waste equipment from March 2012 and up to March 2016. For the reason of area planning for the land, the competent authorities will not issue land use right certificate and building ownership certificate. As the Latest Practicable Date, the building and any facilities on the relevant land had been demolished and the land had been reinstated. As confirmed by the Bureau, it will not impose any form of penalties on or take legal proceedings against Meisen (Shandong).

Based on the confirmations aforementioned, our PRC Legal Advisers are of the view that the likelihood that we will be fined by the relevant authorities in relation to the land use right certificates and building ownership certificates is remote.

Our Directors are of the view that the title defects of the above properties will not have any material adverse impact on our operations because of the limited size of these properties as compared with the total size of all the properties we use and the fact that these properties can easily be replaced by comparable premises without incurring material loss of revenue or other related cost.

EMPLOYEES

As at the Latest Practicable Date, we had 574 full-time employees. One of our employees is based in Hong Kong, while all of our other employees are based in the PRC.

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The following table sets out a breakdown of our employees by division as at the Latest Practicable Date:

Division	Number of employees
Management	8
Sales and marketing	
— Plywood	12
— Biomass wood pellets	7
Production	
— Plywood	429
— Biomass wood pellets	84
Procurement and Inventory	7
Administration and human resources management	48
Quality control, research and development	12
Finance and accounting	15
Total	622

Our total employees' costs for each of the three years ended 31 December 2015 and the six months ended 30 June 2016, were approximately RMB14.6 million, RMB21.5 million, RMB21.5 million and RMB11.0 million respectively, which accounted for approximately 8.8%, 6.8%, 5.6% and 5.3% of our total revenue in the corresponding periods.

Our Group recognises the importance of good relationship with our employees. Our Directors believe that the working environment and benefits offered to our employees have contributed to building good employees' relationship and retention. Our Group continues to provide training for new employees and existing employees to enhance their technical knowledge. We also provide fire and production safety training to our production employees. Our Directors believe such initiatives have contributed to increased productivity and efficiency. We recruit our employees based on a number of factors such as their relevant work experience and our vacancies.

Social insurance and housing provident fund are provided for our employees as required by the PRC social security regulations or local policies where our operations in the PRC are located. We also maintain appropriate internal standards on employee, administrative, audit and accident managements. The total amount of social insurance and housing provident fund accrued by us for each of the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 were about RMB2.9 million, RMB2.9 million, RMB3.3 million and RMB1.2 million respectively.

As at the Latest Practicable Date, our Group had not experienced any significant problems with our employees or disruption to our operation due to labour disputes, nor had our Group experienced any difficulties in the recruitment and retention of experienced employees.

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INTELLECTUAL PROPERTY

As at the Latest Practicable Date, our Group is the registered owner of 23 trademarks in the PRC and 6 trademarks in Hong Kong.

As at the Latest Practicable Date, we had also registered the following domain name which are material in relation to our Group's business:

- <http://www.msdsn.com>

For further information on intellectual property rights which are material to our business, please refer to "Further information about the business of our Group — Intellectual property rights of our Group" in Appendix V to this prospectus.

Save for the trademarks, patents and domain names disclosed in this prospectus, our business and profitability is not materially dependent on any trademark, patent or other intellectual property.

We are not aware that there has been any material infringement of our intellectual property rights which has an adverse effect on our business nor are we aware of any pending or threatened claims against us relating to the infringement of any intellectual property rights owned by third parties.

ENVIRONMENTAL MATTERS

We recognise the importance of environmental protection and have adopted stringent measures for environmental protection in order to ensure our compliance of the prevailing environmental protection laws and regulations. Our Group is subject to PRC environmental laws and regulations, including the PRC Environmental Protection Law, the Law of the PRC on the Prevention and Control of Water Pollution, the Law of the PRC on the Prevention and Control of Atmospheric Pollution, the Law of the PRC on the Prevention and Control of Environmental Noise Pollution and the Law of the PRC on the Prevention and Control of Environmental Pollution caused by Solid Waste and other relevant laws and regulations on environmental protection. These laws and regulations govern a broad range of environmental matters, including air pollution, noise emissions and water and waste discharge. According to these environmental laws and regulations, all business operations that may cause environmental pollution and other public hazards are required to incorporate environmental protection measures into their plans and establish a reliable system for environmental protection. These operations must adopt effective measures to control and prevent pollution levels and harm caused to the environment in the form of waste gas, waste water, solid waste, dust, malodorous gas, radioactive substances, noise vibration and electromagnetic radiation generated in the course of production, construction or other activities. Our environmental management system was accredited with ISO14001 certification in October 2013.

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Our production facilities have undergone inspection and have been approved by the relevant environmental protection authorities. During the Track Record Period, we had fully complied with the relevant environmental laws and regulations. Our Directors believe that the chances of encountering potential future environmental risks are minimal and therefore do not plan to undertake any additional measures to address the environmental risks.

All material environmental permits and approvals for our production facilities have been obtained. Pursuant to the confirmation provided by the relevant environmental protection authority and confirmation provided by our Directors, during the Track Record Period, we had complied with the national and local regulations in respect of environmental protection in all material aspects. There had not been any material pollution incidents that constituted a violation of any environmental regulations by us, and no administrative penalty had been imposed on our Group.

OCCUPATIONAL HEALTH AND SAFETY

We regard occupational health and safety as an important social responsibility. Our Group is also required to abide by work safety laws and regulations imposed by the relevant PRC government authorities and maintain a safe working environment. We have adopted and implemented occupational health and safety procedures and measures for our business operations, and ensured that all our employees were aware of our safety procedures, protective equipment procedures and social and environmental responsibility. These include guidelines for operational and safety control procedures, occupational health management procedures, equipment operation and maintenance procedures, emergency control procedures, and social and environmental responsibility. Our employees involved in the production of our plywood products and biomass wood pellets are required to attend training courses on production and workplace safety, and certain employees with unique skill sets are required to attain special post quality control certifications. We provide, and require our employees to wear, regularly tested protective devices to ensure their safety. In addition, we provide general health and safety education and training to our employees and conduct periodical emergency drills. We also carry out workplace security inspections from time to time. We obtained OHSAS 18001 (occupational, health and safety) certification in October 2013, which demonstrates us achieving an international standard of occupational, health and safety management.

During the Track Record Period, there had not been any claim by or compensation paid to our employees due to such incidents. There was no accident causing death or serious bodily injury in our business operations during the Track Record Period and up to the Latest Practicable Date.

INSURANCE

Our Group maintains insurance policies in the PRC which cover certain assets, including our major production machinery, equipment, buildings and their improvements. Our insurance covers losses arising from natural disasters, such as fire, lightning, explosion, flood and so forth. We also maintain social insurance cover for our employees in accordance with the applicable PRC laws and the requirements of the local authorities.

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We do not carry any production liability insurance, business interruption insurance, third-party liability insurance for personal injury or property or environmental damage arising from accidents on their property or relating to their operations, which is consistent with what we believe to be the industry practice in the PRC. Neither do we carry insurance coverage against war or acts of terrorism. We believe that our insurance policies are adequate and consistent with the industry practice in the PRC. Our Directors confirm that as of the Latest Practicable Date, we had not made nor been the subject of any material insurance claims.

During the Track Record Period, we did not experience any insurance claim or receive any claim regarding the safety and quality of our products, which was material to us. For details of the risk relating to our insurance coverage, please refer to the paragraph headed “Our Group may face potential liability for defects, flaws or errors in the manufactured products” in the section headed “Risk factors” in this prospectus.

CERTIFICATIONS, AWARDS AND RECOGNITIONS

During the Track Record Period, our Group received the following certifications, awards and recognitions for the quality of our products:

Nature	Certification	Awarding organization or authority	Business segment	Date of grant
Branding	Our plywood brand “Bolema” (伯樂馬) was awarded as a Top 10 best brands (十佳品牌)	China Timber Trade Website (中國木業網)	Manufacture and sales of plywood	July 2014
CARB certificate in compliance with the formaldehyde emission standard and quality assurance requirement	Certificate of conformity in compliance with the formaldehyde emission standard and quality assurance requirement for hardwood plywood veneer core — formaldehyde emission standard: phase 2 (0.05 ppm)	Accredited certification body recognised by CARB	Manufacture and sales of plywood within the scope of qualification	21 March 2014
Technology	Dasen (Heze) obtained the certificate of High-tech Enterprise (高新技術企業證書)	Technology Bureau of Heze City (荷澤市科學技術局)	Manufacture and sales of biomass wood pellet	6 December 2013
Environmental management system	GB/T24001-2004 idt ISO14001:2004	Shanghai Sira Quality Certification Co., Ltd,	Manufacture and sales of plywood within the scope of qualification	25 October 2013
Quality management system	GB/T19001-2008 idt ISO9001:2008	Shanghai Sira Quality Certification Co., Ltd,	Manufacture and sales of plywood within the scope of qualification	25 October 2013

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Nature	Certification	Awarding organization or authority	Business segment	Date of grant
Occupational health and safety management system	GB/T28001-2011 idt OHSAS18001:2007	Shanghai Sira Quality Certification Co., Ltd,	Manufacture and sales of plywood within the scope of qualification	25 October 2013
Brand quality and integrity	Meisen (Shandong) was classified as a “AAA” rated enterprise	China Brand Evaluation Management Centre (中國品牌評價管理中心)	Manufacture and sales of plywood	May 2013
Corporate	Leading Forestry Company of Shandong Province (山東林業龍頭企業)	Shandong Forestry Department (山東林業廳)	Manufacture and sales of plywood	September 2012

LEGAL PROCEEDINGS AND COMPLIANCE

As at the Latest Practicable Date, we were not involved in any litigation, arbitration, bankruptcy or receivership proceedings or claim of material importance, and there was no litigation, arbitration, bankruptcy or receivership proceedings or claim of material importance pending or against us, to the best knowledge and belief of our Directors, that would have a material and adverse effect on our business, operations or financial condition.

As advised by our PRC Legal Advisers, we have been in compliance in all material respects with the applicable PRC laws and regulations during the Track Record Period, save as disclosed in the sub-paragraph headed “Non-compliance” below. Furthermore, our PRC Legal Advisers advised that, save as disclosed in the sub-paragraph headed “Non-compliance” below, we have obtained all necessary approvals, licences, permits and certificates that are material for our business operations in the PRC from the relevant government authorities.

Non-compliance

Save as disclosed below, we have complied with the laws and regulations applicable to us in all material aspects during the Track Record Period and up to the Latest Practicable Date. The table below sets forth a summary of certain incidents of historical non-compliance with applicable regulations during the Track Record Period. Our Directors believe that these incidents of non-compliance, whether individually or collectively, will not have any material adverse impact on our business, operations and financial condition. In addition, our Controlling Shareholders have agreed to indemnify our Group for all claims, costs, expenses and losses incurred as a result of the non-compliance issues set out below.

(i) *Social insurance fund*

During the Track Record Period, our PRC subsidiaries, namely Meisen (Shandong) and Dasen (Heze), did not make full contribution for all employees for the reason that some of our employees were less willing to make contribution to the social insurance fund. Since March 2016, our Group

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have started to make social insurance contribution for all employees, according to the contribution bases as stipulated by relevant laws and requirements of the PRC in respect of social insurance. If we are to make up the aforementioned historical shortfall in the contribution to the relevant social insurances for all of our employees in accordance with the relevant regulations, the amount to be paid would amount to approximately RMB3.1 million, RMB5.3 million, RMB7.8 million and RMB7.5 million for the three years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016 respectively.

On 30 November 2016, we have obtained written confirmations from Chengwu Country Human Resources and Social Bureau* (成武縣人力資源和社會保障局) (the “**Human Resources and Social Bureau**”), that: (i) we have fully paid social insurance relating to the salaries paid to all the employees in accordance with the relevant PRC laws and regulations regarding social insurance since March 2016 and (ii) we will not be required to make up the above shortfall in the contribution to the relevant social insurances or be imposed with any fine. The Human Resources and Social Bureau further confirmed that since the establishment of our Company, save for aforementioned issue, (i) there had been no material violation in relation to the contribution to the relevant social insurances that would subject us to administrative penalties, payments or any other forms of penalties; (ii) we had been in compliance with all the national and local laws and regulations in relation to the relevant social insurances in all material respects; (iii) there had been no circumstances for which we would be imposed with any administrative penalties; and (iv) there had not been any investigation, claim or dispute between us and the Human Resources and Social Bureau.

In light of the confirmation we received from the Human Resources and Social Bureau, our PRC Legal Advisers are of the view that the likelihood that we will be pursued is remote. Furthermore, pursuant to the deed of indemnity dated 25 November 2016 and entered into by our Controlling Shareholders in favour of our Group, our Controlling Shareholders have jointly and severally undertaken, among other things, that they will indemnify us for all claims, costs, expenses, losses that may be incurred by us and liabilities and damages from which we may suffer arising out of or in connection with failure to make adequate social insurance contribution on or before the Listing.

Based on the confirmations we received from the Human Resources and Social Bureau, our PRC Legal Advisers’ opinion and the deed of indemnity dated 25 November 2016 and provided by our Controlling Shareholders, our Directors are of the view that our historical shortfall in the relevant social insurances contribution will not have any material adverse impact on our business or operations, and in light of the aforementioned, we have not made provisions for such shortfall in the audited financial statements for the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016, respectively.

We will convey the relevant requirements to make relevant social insurance contributions clearly to new employees prior to hiring them and continue to communicate with existing employees on the importance of making such contributions. In addition, to ensure that we comply with relevant rules and regulations regarding contributions to relevant social insurances, we will review our contributions periodically and report to our Board should any material non-compliance occur.

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(ii) *Housing provident fund*

During the Track Record Period, our PRC subsidiaries, namely Meisen (Shandong) and Dasen (Heze), did not register with the relevant housing provident fund authority and failed to make provident fund contributions for all of our employees in the PRC for the reason that some of our employees were less willing to make contribution to the housing provident fund. From March 2016, we started to make housing provident fund contribution for all employees according to the contribution bases as stipulated by the relevant laws and regulations of the PRC. If we are to make up the aforementioned historical shortfall in the contribution to the relevant housing provident fund for all of our employees in accordance with the relevant laws and regulations, the amount to be paid would amount to approximately RMB0.6 million, RMB1.0 million, RMB1.3 million and RMB1.3 million for the three years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016 respectively.

On 30 November 2016, we have obtained confirmations from the Housing Provident Fund Management Centre Chengwu Management Department Heze City (荷澤市住房公積金管理中心成武管理部) (the “**Management Centre**”) that (i) we have complied with the applicable laws and regulations in paying full housing fund for all our employees since March 2016; (ii) we would not be required to pay our outstanding housing provident fund contributions incurred prior to March 2016; (iii) we would not be subject to any late charges and/or penalties imposed by the relevant authorities in relation to our previous non-compliance regarding making housing fund contributions prior to March 2016; and (iv) there had not been any investigation, claim or dispute between us and the Management Centre. The Management Centre further confirmed that since the establishment of our PRC subsidiaries, save for the aforementioned issues, (i) there had been no material violation in relation to the contribution to the housing provident fund; and (ii) we had been in compliance with all the national and local laws and regulations in relation to the housing provident fund in all material respects.

Based on the confirmation from the Management Centre as the relevant and competent PRC government authority, our PRC Legal Advisers are of the opinion that the risk of our Group being pursued is remote. Furthermore, pursuant to the deed of indemnity dated 25 November 2016 and entered into by our Controlling Shareholders in favour of our Group, our Controlling Shareholders have jointly and severally undertaken, among other things, that they will indemnify us for all claims, costs, expenses, losses that may be incurred by us and liabilities and damages from which we may suffer arising out of or in connection with failure to make adequate housing provident fund contributions on or before the Listing.

Based on the confirmations we received from the Management Centre, our PRC Legal Adviser’s opinion and the Deed of Indemnity provided by our Controlling Shareholders, our Directors are of the view that our historical shortfall in the contribution to the housing provident fund will not have any material adverse impact on our business or operation, and in light of the aforesaid mentioned, we have not made provisions for such shortfall in the audited financial statements for each of the three years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016, respectively.

We will convey the relevant requirements to make relevant housing provident fund contributions clearly to new employees prior to hiring them and continue to communicate with existing employees on the importance of making such contributions. In addition, to ensure that we comply with relevant laws and regulations regarding contributions to relevant housing provident fund, we will review our contributions periodically and report to our Board should any material non-compliance occur.

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INTERNAL CONTROL AND CORPORATE GOVERNANCE MEASURES

In order to enhance our internal control and corporate governance measures, we have appointed an internal control consultant to review and assess our internal control, corporate governance measures and other measures, including, operations and compliance controls, financial reporting and compliance with the applicable laws and regulations of the PRC. The internal control consultant conducted its first internal control review in December 2015, and the major findings of the internal control consultant included: (i) our Group did not strictly adhere to the PRC laws which require full payments to the social insurance and housing provident funds contributions to the employees, and (ii) our Directors and senior management lacked sufficient knowledge of corporate governance in compliance with the Listing Rules.

In order to continuously improve our corporate governance, as well as to prevent recurrence of the non-compliance incidents relating to the social insurance and housing provident fund contributions, with the recommendations of the internal control consultant, we intend to adopt or have adopted the following measures:

- (i) our Directors and senior management attended training sessions on applicable laws and regulations, including the Listing Rules, provided by our legal advisers prior to Listing. We will continue to arrange various trainings to be provided by the legal advisers engaged by us from time to time and/or any appropriate accredited institutions to update our Directors, senior management and relevant employees on the relevant laws and regulations;
- (ii) we have appointed Mr. Lau Chung Wai (“**Mr. Lau**”) as our chief financial officer who will be responsible for financial, internal control and compliance matters of our Group. Mr. Lau has over 11 years of experience in business management, auditing, accounting and internal control. Our Directors believe that our Company will be able to draw on his expertise and experience with respect to compliance with applicable legal and financial reporting requirements. Please see the section headed “Directors and senior management” in this prospectus for more detailed biographical information of Mr. Lau;
- (iii) we have established a risk management committee comprising one independent non-executive Director and two executive Directors and their responsibilities include, among others, monitoring and implementation of the internal control and compliance matters of our Group;
- (iv) our Group has also formed an audit committee comprising three independent non-executive Directors as part of our measures to improve corporate governance. The primary duties of the audit committees are to provide our Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of our Group, to oversee the audit process and to perform other duties and responsibilities as assigned by our Directors. We plan to continue strengthening our risk management policies, by ensuring regular management review of relevant corporate governance measures and the implementation by each subsidiary and the corresponding departments;

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- (v) pursuant to Rule 3A.19 of the Listing Rules, we have appointed China Industrial Securities International Capital Limited as our compliance adviser with effect from the date of Listing;
- (vi) we are developing various internal control policies to ensure compliance with the PRC laws and regulations, and will provide trainings and updates on applicable laws and regulations to our senior management and staff. In addition, we will consult external PRC legal advisers to advise us on compliance with the applicable PRC laws and regulations; and
- (vii) with respect to the social insurance and housing provident fund contributions, we will establish internal control policy for social insurance and housing provident fund contributions and designate an internal audit officer to enforce the policy and to review the personnel changes record on a monthly basis in order to make correct social insurance and housing provident fund contributions and avoid future non-compliance.

The internal control consultant conducted follow-up review in March 2016 on the rectification or improvement measures taken by us in response to the findings identified in the first review. We have not received any further recommendations or findings from the internal control consultant.

After considering the above rectification actions recommended by the internal control consultant and all reasonable steps taken by our Group to establish a proper internal control system to prevent future non-compliance with the relevant laws and regulations, and such non-compliance incidents have not resulted, and are not expected to result, in any material impact on our financial and operational aspects, our Directors are of the view that, and the Sole Sponsor concurs that, our internal control measures adopted are adequate and effective and consider that the non-compliance incidents do not have any material impact on the suitability of our Directors under Rules 3.08 and 3.09 of the Listing Rules and our suitability for listing under Rule 8.04 of the Listing Rules.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Global Offering and the Capitalisation Issue (taking no account of Shares which may be issued pursuant to the exercise of the Over-allotment Option and Shares to be issued upon exercise of options that may be granted under the Share Option Scheme), the Concert Parties will be acting together in the control of the exercise of the voting rights of approximately 340,048,800 Shares, representing approximately 47.229% of the issued share capital of our Company. Hence, each of the Concert Parties is considered as our Controlling Shareholder.

Among the Concert Parties, Mr. Cai and Mr. Lin will not be our Directors. Mr. Cai and Mr. Lin (or his close associate) had been shareholders of Mei Sem (HK) since its incorporation. Both Mr. Cai and Mr. Lin are being engaged in their other business ventures and unable to devote sufficient time in our management and operation. At present, Mr. Cai and Mr. Lin are the shareholders of Wang Tai Holdings Limited, a company with its shares listed on the Stock Exchange (stock code: 1400) and Mr. Lin is also the chairman and an executive director of Wang Tai Holdings Limited. They invested in our Group as investors only and did not participate in our management and operation. Since Mr. Cai and Mr. Lin have not been involved in our management and operation, they have decided not to become our Directors after the Listing.

COMPETING INTERESTS

As confirmed by our Directors, our Controlling Shareholders and their respective close associates do not have any interests in any business, apart from the business operated by members of our Group, that competes or is likely to compete, directly or indirectly, with the business of our Group.

DEED OF NON-COMPETITION

To better safeguard our Group from any potential competition, each of the Controlling Shareholders has entered into the Deed of Non-competition with our Company whereby each of the Controlling Shareholders irrevocably and unconditionally, undertakes to our Company that with effect from the Listing Date and for as long as our Shares remain listed on the Stock Exchange and (i) the Controlling Shareholders collectively are, directly or indirectly, interested in not less than 30% of our Shares in issue; or (ii) the relevant Controlling Shareholder remains as our executive Director, each of the Controlling Shareholders shall, and shall procure that his/her respective close associates shall:-

- (a) not directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activities of our Group or any business activities which our Group may undertake in the future;
- (b) not take any direct or indirect action which constitutes an interference with or a disruption to the business activities of our Group including, but not limited to, solicitation of customers, suppliers and employees of our Group;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (c) keep our Board informed of any matter of potential conflicts of interests between the relevant Controlling Shareholder (including his/her close associates) and our Group, in particular, a transaction between any of the relevant Controlling Shareholder (including his/her close associates) and our Group; and
- (d) provide as soon as practicable upon our Company's request a written confirmation in respect of compliance by it with the terms of the Deed of Non-competition and his/her respective consent to the inclusion of such confirmation in our Company's annual report and all such information as may be reasonably requested by the Company for its review.

In addition, each of the Controlling Shareholders hereby irrevocably and unconditionally, undertakes that if any new business opportunity relating to any products and/or services of our Group (the "**Business Opportunity**") is made available to him/her or his/her close associates (other than members of our Group), he/she will direct or procure the relevant close associate to direct such Business Opportunity to our Group with such required information to enable our Group to evaluate the merits of the Business Opportunity.

The relevant Controlling Shareholder shall provide or procure his/her close associates to provide all such reasonable assistance to enable our Group to secure the Business Opportunity. If he or she (or his/her close associates) plans to participate or engage in any new activities or new business which may, directly or indirectly, compete with the existing business activities of our Group, he or she shall give our Company a first right of refusal to participate or engage in the Business Opportunity and will not participate or engage in these activities unless with the prior written consent of our Company. None of the Controlling Shareholders and their respective close associates (other than members of our Group) will pursue the Business Opportunity until our Group decides not to pursue the Business Opportunity because of commercial reasons. Any decision of our Company will have to be approved by our independent non-executive Directors taking into consideration the prevailing business and financial resources of our Group, the financial resources required for the Business Opportunity and, where necessary, any expert opinion on the commercial viability of the Business Opportunity.

Each of the Controlling Shareholders further irrevocably and unconditionally, undertakes that he or she will (i) provide to our Group all information necessary for the enforcement of the undertakings contained in the Deed of Non-competition; and (ii) confirm to our Company on an annual basis as to whether he or she has complied with such undertakings.

The Deed of Non-competition will cease to have any effect on the earliest of the date on which:-

- (a) our Company becomes wholly-owned by any of the Controlling Shareholder and/or his/her close associates;
- (b) the aggregate beneficial shareholding (whether direct or indirect) of the Controlling Shareholders and/or his/her close associates in the Shares in issue falls below 30% of the number of Shares in issue and the relevant Controlling Shareholder shall cease to be our executive Director; or
- (c) the Shares cease to be listed on the Stock Exchange.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having taken into account of the following factors, our Directors are satisfied that our Group can carry on its business independently of our Controlling Shareholders following the Listing:-

Management independence

Our Group's management and operational decisions are made by our Board and a team of senior management. Our Board consists of seven members, comprising four executive Directors and three independent non-executive Directors. Each of our Directors is aware of his fiduciary duties as a Director of our Company which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interests. In the event that there is a potential conflict of interests 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 meetings of our Company in respect of such transactions and shall not be counted in the quorum. Further, the independent non-executive Directors will bring independent judgment to the decision making process of our Board. The senior management team 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. Ke, Mr. Wang, and Mr. Wu, being Controlling Shareholders, are our executive Directors.

Operational independence

The organisational structure of our Group is made up of a number of departments. Each department takes a specific role in our Group's operations. There are internal control procedures to ensure effective operation of our Group's business. Furthermore, our Group has its own production lines and its own sources of independent suppliers and customers. Accordingly, our Group can carry out its business operations independently.

Financial independence

Our Directors are of the view that our Group does not unduly rely on the advances from our Controlling Shareholders and related parties for its business operations. Our Directors believe that our Group is capable of obtaining financing from external sources without reliance on our Controlling Shareholders. Furthermore, our Group has its own finance and accounting department and has established its own financial accounting system independent of our Controlling Shareholders. Our Group has its own bank accounts, makes its tax registrations and has employed a sufficient number of financial accounting and treasury personnel. Accordingly, our Directors consider that our Group is capable of operating independently from a financial perspective.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

NON-DISPOSAL UNDERTAKINGS GIVEN BY OUR CONTROLLING SHAREHOLDERS

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has, jointly and severally, undertaken to our Company and the Stock Exchange that each of them shall not and shall procure that the relevant registered holder(s) shall not:

- (a) in the period commencing on the date by reference to which disclosure of the shareholding of our Controlling Shareholders is made in this prospectus and ending on the date which is six months from the Listing Date (the “**First Six-Month Period**”), 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(s); and
- (b) for the period of six months commencing on the date on which the First Six-Month Period expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, our Controlling Shareholders would cease to be our Controlling Shareholders of our Company, i.e. they cease to control 30% or more of the voting power at general meetings of our Company.

Further, each of our Controlling Shareholders has, jointly and severally, undertaken to our Company and the Stock Exchange that within a period commencing on the date by reference to which disclosure of the shareholding of our Controlling Shareholders is made in this prospectus and ending on the date on which is 12 months from the Listing Date, he or she shall:—

- (a) when he or she pledges or charges any securities beneficially owned by him or her in favour of an authorised institution (as defined under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform our Company of such pledge or charge together with the number of securities so pledged or charged; and
- (b) when he or she receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged securities will be disposed of, immediately inform our Company of such indications.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following governance measures to manage the potential conflict of interests between us and our Controlling Shareholders, and to safeguard the interests of our Shareholders:

- (i) our independent non-executive Directors will review, at least on an annual basis, compliance and enforcement of the terms of the Deed of Non-competition;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (ii) we will disclose any decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the Deed of Non-competition either through our annual report or by way of announcement;
- (iii) we will disclose in the corporate governance report of our annual report on how the terms of the Deed of Non-competition have been complied with and enforced; and
- (iv) in the event that any of our Directors and/or their respective close associates has material interest in any matter to be deliberated by our Board in relation to compliance and enforcement of the Deed of Non-competition, he/she may not vote on the resolutions of our Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Articles.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between our Controlling Shareholders and their respective close associates and our Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.

SUMMARY OF THE CONCERT PARTY AGREEMENT

On 3 March 2016, all the Concert Parties entered into the Concert Party Agreement with the following terms and conditions:

Voting at general meetings of our Shareholders

- (a) All the Concert Parties have agreed to vote according to the instructions from Mr. Ke and Mr. Wang at the time of exercising the voting right of our Company and vote consistently with the vote of Mr. Ke and Mr. Wang at general meetings of our Company.
- (b) For the avoidance of doubt, if there is inconsistency in the vote of Mr. Ke and Mr. Wang at general meetings of our Company, Mr. Wang shall vote according to the instructions from Mr. Ke at the time of exercising the voting right of our Company and vote consistently with the vote of Mr. Ke at general meetings of our Company.

Share transfers

The Concert Parties shall not dispose of his or her Shares within six months from the Listing Date. Any Concert Party may dispose of his or her Shares after the expiry of six months from the Listing Date but before the expiry of 12 months from the Listing Date on a pro rata basis.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

If any Concert Party would like to dispose his or her Shares after the expiry of 12 months from the Listing Date, the relevant Concert Party shall first inform the other Concert Parties in writing (the “**Written Notification**”) on whether any of them is interested to purchase all or any of the Shares proposed to be sold. Following the receipt of the Written Notification, the other Concert Parties shall have the right to purchase all or any of the Shares by replying to the Written Notification within two Business Days at the prices set forth in the Written Notification (the “**Agreed Price**”).

If there is more than one Concert Party indicating that he or she is interested to purchase the Shares in the Written Notification (the “**Intention of Purchase**”), the interested Concert Parties shall have the right to purchase all the Shares on a pro rata basis at the Agreed Price. If there is no Concert Party indicating that he or she is interested to purchase the Shares or the Intention of Purchase does not cover all Shares proposed to be sold, the Concert Party issuing the Written Notification may proceed to sell all or any of the Shares (save for the Shares which the interested Concert Parties have agreed to purchase under the Intention of Purchase) to other third parties at such price not less than the Agreed Price.

The above procedures shall not apply to Shares transfers from the Concert Parties to his or her spouse, children or wholly owned company, however the Concert Party shall inform the other Concert Parties of such Share transfers and procure the transferees of such Share transfers to comply with the provisions of the Concert Party Agreement.

Increase in shareholdings

All the Concert Parties agreed that if any Concert Party would like to increase his or her shareholdings in the Company after the Listing Date, he or she shall comply with the Takeovers Code and all other applicable laws and regulations.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Name	Age	Position	Date of appointment	Date of joining our Group	Principal responsibilities
Mr. Ke Mingcai (柯明財)	43	Chairman and executive Director	24 December 2015	31 December 2010	Responsible for the overall planning and strategic development of our Group's business
Mr. Wang Songmao (王松茂)	43	Chief executive officer and executive Director	24 December 2015	31 December 2010	Responsible for the general operations and formulating the policies of our Group
Mr. Zhang Ayang (張啊陽)	40	Executive Director	24 December 2015	31 December 2010	Responsible for sales and marketing strategy and overseeing the sales of our Group
Mr. Wu Shican (吳仕燦)	43	Executive Director	24 December 2015	31 December 2010	Responsible for the general operations and administrative management of our Group
Mr. Shao Wanlei (邵萬雷)	49	Independent non-executive Director	25 November 2016	25 November 2016	Supervising our Group's compliance and corporate governance matters, providing independent judgment to our Board
Mr. Lin Triomphe Zheng	49	Independent non-executive Director	25 November 2016	25 November 2016	Supervising our Group's compliance and corporate governance matters, providing independent judgment to our Board
Mr. Wang Yuzhao (王玉昭)	46	Independent non-executive Director	25 November 2016	25 November 2016	Supervising our Group's compliance and corporate governance matters, providing independent judgment to our Board

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Ke Mingcai (柯明財), aged 43, is our Chairman and executive Director. He is the brother-in-law of Mr. Cai, one of our Controlling Shareholders. Mr. Ke joined our Group in December 2010 and is responsible for the overall planning and strategic development of our Group's business. Prior to joining our Group, Mr. Ke worked as a general manager in Fujian Jinjiang Qi Ren CPU Co. Ltd (福建省晉江市奇仁聚氨酯製品有限公司), a company engaging in the manufacturing of polyurethane soles, shoes and garment, from 30 August 2002 to 31 December 2011. He had been the president of Fujian Li Rong Trading Development Co. Ltd (福建省力榮商貿發展有限公司), a company engaging in the sale of garment and shoes, and the material of those, since 13 July 2005. Mr. Ke also has more than five years of experience in the wood industry and more than 10 years in the trading industry.

Furthermore, Mr. Ke has served as a member of the 17th People's Congress of Chengwu County, Heze City since January 2012. He is currently the chairman of the Federation of Overseas Chinese Entrepreneurs, Heze City (荷澤市僑商聯合會). In July 2015, Mr. Ke obtained a diploma in finance and securities at the Dongbei University of Finance and Economics (東北財經大學) in the PRC.

Mr. Wang Songmao (王松茂), aged 43, is our chief executive officer and executive Director. He joined our Group in December 2010 and is responsible for the general operations and formulating the policies for our Group. Mr. Wang has manufacturing experiences and management skills from his experience in the garment industry for over 10 years. Since 30 June 2005, he has been the president of Jiangsu Kunshan Long De Sheng Costume Co. Ltd (江蘇省昆山市隆德盛服飾有限公司), a company engaging in the manufacturing of plastic, plastic signage, paper signage, fabric signage, metal signage, wood product and the sale of wood products. He has also been the president of Bao Wei Automotive Technology (Jiangsu) Co. Ltd (寶瑋汽車科技(江蘇)有限公司), a company engaging in the development and sale of automobile and automobile components, since 3 December 2013.

Mr. Wang has been a member of the 14th session of the Chinese People Political Consultative Conference of Heze City, Shandong Province since January 2015 and a member of the 17th People's Congress of Chengwu County, Heze City since January 2012. He is currently the vice chairman of the Federation of Overseas Chinese Entrepreneurs, Heze City (荷澤市僑商聯合會).

Mr. Zhang Ayang (張啊陽), aged 40, is our executive Director, responsible for sales and marketing strategy and overseeing the sales of our Group. He is the spouse of Ms. Wu, one of our Controlling Shareholders. Mr. Zhang joined our Group in December 2010 as the head of sales department. He was promoted as the general manager of Dasen (Heze) in November 2014. Since November 2008, Mr. Zhang has been working at Jinjiang Qing Yang Xin Yi Material Trading Company (晉江市青陽信億建材商行), engaging in the wholesaling and retailing of wooden board, light steel keel and fireproof material.

Mr. Wu Shican (吳仕燦), aged 43, is our executive Director, responsible for the general operations and administrative management of our Group. Mr. Wu joined our Group in December 2010. From 1996 to 2000, Mr. Wu acted as legal representative of Xiamen Qi Li Furniture Development

DIRECTORS AND SENIOR MANAGEMENT

Company Limited (廈門市奇麗家具發展有限公司), which was engaged in the manufacturing and sales of furniture. He served as the chief executive officer of Guangzhou Baiyun Tai Chuan Garment Factory (廣州白雲區太川製衣廠), a company engaging in garment manufacturing from August 2010 to December 2012, and thus has acquired experience in the manufacturing industry.

Independent non-executive Directors

Mr. Shao Wanlei (邵萬雷), aged 49, was appointed as our independent non-executive Director on 25 November 2016. Mr. Shao obtained his LL.M. (法學碩士) degree from Nanjing University (南京大學) in the PRC in June 1999 and his LL.M. degree from Georg-August-University of Göttingen, Germany in October 1997. Mr. Shao was admitted as a lawyer in China in 1994. He founded Shao Wanlei Law Office, a law firm in China, in October 2005. In May 2008, he established Luther Law Offices in the PRC, and since then has served as a managing partner.

Mr. Lin Triomphe Zheng, aged 49, was appointed as our independent non-executive Director on 25 November 2016. Mr. Lin graduated from Xiamen University (廈門大學) in the PRC in July 1987 with a bachelor of arts degree. He further obtained his bachelor of commerce from Macquarie University, Australia in September 1997, majoring in accounting and finance. In January 2000, he was conferred by the CPA Australia as a certified practising accountant. In December 2000, he was first appointed by the Attorney General of New South Wales as a Justice of the Peace (NSW).

Mr. Lin has over 16 years of commercial and professional working experience in both Australia and China. He has extensive experience in corporate finance and financial advisory for wide range of industries, as well as in audit and initial public offering services. He was the international business director of BDO China Zhonglian Mindu Shu Lun Pan CPAs LLP, Fujian Office (立信會計師事務所(特殊普通合伙)福建分所) (previously known as Lixin Zhonglian Mindu CPAs (立信中聯閩都會計師事務所)), an accounting firm in China, from July 2007 to January 2014. Since February 2014, he has been the founding member at Moore Stephens Dahua CPAs LLP, Fujian Office, an accounting firm in China.

Mr. Wang Yuzhao (王玉昭), aged 46, was appointed as our independent non-executive Director on 25 November 2016. Mr. Wang obtained his Ph.D. in management studies from Northeast Forestry University (東北林業大學) in the PRC in July 2008. From February 2011 to June 2014, he was engaged in postdoctoral research in applied economics in the Research Institute for Fiscal Science, Ministry of Finance, China (財政部財政科學研究所) while serving as a manager assistant in the safety and quality department of China Railway 16th Bureau (中鐵十六局). He has been a distinguished professor and mentor for graduate students at the Northeast Forestry University (東北林業大學) in the PRC since June 2012 and Zhejiang Sci-Tech University (浙江理工大學) in the PRC since January 2014.

He is now the vice general manager of the Management System Certification Center of Beijing Huadian Wanfang (北京華電萬方管理體系認證中心).

DIRECTORS AND SENIOR MANAGEMENT

Save as disclosed above, each of our Directors confirmed that he (i) did not hold any directorship in the last three years prior to the Latest Practicable Date in public companies, the securities of which are listed on any securities market in Hong Kong or overseas; (ii) does not hold any other positions with us or other members of our Group; and (iii) does not have any relationship with other Directors, senior management or Controlling Shareholders, if any, of our Company or any interest in our Shares within the meaning of Part XV of the SFO.

Save as disclosed above, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of our Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as at the Latest Practicable Date.

SENIOR MANAGEMENT

Name	Age	Position	Date of joining our Group	Principal responsibilities
Mr. Lau Chung Wai (劉仲緯)	34	Chief financial officer and company secretary of our Group	1 August 2015	Responsible for overseeing the investment, legal and financial affairs of our Group
Mr. Wu Zhibin (吳志斌)	37	Financial controller	4 March 2013	Responsible for the financial affairs of our Group's PRC operations
Mr. Zhang Donghua (張東華)	51	Deputy general manager	1 February 2014	Responsible for overseeing our production of plywood products
Mr. Peng Zhiwei (彭志偉)	43	Deputy general manager	5 March 2012	Responsible for overseeing our production of biomass wood pellets

Mr. Lau Chung Wai (劉仲緯), aged 34, has been the chief financial officer and company secretary of our Group since August 2015 and is responsible for overseeing the investment, legal and financial affairs of our Group. Mr. Lau has over 11 years of experience in accounting and finance, and is a fellow member of the Hong Kong Institute of Certified Public Accountants. Prior to joining our

DIRECTORS AND SENIOR MANAGEMENT

Group, Mr. Lau was a manager of the assurance service team in Ernst & Young from September 2004 to September 2011, a finance manager in a media company which is a subsidiary of Publicis Groupe SA, a company listed on the Euronext Paris (Stock code: PUB. PA), from September 2011 to April 2013, and a group financial controller of an enterprise engaging in the manufacturing of furniture and home decoration products in the PRC from May 2013 to July 2015. Mr. Lau obtained his bachelor in business administration from the Hong Kong University of Science and Technology in 2004.

Mr. Wu Zhibin (吳志斌), aged 37, has been our financial controller, responsible for financial affairs of our Group's PRC operations since March 2013. Mr. Wu obtained his diploma in accounting from Huaqiao University (華僑大學), the PRC in June 1999. He was also awarded the Certificate For Passing All The Required Subjects Of The Professional Stage of The National Uniform CPA Examination of P.R. China (註冊會計師全國統一考試專業階段考試合格證) in January 2012. From September 2007 to January 2013, he worked as a project manager on corporate finance matters at Xiamen Zhi Miao Financial Consulting Limited (廈門智淼財務顧問有限公司).

Mr. Zhang Donghua (張東華), aged 51, is our deputy general manager, responsible for overseeing our production of plywood products. He joined Meisen (Shandong) in February 2014. Mr. Zhang obtained his bachelor in wood processing from the Forestry College of Jilin (吉林林學院) in the PRC in July 1987. He was also conferred a certificate of graduation in April 1988 for attending the TQC Backbone Staff Training Course (TQC骨幹培訓班) organised by the Jilin Quality Control Society (吉林省質量管理協會) and the School of Management, Jilin University (吉林工業大學管理學院). He qualified as an engineer in January 1997 by the China Jilin Forest Industry Group (中國吉林森林工業(集團)總公司). Mr. Zhang was also awarded the Certificate of Third Class Contribution (立功證三等功) by the Forestry Administration of Linjiang City (臨江林業局) in November 1994. In March 1996, he was awarded the Prize of Idea for Technology (科技建議獎) by the Jilin Society of Forestry (吉林省林學會). Mr. Zhang was also qualified as an internal system quality auditor (質量體系內部審核員) by the Beijing Jiuqian Standard Quality System Accreditation Centre (北京九千標準質量體系認證中心) in June 2001. From June 1987 to May 1999, he worked at the Wood Manufacturing Factory (later known as Artificial Board Company (人造板公司)) of Forestry Administration of Linjiang of China Jilin Forest Industry Group (吉林森工集團臨江林業局制材廠) with his last position as engineer.

Mr. Peng Zhiwei (彭志偉), aged 43, is our deputy general manager, responsible for overseeing our production of biomass wood pellets. He joined Dasen (Heze) in March 2012. Mr. Peng obtained his diploma in mechatronics from Hengyang Institute of Engineering (衡陽文理專科學校) in the PRC in July 1995. In April and May 2007, Mr. Peng was respectively conferred the Professional Qualification Certificate for Logistician (物流師職業資格證書) and the Certificate for the Satisfaction of Training of the Accreditation of Professional Qualification for Logistician (物流師職業資格認證培訓合格證書) by China Federation of Logistics and Purchasing (中國物流與採購聯合會) and the National Logistics Standardization and Technology Committee (全國物流標準化技術委員會).

DIRECTORS AND SENIOR MANAGEMENT

BOARD COMMITTEES AND OTHER COMMITTEE

Audit committee

An audit committee was established by our Company on 25 November 2016 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of our audit committee are to review and approve our Group's financial reporting process and internal control system. Our audit committee comprises all independent non-executive Directors, namely, Mr. Lin Triomphe Zheng, Mr. Shao Wanlei and Mr. Wang Yuzhao. Mr. Lin Triomphe Zheng is the chairman of our audit committee.

Remuneration committee

A remuneration committee was established by our Company on 25 November 2016 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of our remuneration committee include reviewing and determining the terms of remuneration packages, bonuses and other compensation payable to Directors and senior management of our Group. Our remuneration committee is chaired by Mr. Wang Yuzhao, and other members are Mr. Shao Wanlei and Mr. Lin Triomphe Zheng.

Nomination committee

A nomination committee was established by our Company on 25 November 2016 with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of our nomination committee are to make recommendations to our Board regarding the appointment of Directors and the senior management of our Group. The members of our nomination committee are Mr. Shao Wanlei, Mr. Ke and Mr. Wang Yuzhao. Mr. Shao Wanlei is the chairman of our nomination committee.

Risk management committee

We have established a risk management committee on 25 November 2016 to review the general goals and fundamental policies of our risk and compliance management, internal control and internal audit functions and make recommendations to our Board on the same. The members of our risk management committee are Mr. Wu, Mr. Zhang and Mr. Lin Triomphe Zheng. Mr. Wu is the chairman of our risk management committee.

DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

The aggregate amounts of fees, salaries, housing allowances, other allowances, benefits in kind (including contribution to the pension scheme on behalf of our Directors) and discretionary bonuses paid by us to our Directors for the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016 were approximately RMB0.4 million, RMB0.4 million, RMB0.5 million and RMB0.3 million, respectively.

DIRECTORS AND SENIOR MANAGEMENT

The aggregate amounts of fees, salaries, housing allowances, other allowances, benefits in kind (including contribution to the pension scheme on behalf of our Directors) and discretionary bonuses paid to the five highest paid individuals of our Group (including four of our Directors) for the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016 were approximately RMB0.5 million, RMB0.5 million, RMB0.8 million and RMB0.7 million, respectively.

During the Track Record Period, no remuneration was paid by us to, or receivable by, our Directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation 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. In addition, none of our Directors has waived any emoluments.

Save as disclosed above, no other payments have been paid, or are payable, by our Group to our Directors during the Track Record Period. Under the arrangements currently in force as at the date of this prospectus, the aggregate remuneration payable to our Directors (including our independent non-executive Directors) in respect of the year ending 31 December 2016 is estimated to be approximately RMB0.5 million.

SHARE OPTION SCHEME

We have conditionally adopted a Share Option Scheme pursuant to which selected participants may be granted options to subscribe for Shares as incentives or rewards for their services rendered to our Group and any entity in which any member of our Group holds any equity interest. Our Directors believe that the implementation of the Share Option Scheme enables our Group to recruit and retain high calibre executives and employees. The principal terms of the Share Option Scheme are summarised under the paragraph headed “Statutory and general information — D. Other information — 1. Share Option Scheme” in Appendix V to this prospectus.

COMPLIANCE ADVISER

We have appointed China Industrial Securities International Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us under the following circumstances:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) when a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (iii) if we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or if the business activities, developments or results of our Group deviate from any forecast, estimate or other information in this prospectus; and
- (iv) if the Stock Exchange makes an inquiry of our Group under Rule 13.10 of the Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

The term of appointment of the compliance adviser shall commence on the Listing Date and end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year ending 31 December 2017.

SHARE CAPITAL

The authorised and issued share capital of our Company is as follows:-

Number of Shares comprised in the authorised share capital

	<i>HK\$</i>
<u>1,000,000,000</u> Shares	<u>10,000,000</u>

Assuming that the Over-allotment Option is not exercised, the share capital of our Company immediately following the Global Offering will be as follows:-

	<i>HK\$</i>
20,000 Shares in issue as at the date of this prospectus	200
539,980,000 Shares to be issued under the Capitalisation Issue	5,399,800
<u>180,000,000</u> Shares to be issued under the Global Offering	<u>1,800,000</u>
<u>720,000,000</u> Shares	<u>7,200,000</u>

Assuming that the Over-allotment Option is exercised, the share capital of our Company immediately following the Global Offering will be as follows:-

	<i>HK\$</i>
20,000 Shares in issue as at the date of this prospectus	200
539,980,000 Shares to be issued under the Capitalisation Issue	5,399,800
180,000,000 Shares to be issued under the Global Offering	1,800,000
<u>27,000,000</u> Shares to be issued upon exercise of the Over-allotment Option in full	<u>270,000</u>
<u>747,000,000</u> Shares	<u>7,470,000</u>

ASSUMPTIONS

The above tables assume that the Global Offering has become unconditional and the issues of Shares pursuant to the Global Offering and the Capitalisation Issue are made. They take no account of any Shares which may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme; or any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate granted to our Directors to issue or repurchase Shares as described below.

RANKING

The Offer Shares, including the Shares issuable pursuant to the Over-allotment Option, will rank pari passu with all Shares in issue or to be issued as mentioned in this prospectus and will qualify for all dividends or other distributions declared, made or paid after the date of this prospectus save for the entitlement under the Capitalisation Issue.

SHARE CAPITAL

GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot or issue and deal with unissued Shares with an aggregate number of not more than:

- (a) 20% of the total number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue; and
- (b) the total number of Shares repurchased by our Company pursuant to the mandate referred to in the paragraph headed “General mandate to repurchase Shares” in this section.

This mandate will expire:-

- at the conclusion of the next annual general meeting of our Company; or
- at the expiration of the period within which our Company is required by the Articles of Association or any applicable laws of the Cayman Islands to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

Particulars of this general mandate are set forth in the paragraph headed “Statutory and general information — A. Further information about our Company and its subsidiaries — 3. Resolutions in writing of all our Shareholders passed on 25 November 2016” in Appendix V to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general mandate to exercise all the powers of our Company to repurchase Shares with a total number of not more than 10% of the total number of the Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue (excluding Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option or the Share Option Scheme).

This mandate only relates to repurchases made on the Main Board, or on any other stock exchange on which the Shares are listed (and which are recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set forth in the paragraph headed “Statutory and general information — A. Further information about our Company and its subsidiaries — 6. Repurchase of Shares by our Company” in Appendix V to this prospectus.

SHARE CAPITAL

This mandate will expire:-

- at the conclusion of the next annual general meeting of our Company; or
- at the expiration of the period within which our Company is required by its Articles of Association or any applicable laws of the Cayman Islands to hold its next annual general meeting; or
- when varied or revoked by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

Particulars of this general mandate are set forth in the paragraph headed “Statutory and general information — A. Further information about our Company and its subsidiaries — 3. Resolutions in writing of all our Shareholders passed on 25 November 2016” in Appendix V to this prospectus.

SHARE OPTION SCHEME

Subject to the Global Offering becoming unconditional, our Company has approved and adopted the Share Option Scheme. For detailed information of the Share Option Scheme, please refer to the paragraph headed “Statutory and general information — D. Other information — 1. Share Option Scheme” in Appendix V to this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

The circumstances under which general meeting and class meeting are required are provided in the Articles. For details, please refer to the section headed “Summary of the constitution of our Company and Cayman Islands company law” set out in Appendix IV to this prospectus.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Global Offering and the Capitalisation Issue (but without taking into account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), the following persons will have an interest or short position in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group:

Name of Shareholder	Capacity/Nature of Interest	Number of Shares	Approximate percentage of shareholding in our Company
Mr. Ke	Beneficial owner/persons acting in concert	340,048,800 Shares (long position) <i>(note 1)</i>	47.229%
Mr. Cai	Beneficial owner/persons acting in concert	340,048,800 Shares (long position) <i>(note 2)</i>	47.229%
Mr. Wang	Beneficial owner/persons acting in concert	340,048,800 Shares (long position) <i>(note 3)</i>	47.229%
Mr. Lin	Beneficial owner/persons acting in concert	340,048,800 Shares (long position) <i>(note 4)</i>	47.229%
Mr. Wu	Beneficial owner/persons acting in concert	340,048,800 Shares (long position) <i>(note 5)</i>	47.229%
Ms. Wu	Beneficial owner/persons acting in concert	340,048,800 Shares (long position) <i>(note 6)</i>	47.229%
Mr. Zhang	Interest of spouse	340,048,800 Shares (long position) <i>(note 7)</i>	47.229%
Bliss International <i>(note 8)</i>	Beneficial owner	67,500,000 Shares (long position)	9.375%
Ms. Cheung Yung Yung <i>(note 8)</i>	Interest of a controlled corporation	67,500,000 Shares (long position)	9.375%
Sea Dragon <i>(note 9)</i>	Beneficial owner	64,008,000 Shares (long position)	8.890%
Mr. Wong Yan Kong <i>(note 9)</i>	Interest of a controlled corporation	64,008,000 Shares (long position)	8.890%

Notes:

- Mr. Ke is beneficially interested in 121,449,600 Shares, representing approximately 16.868% of the issued Shares of our Company. Pursuant to the SFO, since Mr. Ke is a party to the Concert Party Agreement, he is deemed to be interested in the Shares which the other parties to the Concert Party Agreement are interested in.

SUBSTANTIAL SHAREHOLDERS

2. Mr. Cai is beneficially interested in 69,393,600 Shares, representing approximately 9.638% of the issued Shares of our Company. Pursuant to the SFO, since Mr. Cai is a party to the Concert Party Agreement, he is deemed to be interested in the Shares which the other parties to the Concert Party Agreement are interested in.
3. Mr. Wang is beneficially interested in 52,056,000 Shares, representing approximately 7.230% of the issued Shares of our Company. Pursuant to the SFO, since Mr. Wang is a party to the Concert Party Agreement, he is deemed to be interested in the Shares which the other parties to the Concert Party Agreement are interested in.
4. Mr. Lin is beneficially interested in 41,637,600 Shares, representing approximately 5.783% of the issued Shares of our Company. Pursuant to the SFO, since Mr. Lin is a party to the Concert Party Agreement, he is deemed to be interested in the Shares which the other parties to the Concert Party Agreement are interested in.
5. Mr. Wu is beneficially interested in 24,300,000 Shares, representing approximately 3.375% of the issued Shares of our Company. Pursuant to the SFO, since Mr. Wu is a party to the Concert Party Agreement, he is deemed to be interested in the Shares which the other parties to the Concert Party Agreement are interested in.
6. Ms. Wu is beneficially interested in 31,212,000 Shares, representing approximately 4.335% of the issued Shares of our Company. Pursuant to the SFO, since Ms. Wu is a party to the Concert Party Agreement, he is deemed to be interested in the Shares which the other parties to the Concert Party Agreement are interested in.
7. Mr. Zhang is the spouse of Ms. Wu. He is deemed to be interested in the Shares held by Ms. Wu under the SFO.
8. Bliss International is a company incorporated in the BVI, the entire issued share capital of which is held by Ms. Cheung Yung Yung. Accordingly, Ms. Cheung Yung Yung is deemed to be interested in the Shares held by Bliss International pursuant to the SFO.
9. Sea Dragon is a company incorporated in the BVI, the entire issued share capital of which is held by Mr. Wong Yan Kong. Accordingly, Mr. Wong Yan Kong is deemed to be interested in the Shares held by Sea Dragon pursuant to the SFO.

Should the Over-allotment Option be exercised in full, each of Mr. Ke, Mr. Cai, Mr. Wang, Mr. Lin, Bliss International and Sea Dragon will be beneficially interested in approximately 16.26%, 9.29%, 6.97%, 5.57%, 9.04% and 8.57%, respectively, in our Company.

Save as disclosed above, our Directors are not aware of any person who will, immediately following the Global Offering and Capitalisation Issue (but without taking into account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme), have an interest or short position in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 10% or more of the issued voting shares of any other member of our Group.

FINANCIAL INFORMATION

You should read this section in conjunction with our Group's audited consolidated financial statements, including the notes thereto, included in the Accountant's Report set out in Appendix I to this prospectus. Our Group's audited consolidated financial statements have been prepared in accordance with IFRS issued by the International Accounting Standards Board. You should read the entire Accountant's Report and not merely rely on the information contained in this section. The following discussion and analysis contains certain forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumptions and analysis made by our Group in light of our Group's experience and perception of historical trends, current conditions and expected future developments, as well as other factors our Group believes are appropriate under the circumstances. However, where actual outcomes and developments will meet our Group's expectations and projections depend on a number of risks and uncertainties over which our Group does not have control. For further information, you should refer to the section headed "Risk factors" in this prospectus. This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Offer Shares.

OVERVIEW OF OUR OPERATION

Our principal business is the manufacture and sales of plywood and biomass wood pellets (木製生物質顆粒) in China, and both of which are made from wood. Our plywood products are mainly made of poplars, which consist of furniture board (家具板), ecological plywood (生態板) (also known as melamine faced board (三聚氰胺貼面板)) and hardwood multi-layered board (實木多層板), while we use wood residues (also known as sanshengwu (三剩物)) to produce our biomass wood pellets.

The history of our business and products is short. Our plywood products were launched in 2011 and our biomass wood pellets were launched in 2013. Nevertheless, we had recorded a significant growth, and we expanded our production lines for both plywood products and biomass wood pellets in 2014.

We only sell our products in the domestic market. During the Track Record Period, our revenue increased from approximately RMB166.1 million for the year ended 31 December 2013 to approximately RMB317.0 million for the year ended 31 December 2014, representing a growth of approximately 90.9%, and increased to approximately RMB380.9 million for the year ended 31 December 2015, representing a growth of approximately 20.1% as compared with the year ended 31 December 2014. For the six months ended 30 June 2016, our revenue increased to approximately RMB208.5 million from approximately RMB162.5 million for the six months ended 30 June 2015, representing a growth of approximately 28.3% as compared with the corresponding period. Our profit attributable to equity holders of our Company also increased from approximately RMB20.3 million for the year ended 31 December 2013 to approximately RMB38.9 million for the year ended 31 December 2014, representing a growth of approximately 91.5%, and then increased to approximately RMB45.2 million for the year ended 31 December 2015, representing another growth of approximately 16.2%. For the six months ended 30 June 2016, profit attributable to equity holders of our Company increased to approximately RMB26.8 million from approximately RMB19.6 million for the six months ended 30 June 2015, representing a growth of approximately 36.3% as compared with the corresponding period.

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Our Group mainly sources raw materials from suppliers which are Independent Third Parties, except for a portion of wood residues consumed for production of biomass wood pellets, which was generated during our plywood production. Raw materials accounted for approximately 86.2%, 86.6% and 88.8% of our cost of production for the three years ended 31 December 2013, 2014 and 2015 respectively, and accounted for approximately 89.4% of our cost of production for the six months ended 30 June 2016.

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands on 24 December 2015 being a part of the Reorganisation in preparation for the Listing. Immediately prior to and after the Reorganisation, our business was operated by Heroic Group's wholly-owned subsidiaries in the PRC. Pursuant to the Reorganisation, our Company became the holding company of Heroic Group. Details of the Reorganisation are set forth in the section headed "History, Development and Reorganisation" in this prospectus.

Our financial information presents our results of operations, financial position and cash flow of the companies within our Group. Such information has been prepared as if the current group structure had been in existence since the beginning of the Track Record Period, or since the companies' respective dates of incorporation.

For further details on the basis of preparation of the financial information included herein, please refer to note 2.1 to "Appendix I — Accountant's Report" in this prospectus.

FACTORS AFFECTING OUR GROUP'S RESULTS AND FINANCIAL POSITION

We believe that the most significant factors affecting our results of operations and financial condition are as follows:

Our ability to sustain growth

We had recorded a significant growth since we commenced the sales of our plywood products in 2011 and our biomass wood pellets in 2013. Continued sales and profits growth depend on a variety of factors, including, among others, our ability to continue to source principal raw materials (such as poplar logs, poplar plywood cores and veneers as well as wood residues) at competitive costs to increase the demand and the application spectrum of our products by gaining market recognition of our products in different downstream industries, our ability to fund our future expansion, our ability to develop new products and our ability to generate additional sales from our existing customers and develop new customers. The loss of, or a substantial decrease in the amount of purchases by, any one or more of our significant customers could reduce our sales, and our business and results of operations may be materially and adversely affected.

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On the other hand, having considered the significant growth in our sales during the Track Record Period, we have expanded and will continue to expand the scale of our operations by planning to install an additional production line for each of plywood and biomass wood pellets. As our results of operations will be affected by our ability to leverage our production capacity to capture growing demand for our products from the new and existing customers, we believe that our capacity expansion will enable us to better serve our customers and grow our sales.

Our ability to remain competitive in the PRC

The history of our business and our products is short. Our plywood products were first launched in the market in 2011, while our biomass wood pellets were first launched in the market in 2013. There were 90, 158, 171 and 91 customers for our plywood products for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 respectively. In addition, there were 22, 65, 79 and 66 customers for our biomass wood pellets for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 respectively.

Since the PRC plywood market is a highly competitive market, the pricing of and demand for our plywood products are significantly affected by the intensity of competition we face. We continuously face competitions from the manufacturers and suppliers of plywood and other substitute products of plywood, including artificial board such as medium density fibreboard and particle board. These competitors may have substantially greater financial and technological resources, design and manufacturing capacities, stronger customer relationship, more extensive distribution networks and better brand image than we do. The demand for our plywood products has been driven by the demand of plywood products and limited supply thereof on one hand, and the price competitiveness of our plywood products due to the relatively lower purchase costs of poplars and our market-oriented pricing policy, there is no assurance that we can maintain such competitiveness as a result of, among other circumstances, an increase in the supply of comparable plywood in the PRC market, a decrease in the selling price of comparable plywood, and/or an introduction to the market of other comparable plywood or other existing or future emerging substitute products. Merely providing superior quality products and services may not be sufficient to increase our market share.

Regarding our biomass wood pellets, being a type of new generation of relatively cleaner fuel and a type of biomass energy which is a sub-segment of bioenergy, there is support from the policy of the PRC Government to reduce the use of traditional fuel, such as coal, and to promote the use of biomass energy as replacement. There is an existing subsidy through tax refund from the PRC Government to support the manufacture and sales of biomass energy. However, there is low entry barriers for the manufacture of biomass energy, which results a more keen competition for the manufacture of biomass energy. In addition, the drop in the price of traditional fuel would have significant impact to the demand of our biomass wood pellets products as the market is price sensitive for such consumption products. Also, the PRC Government may reduce support on the development of biomass energy related industries when such industry has been well developed, which may have negative impact to our profit margin.

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Price of principal raw materials

The major raw materials used to produce our plywood products are poplar logs, poplar plywood cores, veneers and glue, while the major raw materials used to produce our biomass wood pellets is wood residues, some of which are sourced from our own production line of plywood products. The top five suppliers for purchase of major raw materials accounted for approximately 14.9%, 37.1%, 32.7% and 30.3% respectively of the total purchase for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016.

The price of raw materials for production of plywood products and biomass wood pellets, such as poplar logs and wood residues, may be affected by demand and supply which are beyond the control of our Group and thus may result in upward pressure on the price of the raw materials. It is our normal practice to pass the increased raw material costs to the customers by raising the selling prices of our products, maintaining a steady level of gross profit margin percentage.

CRITICAL ACCOUNTING POLICIES

Please refer to the section headed “Summary of significant accounting policies” in Appendix I to this prospectus for details of the accounting policies applied in the preparation of the financial statements.

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SUMMARY OF RESULTS OF OPERATIONS

The following table summarises our consolidated results during the Track Record Period which is extracted from the financial information section of the accountant's report, the text of which is set forth in Appendix I to this prospectus, and illustrates certain items in our consolidated statements of comprehensive income for the Track Record Period.

	Year ended 31 December			Six months ended 30 June	
	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>				
Revenue	166,085	317,022	380,860	162,462	208,459
Cost of sales	<u>(131,041)</u>	<u>(241,985)</u>	<u>(297,370)</u>	<u>(126,107)</u>	<u>(162,513)</u>
Gross profit	35,044	75,037	83,490	36,355	45,946
Selling and distribution expenses	(1,720)	(8,222)	(2,946)	(2,399)	(491)
Administrative expenses	(8,090)	(11,981)	(20,575)	(7,312)	(10,846)
Other income	2,602	2,705	7,304	2,979	4,854
Other losses	<u>(68)</u>	<u>(327)</u>	<u>(178)</u>	<u>(12)</u>	<u>(225)</u>
Operating profit	27,768	57,212	67,095	29,611	39,238
Finance income	3	17	1	1	3
Finance expenses	<u>(599)</u>	<u>(4,748)</u>	<u>(5,428)</u>	<u>(2,968)</u>	<u>(2,192)</u>
Finance expenses, net	(596)	(4,731)	(5,427)	(2,967)	(2,189)
Profit before income tax	27,172	52,481	61,668	26,644	37,049
Income tax expense	<u>(6,842)</u>	<u>(13,555)</u>	<u>(16,446)</u>	<u>(7,019)</u>	<u>(10,293)</u>
Profit after tax	20,330	38,926	45,222	19,625	26,756
Comprehensive income	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total comprehensive income for the year/period, attributable to owners of the Company	<u>20,330</u>	<u>38,926</u>	<u>45,222</u>	<u>19,625</u>	<u>26,756</u>

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PRINCIPAL INCOME STATEMENT ITEMS

During the Track Record Period, our principal business is the manufacture and sales of (a) plywood products, which consist of (i) furniture board (家具板), (ii) ecological plywood (生態板) (also known as melamine faced board (三聚氰胺貼面板)), and (iii) hardwood multi-layered board (實木多層板); and (b) biomass wood pellets.

Revenue

Revenue breakdown by major products

The following table provides the breakdown of our revenue by product segment during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2013	2014		2015		2015	2016			
	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total	RMB'000	% of total
							(unaudited)	(unaudited)		
<i>Plywood</i>										
Furniture board	109,955	66.2	193,154	60.9	212,471	55.8	86,806	53.4	87,368	41.9
Ecological plywood	31,928	19.2	17,323	5.5	44,329	11.6	20,497	12.6	44,842	21.5
Hardwood multi-layered board	7,289	4.4	40,027	12.6	27,404	7.2	13,404	8.3	27,006	13.0
Subtotal:	149,172	89.8	250,504	79.0	284,204	74.6	120,707	74.3	159,216	76.4
<i>Biomass wood pellets</i>	16,913	10.2	66,518	21.0	96,656	25.4	41,755	25.7	49,243	23.6
Total:	<u>166,085</u>	<u>100.0</u>	<u>317,022</u>	<u>100.0</u>	<u>380,860</u>	<u>100.0</u>	<u>162,462</u>	<u>100.0</u>	<u>208,459</u>	<u>100.0</u>

Our Group experienced growth on the revenue, amounting approximately RMB166.1 million, RMB317.0 million and RMB380.9 million respectively for the years ended 31 December 2013, 2014 and 2015, and approximately RMB162.5 million and RMB208.5 million respectively for the six months ended 30 June 2015 and 2016. The increase in the overall revenue for the years ended 31 December 2013, 2014 and 2015, and for the six months ended 30 June 2016 was due to increase in the sales of both plywood products and biomass wood pellets.

Plywood

Our Group has achieved a growth in the sales of plywood products for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016. Such growth was mainly contributed by the expansion of the customer base of the plywood products of our Group and also by securing the customers with large purchase orders.

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Our Group has succeeded in expanding customer base for the business growth. The number of customers of plywood products increased from 90 for the year ended 31 December 2013 to 158 for the year ended 31 December 2014, representing a growth rate of approximately 75.6%, and then further increased to 171 for the year ended 31 December 2015, representing another growth of approximately 8.9%. The number of customers of plywood products decreased from 117 for the six months ended 30 June 2015 to 91 for the six months ended 30 June 2016. One of the reasons for our great success in broadening the customer base during the year ended 31 December 2014 was our expansion of the sales team of our Group, for which the staff headcount increased from 13 as at 31 December 2013 to 19 as at 31 December 2014. In spite of our expansion of customer base within a relatively short period of time, we can still maintain our customer size with a stable average sales per customer. The average sales to our customers were approximately RMB1.7 million, RMB1.6 million, RMB1.6 million and RMB1.7 million for the years ended 31 December 2013, 2014 and 2015, and the six months ended 30 June 2016.

Our Group offered three types of plywood products to our customers. Those three types of plywood products serve similar functions to our customers and the main differences are on certain specifications, such as the level of moisture content, the hardness and the water resistance capability. We do not focus on or promote particular plywood products during the Track Record Period and our sales of different types of plywood products are driven by the needs of our customers. Generally, the customers will decide to purchase the type of plywood products depending on the usage and specification of plywood they require. For the year ended 31 December 2014, there was an increase in revenue of approximately RMB83.2 million for furniture board, a drop in revenue of approximately RMB14.6 million for ecological plywood, and an increase in revenue of approximately RMB32.7 million for hardwood multi-layered board when compared with the previous year. For the year ended 31 December 2015, there was an increase in revenue of approximately RMB19.3 million for furniture board, an increase in revenue of approximately RMB27.0 million for ecological plywood, and a drop in revenue of approximately RMB12.6 million for hardwood multi-layered board when compared with the previous year. For the six months ended 30 June 2016, there was an increase in revenue of approximately RMB0.6 million for furniture board, an increase in revenue of approximately RMB24.3 million for ecological plywood, and an increase in revenue of approximately RMB13.6 million for hardwood multi-layered board when compared with the revenue for the six months ended 30 June 2015. The change in the product mix for the Track Record Period was mainly due to our changes in the customer base, including 112, 106 and 20 new customers for plywood products secured during the years ended 31 December 2014 and 2015, and during the six months ended 30 June 2016 respectively, as well as 42 and 84 customers for plywood products not continuing to place purchase order to our Group for the years ended 31 December 2014 and 2015 respectively. Given customers confirming their purchase on an order-by-order basis, the business relationship is considered to be inactive if no purchase orders have been placed for at least three consecutive months. Revenue contributed by the newly secured customers were approximately RMB79.7 million, RMB117.7 million and RMB13.2 million for the years ended December 2014 and 2015, and for the six months ended 30 June 2016 respectively and revenue contributed by the inactive customers were approximately RMB43.4 million, RMB79.3 million and RMB87.6 million for the years ended 31 December 2014 and 2015, and for the six months ended 30 June 2016 respectively when compared with the previous year or period. Out of the total 126 inactive customers for the years ended 31 December 2014 and 2015, 58 customers had only placed one order to our Group, contributing an average revenue of approximately RMB0.1 million per customer, and our Directors believes that these one-off customers are normally small in

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business size and do not have continuous need for plywood products. In addition, our Directors also believes that other inactive customers, besides those placed only one purchase order, may require more timely delivery of products for small purchase orders and there are other suppliers with local storage of plywood products readily available for sales, resulting some of these customers shifting to those suppliers. Our Directors considers that the impact from losing inactive customers was offset by newly secured customers during the Track Record Period. Our Directors also consider that due to the highly competitive nature of plywood manufacturing industry in the PRC and the low cost for customers to switch suppliers, it is common in the industry to have a significant number of new customers and existing customers becoming inactive from year to year.

Biomass wood pellets

The revenue arising from sales of our biomass wood pellets was recorded as approximately RMB16.9 million, RMB66.5 million, RMB96.7 million, and RMB49.2 million for the years ended 31 December 2013, 2014 and 2015, and for the six months ended 30 June 2016 respectively, which represented approximately 10.2%, 21.0%, 25.4% and 23.6% of total revenue of our Group respectively.

Since the launch of biomass wood pellets in 2013, our Group has been developing the customer base and has achieved a growth in the customer base. The number of customers for biomass wood pellets increased significantly from 22 for the year ended 31 December 2013 to 65 for the year ended 31 December 2014, and then further increased to 79 for the year ended 31 December 2015. The number of customers for biomass wood pellets increased from 54 for the six months ended 30 June 2015 to 66 for the six months ended 30 June 2016. One of the reasons for our success in broadening the customer base for biomass wood pellets was our expansion of the sales team of our Group, for which the staff headcount of our sales team increased from 13 as at 31 December 2013 to 19 as at 31 December 2014.

The following table illustrates the breakdown of our revenue from new customers and recurring customers of our products during the Track Record Period:

	Year ended 31 December																	
	2013						2014						2015					
	Plywood		Biomass wood pellets		Total		Plywood		Biomass wood pellets		Total		Plywood		Biomass wood pellets		Total	
	(RMB'000)	% of total	(RMB'000)	% of total	(RMB'000)	% of total	(RMB'000)	% of total	(RMB'000)	% of total	(RMB'000)	% of total	(RMB'000)	% of total	(RMB'000)	% of total	(RMB'000)	% of total
New customers	44,629	29.9%	16,913	100.0%	61,542	37.1%	79,735	31.8%	32,418	48.7%	112,153	35.4%	117,686	41.4%	29,292	30.3%	146,978	38.6%
Recurring customers	104,543	70.1%	—	—	104,543	62.9%	170,769	68.2%	34,100	51.3%	204,869	64.6%	166,518	58.6%	67,364	69.7%	233,882	61.4%
Total:	<u>149,172</u>	<u>100%</u>	<u>16,913</u>	<u>100.0%</u>	<u>166,085</u>	<u>100%</u>	<u>250,504</u>	<u>100.0%</u>	<u>66,518</u>	<u>100.0%</u>	<u>317,022</u>	<u>100%</u>	<u>284,204</u>	<u>100.0%</u>	<u>96,656</u>	<u>100.0%</u>	<u>380,860</u>	<u>100%</u>

	Six months ended 30 June											
	2015						2016					
	Plywood		Biomass wood pellets		Total		Plywood		Biomass wood pellets		Total	
	(RMB'000)	% of total	(RMB'000)	% of total	(RMB'000)	% of total	(RMB'000)	% of total	(RMB'000)	% of total	(RMB'000)	% of total
	(unaudited)		(unaudited)		(unaudited)		(unaudited)		(unaudited)		(unaudited)	
New customers	51,421	42.6%	8,801	21.1%	60,222	37.1%	13,189	8.3%	8,589	17.4%	21,778	10.4%
Recurring customers	69,286	57.4%	32,954	78.9%	102,240	62.9%	146,027	91.7%	40,654	82.6%	186,681	89.6%
Total:	<u>120,707</u>	<u>100.0%</u>	<u>41,755</u>	<u>100.0%</u>	<u>162,462</u>	<u>100%</u>	<u>159,216</u>	<u>100.0%</u>	<u>49,243</u>	<u>100.0%</u>	<u>208,459</u>	<u>100%</u>

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Revenue breakdown by geographical area

We sold our products principally to Eastern China and Southern China regions. The following table sets out, for the periods indicated, the percentage breakdown of sales of our products by the location of the customers for the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2013		2014		2015		2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
<i>(unaudited)</i>										
<i>Plywood</i>										
Eastern China region ⁽¹⁾	95,369	63.9	190,368	76.0	199,664	70.2	73,263	60.7	125,156	78.6
Southern China region ⁽²⁾	19,266	12.9	17,785	7.1	64,396	22.7	34,746	28.8	29,856	18.8
Southwest China region ⁽³⁾	1,266	0.9	2,909	1.2	8,681	3.1	2,882	2.4	—	—
Central China region ⁽⁴⁾	10,710	7.2	11,234	4.5	6,556	2.3	6,076	5.0	192	0.1
Northern China region ⁽⁵⁾	22,529	15.1	28,208	11.2	4,801	1.7	3,740	3.1	3,863	2.4
Northwest China region ⁽⁶⁾	—	—	—	—	106	0.0	—	—	—	—
Northeast China region ⁽⁷⁾	32	0.0	—	—	—	—	—	—	149	0.1
Total:	<u>149,172</u>	<u>100.0</u>	<u>250,504</u>	<u>100.0</u>	<u>284,204</u>	<u>100.0</u>	<u>120,707</u>	<u>100.0</u>	<u>159,216</u>	<u>100.0</u>
<i>Biomass wood pellets</i>										
Eastern China region ⁽¹⁾	16,913	100.0	53,782	80.9	63,806	66.0	27,294	65.4	28,019	56.9
Southern China region ⁽²⁾	—	—	11,209	16.8	29,952	31.0	13,224	31.7	20,122	40.9
Central China region ⁽⁴⁾	—	—	1,527	2.3	2,898	3.0	1,237	2.9	1,102	2.2
Total:	<u>16,913</u>	<u>100.0</u>	<u>66,518</u>	<u>100.0</u>	<u>96,656</u>	<u>100.0</u>	<u>41,755</u>	<u>100.0</u>	<u>49,243</u>	<u>100.0</u>

Notes:

- (1) Eastern China region comprises provinces such as Anhui Province, Fujian Province, Jiangxi Province, Jiangsu Province, Shandong Province, Shanghai and Zhejiang Province.
- (2) Southern China region comprises Guangdong Province.
- (3) Southwest China region comprises Chongqing, Sichuan Province and Yunnan Province.
- (4) Central China region comprises provinces such as Henan Province and Hubei Province.
- (5) Northern China region comprises provinces such as Beijing and Hebei Province.
- (6) Northwest China region comprises Shaanxi Province.
- (7) Northeast China region comprises Liaoning Province.

Our sales of both products are more concentrated in Eastern China and Southern China regions. For the years ended 31 December 2013, 2014 and 2015 and six months ended 30 June 2016, approximately 79.2%, 86.2%, 94.0% and 97.5% of total revenue in respective periods derived from Eastern China and Southern China regions. One of the main reasons for such concentration was because many PRC's manufacturing companies, some of which are our downstream customers for the plywood products, have their production plants located in Eastern China and Southern China regions.

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In addition, some of our new customers for plywood products and biomass wood pellets were referred by our existing customers and are located closely or at the same cities to their referral customers, so it is a chain reaction to further expand the business size in Eastern China and Southern China regions. We expect Eastern China and Southern China regions will still be our focused regions on sales in the foreseeable future.

Revenue breakdown by customers' industries/types of product usages by customers

The following table illustrates the breakdown of our Group's total revenue by the customers' industries/type of product usage by our customers for the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2013		2014		2015		2015		2016	
	RMB'000	% RMB'000	RMB'000	% RMB'000	RMB'000	% RMB'000	RMB'000	% RMB'000	RMB'000	%
	<i>(unaudited)</i>									
<i>Plywood</i>										
Furniture manufacturers	47,884	32.1	106,298	42.4	118,177	41.6	51,858	43.0	60,937	38.3
Trading companies	7,465	5.0	30,535	12.2	67,602	23.8	24,893	20.6	37,718	23.7
Equipment manufacturers	49,865	33.4	55,298	22.1	49,161	17.3	21,847	18.1	35,992	22.6
Decoration / renovation companies	42,043	28.2	47,678	19.0	21,395	7.5	13,620	11.3	17,867	11.2
Packing material production companies	—	—	2,767	1.1	14,856	5.2	4,609	3.8	4,540	2.8
Others ⁽¹⁾	1,915	1.3	7,928	3.2	13,013	4.6	3,880	3.2	2,162	1.4
	<u>149,172</u>	<u>100.0</u>	<u>250,504</u>	<u>100.0</u>	<u>284,204</u>	<u>100.0</u>	<u>120,707</u>	<u>100.0</u>	<u>159,216</u>	<u>100.0</u>
<i>Biomass wood pellets</i>										
Fuel — end users	7,768	45.9	48,810	73.4	87,859	90.9	36,813	88.2	46,202	93.8
Trading companies	9,145	54.1	17,708	26.6	8,797	9.1	4,942	11.8	3,041	6.2
	<u>16,913</u>	<u>100.0</u>	<u>66,518</u>	<u>100.0</u>	<u>96,656</u>	<u>100.0</u>	<u>41,755</u>	<u>100.0</u>	<u>49,243</u>	<u>100.0</u>

(1) Others include ceramics manufacturers, art craft manufacturers and audio equipment manufacturers.

We do not focus or promote a particular type of plywood products, nor focus on particular types of customers. Generally, our Group sells the plywood products to the customers from different industries at similar gross profit margin. There is no material difference in gross profit margin between sales of plywood products to trading companies and to other customers. During the Track Record Period, for our plywood products, customers which are furniture manufacturers contributed to a significant portion of the revenue for plywood product business. Approximately 32.1%, 42.4%, 41.6% and 38.3% of the revenue from plywood product business derived from furniture manufacturers for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 respectively. During the years ended 31 December 2013, 2014 and 2015, the number of trading companies increased

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from 5 for the year ended 31 December 2013, to 10 for the year ended 31 December 2014 and then to 19 for the year ended 31 December 2015. During the six months ended 30 June 2016, the number of trading companies was 8. These trading companies on-sell our plywood to other downstream users with or without processing. In addition, two of our trading companies as our plywood customers increased their purchase orders, which together contributed approximately 10.7% of our total revenue for the year ended 31 December 2015. During the six months ended 30 June 2016, there was an increase of revenue of approximately RMB12.8 million from trading companies as compared to the revenue for the six months ended 30 June 2015. Such increase was mainly contributed by one trading company customer, which was also one of our top five customers for the year ended 31 December 2015 and for the six months ended 30 June 2016. It is to the belief of our Directors that such increase in revenue by that top customer was mainly due to timing difference in placing orders as compared to the year ended 31 December 2015. There is no material difference in gross profit margin between sales of plywood products to trading companies and to other customers. The revenue generated from our equipment manufacturer customers were approximately RMB49.9 million, RMB55.3 million, RMB49.2 million and RMB36.0 million for the years ended 31 December 2013, 31 December 2014 and 31 December 2015 and the six months ended 30 June 2016. The revenue from equipment manufacturer customers was relatively stable for the years ended 31 December 2013, 2014 and 2015 but with the substantial increase in our total revenue for the corresponding years, the proportion to our total revenue decreased overall. The revenue from equipment manufacturer customers increased by approximately RMB14.1 million, or approximately 64.7%, for the six months ended 30 June 2016 when compared with that for the six months ended 30 June 2015. Such increase in revenue was mainly contributed by the increased number of equipment manufacturer customers from 16 to 22.

For our biomass wood pellets, it was designed as a relatively cleaner product to replace traditional products, such as coal. It is our strategy to promote such products to the end users to maximise our profit margin as well as to build up a stronger direct relationship with customers for a more long-term business purpose. One of the plans of our Group to achieve such long-term business purpose is to utilise approximately 4.6% of the net proceeds from the initial public offering in developing a technical support team to assist customers in using biomass wood pellets in a more efficient and cost effective way. During the Track Record Period, there were certain customers with trading business for biomass wood pellets which contributed to a smaller portion of our revenue, amounting only approximately 9.1% of the total revenue of our biomass wood pellets for the year ended 31 December 2015, dropped from approximately 54.1% for the year ended 31 December 2013. Such decrease was mainly due to our promotion to the end user customers, instead of the trading companies. Certain customers included in the group of our trading customers for the biomass wood pellets are also manufacturers of similar types of biomass wood pellets. Since they have limited production capacity to meet the demand from their own customers, they source biomass wood pellets from us when necessary to resell to their own customers. For the six months ended 30 June 2016, the revenue of our biomass wood pellets from trading customers dropped by approximately 38.5% as compared to the amount for the six months ended 30 June 2015, from approximately RMB4.9 million to approximately RMB3.0 million.

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Pricing

Prices are quoted in RMB. Our Group has adopted a pricing policy largely based on production costs, profit margin and market price of similar products, taking into account factors, such as costs of major raw materials, the prices of which may fluctuate from time to time. Generally, our Group can pass on part of or all of the production cost to the customers when the cost of raw materials increases for both of our plywood products and biomass wood pellets.

The following table sets forth the approximate sales volume and range of selling price of our plywood products during the Track Record Period:

	Year ended 31 December				Six months ended 30 June			
	2013		2014		2015		2016	
	<i>Range of selling price</i>	<i>Volume</i>	<i>Range of selling price</i>	<i>Volume</i>	<i>Range of selling price</i>	<i>Volume</i>	<i>Range of selling prices</i>	<i>Volume</i>
	(RMB)	(m ³)	(RMB)	(m ³)	RMB	(m ³)	(RMB)	(m ³)
Plywood								
Furniture board	1,737-4,785	42,523	2,285-4,996	75,011	2,285-4,905	81,470	1,755-4,666	33,517
Ecological plywood	2,267-8,374	11,744	2,632-8,494	5,890	2,584-8,614	14,430	2,622-5,053	14,802
Hardwood multi-layered board	3,254-6,891	<u>1,964</u>	3,350-6,783	<u>10,063</u>	3,466-5,679	<u>6,789</u>	3,641-5,679	<u>6,717</u>
		<u>56,231</u>		<u>90,964</u>		<u>102,689</u>		<u>55,036</u>

For our plywood products, our Group offers three types of plywood products with fixed length and width, but different thickness for our customers. The standard length is 2.44 meters while the standard width is 1.22 meters. The thickness normally ranges from 2.4 millimeters to 25.0 millimeters. Our Group produces plywood products based on the purchase orders with specific size of products and other specifications such as moisture content requirements and water resistance placed by the customers. It is mainly the thickness which causes the difference in price among same type of plywood products. Generally, the thicker the plywood products charges less per cube meters, because we achieve efficiency in the use of raw materials for producing thicker plywood products, resulting in a lower production costs and thus pricing for a lower amount yet still being able to maintain the same level of gross profit percentage. Other specifications also cause different production costs, for example, stricter moisture contents requirement requires a more complicated production process which may increase the production costs and which in turn increases the selling prices.

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The following table sets forth the approximate sales volume and average selling price^(Note) of our biomass wood pellets during the Track Record Period:

	Year ended 31 December				Six months ended 30 June			
	2013		2014		2015		2016	
	Average selling price		Average selling price		Average selling price		Average selling prices	
	(RMB)	(Ton)	(RMB)	(Ton)	(RMB)	(Ton)	(RMB)	(Ton)
Biomass wood pellets	810.2	<u>24,552</u>	843.6	<u>76,323</u>	836.5	<u>119,822</u>	<u>843.6</u>	<u>62,367</u>

Note: Prior to March 2015, we offered delivery services to the customers which resulted in a range of selling prices charged for different purchase orders from customers in different regions. The above average selling prices are calculated based on the total selling price after deduction of the delivery cost.

For biomass wood pellets, our Group offers only one standard product. Prior to March 2015, our Group offered to the customers the delivery services of the biomass wood pellets products to the locations designated by the customers. For customers who opted to use our delivery arrangement, the cost of delivery was taken into account when pricing the products, resulting in a range of selling prices charged for different purchase orders from customers in different regions. Furthermore, we determined the level of premium added to the selling prices after considering various factors, such as the size of the purchase order and the distance of the delivery locations from our production plant. The delivery costs charged by the transportation companies varied mainly according to the distance of delivery. During the Track Record Period, the delivery cost of our biomass wood pellets ranged from approximately RMB117 per ton for delivery to cities in Zhejiang Province to approximately RMB300 for delivery to cities in Fujian Province.

Cost of sales

For the years ended 31 December 2013, 2014 and 2015, and the six months ended 30 June 2016, our total cost of sales amounted to approximately RMB131.0 million, RMB242.0 million, RMB297.4 million and RMB162.5 million respectively. Cost of sales represents our direct costs of production, which primarily consists of raw materials, direct labour and manufacturing overhead. Manufacturing overhead includes utilities, depreciation, repair and maintenance and other expenses. Raw materials mainly comprise poplar wood, poplar plywood cores, veneers and glue while direct labour cost represents wages and other employee benefits granted to our manufacturing employees.

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The following table sets forth a breakdown of our Group's total cost of sales by major production cost items for both plywood products and biomass wood pellets products during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2013		2014		2015		2015		2016	
	RMB'000	% RMB'000	RMB'000	% RMB'000	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
<u>Plywood</u>										
Raw materials	107,031	88.1	186,522	88.3	214,373	89.9	89,565	88.6	114,360	90.6
Direct labour	7,925	6.5	13,520	6.4	13,663	5.7	6,826	6.8	6,563	5.2
Production overhead	<u>6,582</u>	5.4	<u>11,117</u>	5.3	<u>10,497</u>	4.4	<u>4,658</u>	4.6	<u>5,327</u>	4.2
Total cost of production	<u>121,538</u>	100.0	<u>211,159</u>	100.0	<u>238,533</u>	100.0	<u>101,049</u>	100.0	<u>126,250</u>	100.0
Changes in work in progress and finished goods	<u>(212)</u>		<u>(7,050)</u>		<u>(9,635)</u>		<u>(3,835)</u>		<u>611</u>	
Cost of goods sold	121,326		204,109		228,898		97,214		126,861	
Other taxes and levies	603		1,155		1,693		856		610	
Cost of sales	<u>121,929</u>		<u>205,264</u>		<u>230,591</u>		<u>98,070</u>		<u>127,471</u>	
<u>Biomass wood pellets</u>										
Raw materials	10,205	70.6	32,806	78.0	57,202	85.1	21,929	83.2	32,052	85.6
Direct labour	1,062	7.3	2,312	5.5	1,967	2.9	956	3.6	1,123	3.0
Production overhead	<u>3,198</u>	22.1	<u>6,940</u>	16.5	<u>8,083</u>	12.0	<u>3,470</u>	13.2	<u>4,273</u>	11.4
Total cost of production	<u>14,465</u>	100.0	<u>42,058</u>	100.0	<u>67,252</u>	100.0	<u>26,355</u>	100.0	<u>37,448</u>	100.0
Internal consumption	(1,843)		(3,411)		(3,964)		(1,635)		(1,975)	
Changes in work in progress and finished goods	<u>(3,530)</u>		<u>(2,111)</u>		<u>2,781</u>		<u>2,994</u>		<u>(741)</u>	
Cost of goods sold	9,092		36,536		66,069		27,714		34,732	
Other taxes and levies	20		185		710		323		310	
Cost of sales	<u>9,112</u>		<u>36,721</u>		<u>66,779</u>		<u>28,037</u>		<u>35,042</u>	
<i>Total cost of sales</i>	<u>131,041</u>		<u>241,985</u>		<u>297,370</u>		<u>126,107</u>		<u>162,513</u>	

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Cost of raw materials are the most significant items in our production costs for both plywood products and biomass wood pellets for the Track Record Period. There is a stable mix of production costs for plywood products for the Track Record Period while the proportion of the cost of raw materials to the total production costs for biomass wood pellets increased for the Track Record Period. The main reason for such increase was the proportion of the free supplies of wood residues generated during the production process of our plywood products for the production of biomass wood pellets products decreased for the Track Record Period. The following table sets forth a breakdown of the source of raw materials for the production of biomass wood pellets products for the Track Record Period:

	Year ended 31 December						Six months ended 30 June				
	2013		2014		2015		2015		2016		
	<i>Tons</i>	%	<i>Tons</i>	%	<i>Tons</i>	%	<i>Tons</i>	%	<i>Tons</i>	%	
							<i>(unaudited)</i>				
Supplies of wood residues											
- from outside suppliers	51,512	75.2	125,651	85.8	198,842	91.0	84,201	91.6	104,697	90.0	
- internally from production line of our plywood products	16,984	24.8	20,769	14.2	19,571	9.0	7,719	8.4	11,629	10.0	
	<u>68,496</u>	<u>100.0</u>	<u>146,420</u>	<u>100.0</u>	<u>218,413</u>	<u>100.0</u>	<u>91,920</u>	<u>100.0</u>	<u>116,326</u>	<u>100.0</u>	

The amounts of wood residues generated during the production process of our plywood products generally remained at a similar level for the Track Record Period. The growth rate of the sales of our biomass wood pellets for the years ended 31 December 2014 and 2015 are approximately 293.3% and 45.3% respectively, and the growth rate for the six months ended 30 June 2016 was approximately 17.9% as compared with the six months ended 30 June 2015. Therefore, there was limited wood residues that can be sourced internally, resulting a larger proportion of wood residues sourced from outside suppliers, resulting a higher cost of raw materials during the Track Record Period.

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The following table sets forth the sensitivity on the impact of hypothetical fluctuation in the average unit purchase price of our major raw materials and the average employee benefit expenses on our net profit for the Track Record Period, assuming all other factors affecting our net profit remaining constant.

	Year ended 31 December			Six months
	2013	2014	2015	ended 30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Average unit purchase price of major raw materials increased/(decreased) by:				
2%	(2,888)	(5,091)	(6,009)	(3,347)
1%	(1,444)	(2,546)	(3,004)	(1,674)
(1%)	1,444	2,546	3,004	1,674
(2%)	2,888	5,091	6,009	3,347
Average employee benefit expenses increased/(decreased) by:				
2%	(176)	(282)	(285)	(151)
1%	(88)	(141)	(143)	(75)
(1%)	88	141	143	75
(2%)	176	282	285	151

This sensitivity analysis contains certain hypothetical information, which is determined with reference to the CAGR of the average unit purchase price of major raw materials and average employee benefit expenses for the Track Record Period, and you should not place reliance on this information or analysis.

Other taxes and levies included in cost of sales represent surtaxes, such as urban maintenance and construction tax, educational surtax and construction fund for water resources charged by the local taxation bureaus. The charged amount is based on the amount of the value-added tax charged to our customers for the sales of our products, which is equivalent to 17% of our revenue earned for the Track Record Period, and therefore the increase in other taxes and levies are in line with the growth in the revenue amount.

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Raw material purchases

The following table sets forth the breakdown of our Group's total raw material purchases during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	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>									
<u>For plywood production</u>										
Poplar logs and poplar plywood cores	99,332	81.5	129,098	75.1	168,019	77.6	68,890	76.3	100,466	76.7
Veneers	12,405	10.2	24,889	14.5	30,097	13.9	13,020	14.4	19,926	15.2
Glue	7,041	5.8	11,778	6.9	11,408	5.3	5,278	5.8	5,787	4.4
Flour	3,059	2.5	6,046	3.5	6,861	3.2	3,151	3.5	4,799	3.7
	<u>121,837</u>	<u>100.0</u>	<u>171,811</u>	<u>100.0</u>	<u>216,385</u>	<u>100.0</u>	<u>90,339</u>	<u>100.0</u>	<u>130,978</u>	<u>100.0</u>
<u>For biomass wood pellets production</u>										
Wood residues	<u>12,070</u>	<u>100.0</u>	<u>35,085</u>	<u>100.0</u>	<u>64,249</u>	<u>100.0</u>	<u>24,988</u>	<u>100.0</u>	<u>31,409</u>	<u>100.0</u>

For the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, our purchases on raw material for production of plywood products comprises mainly poplar logs, poplar plywood cores, veneers and glue, which accounted for approximately 97.5%, 96.5%, 96.8% and 96.3% respectively of total purchases of raw materials for production of plywood products. Poplar plywood cores can be produced internally from poplar logs and whether poplar plywood cores are produced internally or purchased from external suppliers depends on the availability of the internal resource for such production. In addition, we purchase wood residues as raw materials for production of biomass wood pellets. As mentioned in paragraphs above, a portion of the wood residues are sourced internally from our production line of plywood products and no production costs are allocated. Poplar logs are purchased to produce poplar plywood cores internally for those internally sourced wood residues. For the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016, approximately 24.8%, 14.2%, 9.0% and 10.0% of the wood residues were sourced internally from our own production of plywood products.

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The following table sets forth our average unit purchase prices of our major raw materials for our plywood products and biomass wood pellets:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
				<i>(unaudited)</i>	
<i>Plywood</i>					
Poplar logs (per cubic meter)	688.7	704.0	713.7	717.6	714.2
Poplar plywood cores (per sheet)	8.7	7.4	8.5	8.3	8.2
Veneers (per sheet)	4.7	5.8	5.6	5.0	7.3
Glue (per kg)	1.7	1.6	1.5	1.5	1.6
Flour (per kg)	2.5	2.4	2.3	2.4	2.3
<i>Biomass wood pellets</i>					
Wood residues (corporate suppliers) (per ton)	300.0	302.2	300.3	298.5	300.0
Wood residues (individual suppliers) (per ton)	233.7	191.4	191.4	191.4	—

For the Track Record Period, the major change on the purchase costs for our raw materials was the wood residues from the individual suppliers for the years ended 31 December 2013 and 2014. We commenced our biomass wood pellets production in 2013 and during our initial start-up stage, we experienced some challenges in exploring and securing stable supply of good quality of wood residues from individual suppliers at reasonable price, and it resulted in a higher purchase cost at the beginning. Wood residues supplied from individual suppliers were also with lower quality, containing some non-wood impurities and therefore the utilisation rate during production was relatively lower. In respect of it, we continued exploring a better source of wood residues supply and then we started sourcing wood residues from corporate suppliers. Although the unit purchase cost is higher for the corporate supplier, the quality is better than those supplied by individual suppliers, resulting in a higher utilisation rate during our production process. Therefore, we shifted to rely on corporate suppliers for the supply of wood residues. The supply of wood residues from corporate suppliers contributed to approximately 0.9%, 79.3%, 99.4% and 100.0% of our total purchase of wood residues for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 respectively.

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Gross Profit and Profit Margin

The following table sets forth our gross profit margin by product type for the Track Record Period:

	Years ended 31 December						Six months ended 30 June			
	2013		2014		2015		2015		2016	
	Gross profit <i>RMB'000</i>	Gross profit margin %	Gross profit <i>RMB'000</i>	Gross profit margin %	Gross profit <i>RMB'000</i>	Gross profit margin %	Gross profit <i>RMB'000</i>	Gross profit margin %	Gross profit <i>RMB'000</i>	Gross profit margin %
	<i>(unaudited)</i>									
<i>Plywood</i>										
Furniture board	20,162	18.3	33,765	17.5	39,263	18.5	15,813	18.2	16,255	18.6
Ecological plywood	5,573	17.5	3,058	17.7	8,347	18.8	3,922	19.1	9,316	20.8
Hardwood multi-layered board	<u>1,508</u>	20.7	<u>8,417</u>	21.0	<u>6,003</u>	21.9	<u>2,902</u>	21.7	<u>6,174</u>	22.9
Subtotal:	27,243	18.3	45,240	18.1	53,613	18.9	22,637	18.8	31,745	19.9
<i>Biomass wood pellets</i>	<u>7,801</u>	46.1	<u>29,797</u>	44.8	<u>29,877</u>	30.9	<u>13,718</u>	32.9	<u>14,201</u>	28.8
Total:	<u>35,044</u>	21.1	<u>75,037</u>	23.7	<u>83,490</u>	21.9	<u>36,355</u>	22.4	<u>45,946</u>	22.0

Our gross profit increased by approximately RMB40.0 million, or approximately 114.1% from approximately RMB35.0 million for the year ended 31 December 2013 to approximately RMB75.0 million for the year ended 31 December 2014. Our gross profit further increased by approximately RMB8.5 million, or approximately 11.3%, to approximately RMB83.5 million for the year ended 31 December 2015. For the six months ended 30 June 2016, the gross profit increased by approximately RMB9.6 million, or approximately 26.4%, to approximately RMB45.9 million from approximately RMB36.4 million for the six months ended 30 June 2015. The increase in the gross profit during the Track Record Period was generally in line with the growth in revenue of our Group.

The changes in the overall gross profit margin of our Group during the Track Record Period was mainly due to the change in sales mix of our products having different levels of gross profit margin percentage. Steady gross profit margin was maintained for each of the plywood products for the Track Record Period. For biomass wood pellets, we changed our delivery policy that no more delivery service was arranged for the customers since March 2015. Such change in the delivery arrangement was mainly because of feedbacks from some of our customers that they have preferences in deploying their own transportation teams for a more cost effective delivery of our biomass wood pellets to their designated locations. Accordingly, some delivery expenses have been saved, as we bore some of the delivery costs for delivering our biomass wood pellets to those customers who opted to use our delivery arrangement prior to March 2015, but we charged a lower price to the customers since March 2015, resulting in a drop in the selling price and gross profit margins for our biomass wood pellets for the year ended 31 December 2015. For a better analysis on the impact of other factors to the gross profit margin of our biomass wood pellets, and also for better comparison of the gross profit margin

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across years during the Track Record Period, the delivery expenses incurred for biomass wood pellets, which was recorded as our selling and distribution expenses for the Track Record Period, is now considered below as a component of our newly calculated cost of sales for analysis (the “**Adjusted Cost of Sales**”).

Accordingly, a newly calculated gross profit and gross profit margin (the “**Adjusted Gross Profit**” and “**Adjusted Gross Profit Margin**” respectively) are shown below:

	Year ended 31 December			Six months ended 30 June	
	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>	
Revenue — biomass wood pellets	16,913	66,518	96,656	41,755	49,243
Cost of sales	(9,112)	(36,721)	(66,779)	(28,037)	(35,042)
Delivery expenses	<u>(1,069)</u>	<u>(6,588)</u>	<u>(2,005)</u>	<u>(2,005)</u>	<u>—</u>
Adjusted Cost of Sales	<u>(10,181)</u>	<u>(43,309)</u>	<u>(68,784)</u>	<u>(30,042)</u>	<u>(35,042)</u>
Adjusted Gross Profit	<u>6,732</u>	<u>23,209</u>	<u>27,872</u>	<u>11,713</u>	<u>14,201</u>
Adjusted Gross Profit Margin	39.8%	34.9%	28.8%	28.1%	28.8%

For the change in the Adjusted Gross Profit Margin for the Track Record Period, one of the main reasons was the drop in the proportion of the free supplies of wood residues from our own production line of plywood products. There was a drop of approximately 10.6% and 5.2% for the years ended 31 December 2014 and 2015 respectively in the percentage of wood residues sourced internally from our own production line of plywood products when compared to the total volumes of wood residues consumed for production. Given raw material costs are the most significant item in the cost of production of our biomass wood pellets products, such drop in volume of free internal supplies of wood residues accounted for most of the drop in the Adjusted Gross Profit Margin. For the six months ended 30 June 2015 and 2016, since the proportion of free internal supplies of residues were at a similar level, there were no material difference for the Adjusted Gross Profit Margin. In addition, we shifted sourcing raw materials from corporate suppliers for a better quality of wood residues during the Track Record Period, resulting in a higher production cost.

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Other income

The table below sets forth our other income during the Track Record Period:

	Year ended 31 December			Six months ended	
	2013	2014	2015	30 June	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Refund of value-added tax	—	1,586	5,877	2,374	3,519
Sales of poplar core	2,225	1,092	1,399	542	881
Write-off of aged advanced payments from customers	—	—	—	—	395
Foreign exchange differences, net	—	—	—	51	—
Income from government grant	306	26	28	12	11
Others	71	1	—	—	48
	<u>2,602</u>	<u>2,705</u>	<u>7,304</u>	<u>2,979</u>	<u>4,854</u>

The value-added tax arising from sales of biomass wood pellets is refunded to our Group according to the policy enacted by the State Administration of Taxation of the PRC. We are entitled to such refund in accordance with the Notice No. 115 [2011] issued by the Ministry of Finance, State Administration of Taxation of the PRC, which is to support the state policy of saving resources and protecting the environment. Upon periodic submission of certain reports and documents for verification and approval by the Economic and Information Technology Committee of Shandong Province, we are entitled to refund of the paid value-added tax with no other conditions attached. Given there has been no expiry date set for such refund policy, we expect receiving further refund of value-added tax arising from the sales of our biomass wood pellets in the foreseeable future. Income from such refund of value-added tax increased during the year ended 31 December 2015 and for the six months ended 30 June 2016 as compared with 30 June 2015 as a result of the increase in sales of biomass wood pellets during the corresponding periods.

The income from government grant of RMB0.3 million earned for the year ended 31 December 2013 represented the grant without recourse from the Chengwu County Forestry Bureau in support of the technology upgrade of our Group's plywood business. There was another Government grant of RMB0.5 million received during the year ended 31 December 2013 in support of our extension of the production capacity of our plywood products. Such grant is without recourse and was recorded as deferred income, and then is amortised as income throughout the useful life of the extended production capacity of our plywood products. All government grants received during the Track Record Period have no conditions attached. Given the government grants received during the Track Record Period were one-off in nature, there is no certainty that we will receive the same government grant or other government grants in the future.

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There was income arising from write-off of some aged advanced payments from customers of approximately RMB0.4 million for the six months ended 30 June 2016.

During the production of poplar plywood cores from poplar logs through peeling, poplar cores were kept upon completion of peeling of each poplar log which were then sold to outside parties, which are independent third parties. The level of income generating from such sales of poplar cores depends on the internal production volume of poplar plywood cores from poplar logs.

Other losses

Other losses mainly comprise foreign exchange loss, loss from disposal of property, plant and equipment and bank charges.

Selling and distribution expenses

Selling and distribution expenses primarily consist of employee benefits expenses, delivery expenses, and advertising and promotion expenses. Same as the analysis for the gross profit margin of our biomass wood pellets product, the delivery expenses incurred for our biomass wood pellets products is taken out from the selling and distribution expenses for analysis purpose. The following table sets forth the breakdown of the selling and distribution expenses and the newly calculated selling and distribution expenses (the “Adjusted Selling and Distribution Expenses”) for the Track Record Period:

	Year ended 31 December			Six months ended	
	2013	2014	2015	30 June	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Employee benefit expenses	442	554	789	335	361
Delivery expenses	1,069	7,452	2,122	2,040	—
Advertising and promotion expenses	86	179	4	4	12
Others	<u>123</u>	<u>37</u>	<u>31</u>	<u>20</u>	<u>118</u>
Total selling and distribution expenses	<u>1,720</u>	<u>8,222</u>	<u>2,946</u>	<u>2,399</u>	<u>491</u>
Less: Delivery expenses for biomass wood pellets products	(1,069)	(6,588)	(2,005)	(2,005)	—
Adjusted Selling and Distribution Expenses	<u>651</u>	<u>1,634</u>	<u>941</u>	<u>394</u>	<u>491</u>

Adjusted Selling and Distribution Expenses represented approximately 0.4%, 0.5%, 0.2% and 0.2% of total revenue of our Group for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 respectively.

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Employee benefits expenses represent the payroll costs, including basis salaries and social welfare contributions, incurred for the sales team of our Group's plywood products and biomass wood pellets for the Track Record Period. Increase in the employee benefits expenses during the Track Record Period is mainly because of the expansion of the sales team to support the business growth of our Group.

Administrative expenses

The table below sets forth, for the period indicated, the components of our administrative expenses:

	Year ended 31 December			Six months ended 30 June	
	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	—	—	7,522	1,262	3,216
Research and development expenses	2,591	4,052	4,453	2,245	2,934
Employee benefit expenses	2,503	2,752	3,743	1,610	2,082
Other taxes and levies	467	1,395	1,417	732	794
Depreciation	436	634	794	376	374
Traveling expenses	484	472	722	300	326
Land use rights	299	478	506	253	253
Others	<u>1,310</u>	<u>2,198</u>	<u>1,418</u>	<u>534</u>	<u>867</u>
Total administrative expenses	<u>8,090</u>	<u>11,981</u>	<u>20,575</u>	<u>7,312</u>	<u>10,846</u>

Administrative expenses mainly consist of listing expenses, research and development expenses, employee benefits expenses, other taxes and levies, depreciation expenses, transportation expenses and land use rights expenses.

Administrative expenses represented approximately 4.9%, 3.8%, 5.4% and 5.2% of total revenue of our Group for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016. The major components of administrative expenses comprise listing expenses, research and development expenses and employee benefits expenses, which in total represented 63.0%, 56.8%, 76.4% and 75.9% of our total administrative expenses for the Track Record Period. Listing expenses mainly comprises legal and professional fees charged by professional parties for the preparation of the initial public offering of the shares of the Company. Listing expenses are non-recurring in nature and after excluding it from the administrative expenses, it demonstrates a decreasing trend of the administrative as a percentage of total revenue, representing 4.9%, 3.8%, 3.4% and 3.7% of total revenue of our Group for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016. Such decrease was the effect of the economy of scale of the management cost for the expanding business.

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During the Track Record Period, our Group increased its expenditure on research and development function. It was mainly to support the development of our plywood products based on requests from our newly secured customers. The change in the level of expenditure on such research and development function was in line with our growth in sales of our plywood products.

Employee benefits expenses comprise basic salaries and social welfare contributions for senior management and our administrative employees.

Land use rights expenses represent the amortized portion of the prepaid land lease costs for the land area in Chengwu County, Shandong Province utilised by our Group for the production plant and also the administrative office for the Track Record Period.

Other taxes and levies expenses represented urban land use tax, property tax and stamp duty charged by local tax bureau for the Track Record Period.

Depreciation expenses were costs of our office premises, employee dormitories and the office equipment for the administrative employees recorded for the Track Record Period using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

There were other administrative expenses such as office supplies costs, utilities expenses, and repair and maintenance expenses incurred for the Track Record Period.

Finance income and expenses

During the Track Record Period, our Group had bank balances deposited in financial institutions located both in the PRC and in Hong Kong, bank borrowings arranged with several banks in the PRC and also finance lease arrangements in the PRC for the machinery installed in the production line for plywood products during the year ended 31 December 2014.

For the Track Record Period, our Group earned interest income from the fund deposited in financial institutions, and our Group incurred finance expenses for the bank borrowings and also the finance lease. The following table sets forth the breakdown of the finance expenses for the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	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>
Finance expenses arising from bank borrowings	599	3,861	4,592	2,498	1,937
Finance expenses arising from finance lease	—	887	836	470	255
	<u>599</u>	<u>4,748</u>	<u>5,428</u>	<u>2,968</u>	<u>2,192</u>

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Increase in finance expenses for the years ended 31 December 2014 and 2015 was mainly due to increase in average bank borrowings for the respective years. Decrease in finance expense for the six months ended 30 June 2016 was mainly due to the drop in the average bank borrowings as well as drop in the average interest rate enacted by the financial institutions to our Group during the period.

Income tax expense

Income tax expense comprises current and deferred tax. Our business is principally carried out in PRC and we are mainly subject to the PRC enterprise income tax during the Track Record Period. The statutory tax rate of the PRC enterprise income tax for the Track Record Period was 25%.

We have paid or provided for all relevant income taxes for the Track Record Period and there were no disputes or unresolved tax issues with the relevant tax authorities.

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six months ended 30 June 2016 compared to six months ended 30 June 2015

Revenue

Our total revenue increased by approximately RMB46.0 million or 28.3% from approximately RMB162.5 million for the six months ended 30 June 2015 to approximately RMB208.5 million for the six months ended 30 June 2016. The increase in overall revenue was mainly due to the increase on (i) our sales of ecological board of approximately RMB24.3 million, (ii) sales of hardwood multi-layered board of approximately RMB13.6 million, and (iii) sales of biomass wood pellets of approximately RMB7.5 million, in the relevant period in 2016.

The increase of sales was mainly contributed by increased purchase orders from our existing customers, and some of those existing customers were newly secured during the second half of the year ended 31 December 2015, contributing additional revenue to the six months ended 30 June 2016 as compared to the six months ended 30 June 2015.

Cost of sales

Our cost of sales increased by approximately RMB36.4 million, or approximately 28.9% from approximately RMB126.1 million for the six months ended 30 June 2015 to approximately RMB162.5 million for the six months ended 30 June 2016. The change on our cost of sales was mainly attributable to the increase in purchase of the raw materials. Such increase was primarily due to the increase in sales volume, resulting a larger cost on purchase of raw materials, larger direct labor costs and production overheads.

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Gross profit and gross profit margin

Our overall gross profit margin dropped from approximately 22.4% for the six months ended 30 June 2015 to approximately 22.0% for the six months ended 30 June 2016. The drop in the gross profit margin was mainly because of an increased proportion of revenue from plywood products, which have lower gross profit margin than biomass wood pellets, and also the drop in the gross profit margin of biomass wood pellets from approximately 32.9% for the six months ended 30 June 2015 to approximately 28.8% for the six months ended 30 June 2016. The reason for the drop in the gross profit margin of biomass wood pellets was mainly because of the change in the delivery arrangements for the biomass wood pellets during the year ended 31 December 2015. Please refer to the “Gross profit and gross profit margin” section above for the details about the change in delivery arrangement and the corresponding impact to the gross profit margin. The gross profit margin for plywood products and the Adjusted Gross Profit Margin of our biomass wood pellets remains at a similar level for the six months ended 30 June 2015 and 2016.

Other income

Other income increased by approximately RMB1.9 million, or approximately 62.9%, from approximately RMB3.0 million for the six months ended 30 June 2015 to approximately RMB4.9 million for the six months ended 30 June 2016. The increase in balance was mainly because of (i) an increase in refund of value-added tax as a result of the increase in sales of biomass wood pellets, (ii) an increase in income from sales of poplar cores as a result of more internal production of poplar plywood cores from poplar logs during the six months ended 30 June 2016, thus generating more poplar cores, and (iii) income from write-offs of some aged advanced payments from customers during the six months ended 30 June 2016.

Selling and distribution expenses

As explained in paragraphs above, for our better comparison on the selling and distribution expenses across the Track Record Period, the delivery expenses for our biomass wood pellets is taken out, and the Adjusted Selling and Distribution Expenses are analyzed herein. Our Adjusted Selling and Distribution Expenses mainly comprise employee benefits expenses for our sales team and also some advertising and promotion expenses. The Adjusted Selling and Distribution Expenses for the six months ended 30 June 2015 and 2016 are approximately RMB0.4 million and RMB0.5 million respectively. The Adjusted Selling and Distribution Expenses remained steady across the periods.

Administrative expenses

Our administrative expenses increased by approximately RMB3.5 million, or approximately 48.3%, from approximately RMB7.3 million for the six months ended 30 June 2015 to approximately RMB10.8 million for the six months ended 30 June 2016. The increase was mainly attributable to increase in the non-recurring listing expenses of approximately RMB2.0 million, increase in our research and development expenses of approximately RMB0.7 million and increase in our employee benefits expenses of approximately RMB0.5 million for the six months ended 30 June 2016. The

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listing expenses were incurred in relation to the preparation of the proposed listing of the Company since early 2015. The increase in the research and development expenses was mainly for supporting the development of our plywood products based on requests from customers of our plywood products.

Finance expenses

Our finance costs decreased by approximately RMB0.8 million, or approximately 26.1% from approximately RMB3.0 million for the six months ended 30 June 2015 to approximately RMB2.2 million for the six months ended 30 June 2016. The decrease in finance expenses was primarily due to the decrease in average borrowings and the decrease in the average interest rate enacted by the financial institutions to our Group for the six months ended 30 June 2016.

Income tax expenses

Income tax expenses increased by approximately RMB3.3 million, or approximately 46.6%, from approximately RMB7.0 million for the six months ended 30 June 2015 to approximately RMB10.3 million for the six months ended 30 June 2016. There was no change in the applicable tax rate across the periods. The increase was primarily due to an increase in the profit before income tax of our Group for the six months ended 30 June 2016.

Profit for the year

Our Group's net profit increased by approximately RMB7.1 million, or approximately 36.3%, from approximately RMB19.6 million for the six months ended 30 June 2015 to approximately RMB26.8 million for the six months ended 30 June 2016. The increase of our net profit was in line with the increase in revenue and gross profit of our Group for the same period.

Year ended 31 December 2015 compared to the year ended 31 December 2014

Revenue

Our total revenue increased by approximately RMB63.8 million or 20.1%, from approximately RMB317.0 million for the year ended 31 December 2014 to approximately RMB380.9 million for the year ended 31 December 2015. The increase in overall revenue was mainly due to the increase on (i) sales of furniture board of approximately RMB19.3 million, (ii) sales on ecological board of approximately RMB27.0 million and (iii) sales on biomass wood pellets of approximately RMB30.1 million.

The increase of the sales was mainly achieved through securing some new customers with large purchase orders during the year ended 31 December 2015, some of which were through referrals by our existing customers. Out of our top 10 customers for the year ended 31 December 2015, four of them are newly secured customers.

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Cost of sales

Our cost of sales increased by approximately RMB55.4 million, or approximately 22.9% from approximately RMB242.0 million for the year ended 31 December 2014 to approximately RMB297.4 million for the year ended 31 December 2015. The change on our cost of sales was attributable to the increase in purchase of the raw materials. Such increase was primarily due to the increase in sales volume, resulting a larger cost on purchase of raw materials, larger direct labor costs and production overheads.

Gross profit and gross profit margin

Our gross profit margin dropped from approximately 23.7% for the year ended 31 December 2014 to approximately 21.9% for the year ended 31 December 2015. The decrease in our gross profit margin was attributable to the drop in the gross profit margin for our biomass wood pellets from approximately 44.8% for the year ended 31 December 2014 to approximately 30.9% for the year ended 31 December 2015. In spite of an increased proportion of sales are from our more profitable biomass wood pellets, it could not offset with the impact from its drop in Adjusted Gross Profit Margin during the year ended 31 December 2015. The gross profit margin for biomass wood pellets was adjusted by taking into account the delivery expenses incurred for purpose of better comparison across years. Please refer to paragraphs headed “Gross profit and profit margin” above for the calculation of the Adjusted Gross Profit Margin. The gross profit margin for plywood products remained at a similar level for the years ended 31 December 2014 and 2015. The drop in Adjusted Gross Profit Margin for biomass wood pellets products is mainly attributable to a smaller proportion of free supply of wood residues from our own production line of plywood products as well as a more costly but higher quality of wood residues were purchased for a larger portion from corporate suppliers instead of individual suppliers.

Other income

Other income increased by approximately RMB4.6 million, or approximately 170%, from approximately RMB2.7 million for the years ended 31 December 2014 to approximately RMB7.3 million for the year ended 31 December 2015. The increase in balance was mainly due to increase in refund of value-added tax in relation to the sales of our biomass wood pellets products, which is in proportion to the sales of biomass wood pellets products.

Other losses

Other losses decreased by approximately RMB149,000, or approximately 45.6% from approximately RMB327,000 for the year ended 31 December 2014 to approximately RMB178,000 for the year ended 31 December 2015. There was a loss from the disposal of items of property, plant and equipment in relation to the production line of plywood products, amounting approximately RMB218,000 for the year ended 31 December 2014 and no such loss was incurred for the year ended 31 December 2015, resulting in a decrease in other losses for the year ended 31 December 2015.

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Selling and distribution expenses

As explained in paragraphs above, for our better comparison on the selling and distribution expenses across the Track Record Period, the delivery expenses for our biomass wood pellets is taken out, and the Adjusted Selling and Distribution Expenses are analyzed herein. Our Adjusted Selling and Distribution Expenses mainly comprised employee benefits expenses for our sales team and also some advertising and promotion expenses. The Adjusted Selling and Distribution Expenses for the years ended 31 December 2014 and 2015 were approximately RMB1.6 million and RMB0.9 million respectively. The Adjusted Selling and Distribution Expenses remained steady for the years ended 31 December 2014 and 2015.

Administrative expenses

Our administrative expenses increased by approximately RMB8.6 million, or approximately 71.7%, from approximately RMB12.0 million for the year ended 31 December 2014 to approximately RMB20.6 million for the year ended 31 December 2015. The increase was mainly attributable to the non-recurring listing expenses of approximately RMB7.5 million, increase in our employee benefits expenses of approximately RMB1.0 million, increase in our research and development expenses of approximately RMB0.4 million and increase in our depreciation expense of approximately RMB0.2 million for the year ended 31 December 2015. The listing expenses were incurred in relation to the preparation of the proposed listing of the Company during the year ended 31 December 2015. The increase in the research and development expenses were mainly for supporting the development of our plywood products based on requests from our newly secured customers during the year ended 31 December 2015. The increase in depreciation was mainly due to the full-year impact of depreciation in relation to the staff dormitories in Shandong, which started into use in July 2014.

There was a decrease in other administrative expenses, which was mainly due to some non-recurring expenses incurred for the newly used staff dormitories in Shandong during the year ended 31 December 2014.

Finance expenses

Our finance costs increased by approximately RMB0.7 million, or approximately 14.3% from approximately RMB4.7 million for the year ended 31 December 2014 to approximately RMB5.4 million for the year ended 31 December 2015. The increase in finance expenses was primarily due to an increase in average borrowings for the year ended 31 December 2015.

Income tax expenses

Income tax expenses increased by approximately RMB2.9 million, or approximately 21.3%, from approximately RMB13.6 million for the year ended 31 December 2014 to approximately RMB16.4 million for the year ended 31 December 2015. There is no change in the applicable tax rate during the year ended 31 December 2015. The increase was primarily due to an increase in the profit before income tax of our Group for the year ended 31 December 2015.

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Profit for the year

Our Group's net profit increased by approximately RMB6.3 million, or approximately 16.2% from net profit of approximately RMB38.9 million for the year ended 31 December 2014 to approximately RMB45.2 million for the year ended 31 December 2015. The increase of our net profit was in line with the increase in revenue and gross profit of our Group for the same year with the reasons stated above.

Year ended 31 December 2014 compared to the year ended 31 December 2013

Revenue

Our total revenue increased by approximately RMB150.9 million or 90.9%, from approximately RMB166.1 million for the year ended 31 December 2013 to approximately RMB317.0 million for the year ended 31 December 2014. The increase in overall revenue was mainly due to the increase on (i) sales of furniture board of approximately RMB83.2 million, (ii) sales on hardwood multi-layered board of approximately RMB32.7 million and (iii) sales on biomass wood pellets of approximately RMB49.6 million.

The increase of the sales was mainly achieved through securing a sizable number of new customers for both plywood products and biomass wood pellets during the year ended 31 December 2014. There were 112 new customers secured during the year ended 31 December 2014 for our plywood products, representing 124.4% of the number of customers for the year ended 31 December 2013. One of the reasons for our great success in broadening the customer base during the year ended 31 December 2014 was our expansion of the sales team of our Group, for which the staff headcount increased from 13 as at 31 December 2013 to 19 as at 31 December 2014.

Cost of sales

Our cost of sales increased by approximately RMB111.0 million, or approximately 84.7% from approximately RMB131.0 million for the year ended 31 December 2013 to approximately RMB242.0 million for the year ended 31 December 2014. The change on our cost of sales was attributable to the increase in purchase of the raw materials. Such increase was primarily due to the increase in sales volume, resulting a larger cost on purchase of raw materials, larger direct labour costs and production overheads.

Gross profit and gross profit margin

Our gross profit increased by approximately RMB40.0 million, or approximately 114.1% from approximately RMB35.0 million for the year ended 31 December 2013 to approximately RMB75.0 million for the year ended 31 December 2014. Our gross profit margin increased from approximately 21.1% for the year ended 31 December 2013 to approximately 23.7% for the year ended 31 December 2014. The increase in our gross profit margin was contributed by increased sales for our more profitable biomass wood pellets for the year ended 31 December 2014. The gross profit margin for plywood products remains at a similar level for the years ended 31 December 2013 and 2014 while we recorded a drop of approximately 4.9%, from approximately 39.8% for the year ended 31

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December 2013 to approximately 34.9% for the year ended 31 December 2014 for the Adjusted Gross Profit Margin of biomass wood pellets. The gross profit margin for biomass wood pellets products is adjusted by taking into account the delivery expenses incurred for purpose of better comparison across years. Please refer to paragraphs above for the calculation of the Adjusted Gross Profit Margin. The drop in Adjusted Gross Profit Margin for biomass wood pellets was mainly attributable to a smaller proportion of free supply of wood residues from our own production line of plywood products as well as a more costly but higher quality of wood residues were purchased for a larger portion from corporate suppliers instead of individual suppliers.

Other income

Other income remained at a similar level for the years ended 31 December 2013 and 2014. The existence of the refund of value-added tax in relation to the sales of our biomass pellets during the year ended 31 December 2014 was partially offset by the decrease in the drop in sales of poplar cores during the year ended 31 December 2014. In addition, there was a non-incurring income of approximately RMB0.3 million from Government grant from Forestry Department of Heze City for the year ended 31 December 2013 and there was no such income for the year ended 31 December 2014.

Other losses

Other losses increased by approximately RMB259,000, or approximately 380.9% from approximately RMB68,000 for the year ended 31 December 2013 to approximately RMB327,000 for the year ended 31 December 2014. The increase was mainly due to the loss from the disposal of items of property, plant and equipment in relation to the production line of plywood products, amounting approximately RMB218,000.

Selling and distribution expenses

As explained in paragraphs headed “Selling and distribution expenses” above, for our better comparison on the selling and distribution expenses across the Track Record Period, the delivery expenses for our biomass wood pellets products is taken out, and the Adjusted Selling and Distribution Expenses are analysed herein. Our Adjusted Selling and Distribution Expenses mainly comprised employee benefits expenses for our sales team and also some advertising and promotion expenses. The Adjusted Selling and Distribution Expenses for the years ended 31 December 2013 and 2014 are approximately RMB0.7 million and RMB1.6 million respectively. The slightly increase in the Adjusted Selling and Distribution Expenses for the year ended 31 December 2014 was mainly due to some delivery costs incurred for delivery of plywood products to certain customers as mutually agreed with the customers on a case-by-case basis.

Administrative expenses

Our administrative expenses increased by approximately RMB3.9 million, or approximately 48.1%, from approximately RMB8.1 million for the year ended 31 December 2013 to approximately RMB12.0 million for the year ended 31 December 2014. The increase was mainly attributable to an increase in employee benefit expenses of approximately of RMB0.2 million, research and development expenses of approximately RMB1.5 million, other taxes and levies of approximately of

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RMB 0.9 million, depreciation expenses of approximately RMB0.2 million, land use rights of approximately RMB0.2 million and also other administrative expenses, such as office supplies costs, utilities expenses and repair and maintenance expenses, of approximately RMB1.0 million for the year ended 31 December 2014. The increase in the research and development expenses were mainly for supporting the development of our plywood products based on requests from our newly secured customers during the year ended 31 December 2014. The increase in other taxes and levies was mainly because of an additional land leased and buildings constructed in Shandong, for the expansion of production capacity for plywood products and additional production line for biomass wood pellets, resulting in more urban land use tax and property tax charged by local tax bureau for the year ended 31 December 2014. The increase in depreciation was mainly due to the newly built employees' dormitories in Shandong, which started into use in July 2014. The increase in land use rights expenses was mainly because of the additional land leased in Chengwu County, Shandong Province, as mentioned above, resulting in a larger prepaid land lease amount amortized to the income statement for the year ended 31 December 2014. The increase in other administrative expenses was mainly due to expansion in our business size, resulting in more supportive costs incurred for the administration function of our Group, and also some non-recurring expenses incurred for the newly used employees' dormitories during the year ended 31 December 2014.

Finance expenses

Our finance costs increased by approximately RMB4.1 million, or approximately 692.7% from approximately RMB0.6 million for the year ended 31 December 2013 to approximately RMB4.7 million for the year ended 31 December 2014. The increase in finance expenses was primarily due to an increase in total borrowings of approximately RMB33.0 million as compared to the year ended 31 December 2013, and also the finance expenses arising from the finance lease arranged for the machinery installed in the production line for plywood products during the year ended 31 December 2014.

Income tax expenses

Income tax expenses increased by approximately RMB6.7 million, or approximately 98.1%, from approximately RMB6.8 million for the year ended 31 December 2013 to approximately RMB13.6 million for the year ended 31 December 2014. There was no change in the applicable tax rate during the year ended 31 December 2014. The increase was primarily due to an increase in profit before income tax of our Group for the year ended 31 December 2014.

Profit for the year

Our Group's net profit increased by approximately RMB18.6 million, or approximately 91.5% from net profit of approximately RMB20.3 million for the year ended 31 December 2013 to approximately RMB38.9 million for the year ended 31 December 2014. The increase of our net profit was in line with the increase in revenue and gross profit of our Group for the same year with the reasons stated above.

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LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Our finance department closely monitors our cash flow position to ensure we have sufficient working capital available to meet the operational needs. Our finance department takes into account our trade receivables, trade payables, cash on hand, repayment of bank borrowings, administrative and capital expenditures to prepare our cash flow forecast to forecast our Group's future financial liquidity.

Cash flow

The following table is a summary of our consolidated statements of cash flows for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	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	(20,455)	(5,737)	101,242	96,753	(20,352)
Net cash used in investing activities	(47,422)	(15,530)	(25,031)	(9,549)	(1,734)
Net cash generated from/(used in) financing activities	71,028	19,721	(69,964)	(76,512)	21,405
Net increase/(decrease) in cash and cash equivalents	3,151	(1,546)	6,247	10,692	(681)
Cash and cash equivalents at beginning of year	1,154	4,305	2,759	2,759	9,006
Cash and cash equivalents at end of year	<u>4,305</u>	<u>2,759</u>	<u>9,006</u>	<u>13,451</u>	<u>8,325</u>

Cash flow from operating activities

Net cash generated from or used in operating activities primarily consist of profit before taxation adjusted for non-cash items, such as net loss from disposal of property, plant and equipment, depreciation and amortisation and the effect of changes in working capital. We derive our cash inflows from operating activities principally from the sales of our plywood products and biomass wood pellets products. Our cash used in operations principally comprises purchases of raw materials used in production, utilities charges, payments of other taxes as well as employees' costs.

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For the six months ended 30 June 2016, our net cash flow used in operating activities was approximately RMB20.4 million, comprising mainly cash used in operations of approximately RMB12.7 million, interest paid of approximately RMB1.9 million and income tax paid of approximately RMB5.7 million. During the six months ended 30 June 2016, we had net cash outflows from our operating activities for the reasons that the sales of plywood products and biomass wood pellets were increased and we used more cash for maintaining a higher level of raw materials for the upcoming production plans, while most of the corresponding trade receivables amount from the increased sales remained outstanding as at 30 June 2016. The change in working capital included in our cash used in operations for the six months ended 30 June 2016 which primarily consisted of (i) an increase in trade and other receivables of approximately RMB50.2 million; (ii) an increase in inventory balance of approximately RMB12.5 million; and (iii) an increase in trade and other payables of approximately RMB6.0 million. The increase in trade and other receivables was primarily due to the increase of the trade receivable balances of approximately RMB48.2 million as a result of the expansion of plywood products and biomass wood pellets businesses during the six months ended 30 June 2016, resulting an increase in revenue of approximately RMB46.0 million. Despite an increase in the trade receivable balance, we achieved an improved trade receivables turnover days from approximately 73 days for the six months ended 30 June 2015 to approximately 62 days for the six months ended 30 June 2016.

For the year ended 31 December 2015, our net cash flow generated from operating activities was approximately RMB101.2 million, comprising the cash inflow from operations of approximately RMB117.9 million, interest paid of approximately RMB4.6 million and income tax paid of approximately RMB12.1 million. Our cash inflow from working capital primarily consisted of (i) a decrease in trade and other receivables of approximately RMB66.1 million; (ii) a decrease in trade and other payables of approximately RMB10.9 million; and (iii) an increase in inventory level of approximately RMB10.2 million, when compared with the previous year. The decrease in trade and other receivables was primarily due to the improvements in collecting the outstanding balances from our customers, especially for those aged balances. The decrease in trade and other payables was mainly due to settlement to suppliers for the purchase of raw materials.

For the year ended 31 December 2014, our net cash flow used in operating activities was approximately RMB5.7 million, comprising the cash inflow from operations of approximately RMB7.0 million, interest paid of approximately RMB3.9 million and income tax paid of approximately RMB8.9 million. During the year ended 31 December 2014, we had net cash outflow from our operating activities for the reasons that the sales of plywood products and biomass wood pellets were significantly increased, and we used more cash for purchasing raw materials but the trade receivables from the increased sales remained outstanding during the year. Our cash inflow from working capital primarily consisted of (i) an increase in trade and other receivables balance of approximately RMB92.0 million; (ii) an increase in trade and other payables of approximately RMB28.9 million; and (iii) a decrease in inventory level of approximately RMB7.4 million, when compared with the previous year. The increase in trade and other receivables was primarily due to aged outstanding balances from certain customers. The increase in trade and other payables was mainly due to our rescheduling of payments to suppliers to mitigate the negative impact to our cash flows from delay in settling our billed amounts from certain customers. The decrease in inventory level was primarily due to more raw materials purchased and stored in the production plants as at 31 December 2013 after receiving some purchase orders for plywood products which required the finished goods to be delivered to the customers in January 2014.

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For the year ended 31 December 2013, our net cash flow used in operating activities was approximately RMB20.5 million, comprising the cash outflow to the operations of approximately RMB16.2 million, interest paid of approximately RMB0.6 million and income tax paid of approximately RMB3.6 million. During the year ended 31 December 2013, we had net cash outflow from our operating activities for the reason that we launched biomass wood pellets and also experienced a significant growth on the sales of plywood products, and therefore we used more cash for purchase of raw materials for production but the trade receivable balances from those increased sales were still outstanding during the year. Our cash outflow to working capital primarily consisted of (i) an increase in trade and other receivables of approximately RMB28.3 million; and (ii) an increase in inventory level of approximately RMB18.5 million, when compared with the previous year. The increase in trade and other receivables was primarily due to the development of plywood business and the launch of biomass wood pellets in March 2013, resulting an increase in the sales volume and the corresponding increase in receivables from customers when compared to the balance as at 31 December 2012. The increase in trade and other payables was mainly due to the increase in outstanding balances to suppliers in relation to the purchase of raw materials for production as a result of our increased sales volume during the year, and the increase in inventory level was primarily due to more raw materials purchased and stored in the production plant as at 31 December 2013, as mentioned in the paragraph above.

Cash flow used in investing activities

Cash outflow from investing activities during the Track Record Period consisted of cash used in the purchase of property, plant and equipment and the payment for the purchase of land use rights.

For the six months ended 30 June 2016, our cash outflow to investing activities was approximately RMB1.7 million, which arose from the repayment for the finance lease obligations in relation to machinery purchased for the production line of plywood products during the year ended 31 December 2014.

For the year ended 31 December 2015, our net cash outflow to investing activities was approximately RMB25.0 million. The cash outflow arises from the payment for the outstanding balance brought forwarded from the year 2014 in relation to the expansion of production capacity for plywood products and the setup of additional production line for biomass wood pellets.

For the year ended 31 December 2014, our net cash outflow to investing activities was approximately RMB15.5 million. The cash outflow arises from the payment of approximately RMB12.3 million for the expansion of production capacity for plywood products and the setup of additional production line for biomass wood pellets product, and also the payment of approximately RMB3.4 million for the land use rights of an additional piece of land in Heze City, Shandong Province leased for the setup of an additional production line of biomass wood pellet.

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For the year ended 31 December 2013, our net cash outflow to investing activities was approximately RMB47.4 million. The cash outflow arose from the payment of the followings items:

- approximately RMB4.4 million for an additional land in Heze City, Shandong Province leased for the expansion of additional capacity of plywood products;
- approximately RMB10.6 million for the construction of the additional production plant for plywood products;
- approximately RMB6.2 million for a land in Heze City, Shandong Province leased for the setup of the first production line of biomass wood pellets; and
- approximately RMB26.2 million for the setup of two production lines for our biomass wood pellets.

Cash flow used in/from financing activities

Cash flow used in/from financing activities during the Track Record Period mainly represented the net effects of changes in bank borrowing balances and advances from/repayment to Mr. Ke.

For the six months ended 30 June 2016, our net cash inflow from financing activities of approximately RMB21.4 million was primarily due to the net impact of an increase in bank borrowing of RMB23 million and payment to professional parties of approximately RMB1.9 million for the services rendered in relation to the initial public offering of the shares of our Company during the six months ended 30 June 2016.

During the year ended 31 December 2015, our net cash outflow from financing activities of approximately RMB70.0 million mainly comprised the net repayment of bank borrowings of RMB19.0 million and net repayment to Mr. Ke of approximately RMB53.2 million.

During the year ended 31 December 2014, our net cash inflows from financing activities of approximately RMB19.7 million mainly comprised the net additional bank borrowings of RMB33.0 million and net repayment to Mr. Ke of approximately RMB19.2 million.

During the year ended 31 December 2013, our net cash inflows from financing activities of approximately RMB71.0 million mainly comprised the net additional bank borrowings of RMB22.0 million and advances from Mr. Ke of approximately RMB44.1 million.

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CAPITAL EXPENDITURES

Our capital expenditures principally consisted of expenditures on plants and buildings, and machinery and equipment. We incurred capital expenditures of approximately RMB54.0 million, RMB23.5 million, RMB0.2 million, RMB0.1 million and nil respectively for the years ended 31 December 2013, 2014 and 2015, for the six months ended 30 June 2015 and the six months ended 30 June 2016 respectively. The following table sets forth our historical capital expenditures during the Track Record Period:

	Year ended 31 December			Six months ended 30 June	
	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>	
Plant and machinery	929	15,790	13	13	—
Furniture, fittings and equipment	305	219	125	116	—
Vehicles	236	—	50	—	—
Construction in progress	<u>52,564</u>	<u>7,481</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>54,034</u>	<u>23,490</u>	<u>188</u>	<u>129</u>	<u>—</u>

The capital expenditure incurred for the year ended 31 December 2013 was primarily related to the construction of extra production facilities for the plywood products. The capital expenditure incurred for the year ended 31 December 2014 was primarily related to the construction of extra production facilities for the biomass wood pellets together with the related machinery and equipment, as well as machinery and equipment installed on the extra production facilities for the production of plywood products.

WORKING CAPITAL

Taking into account of the net proceeds available to us from the Global Offering, our cash at bank and in hand, our available banking facilities and future operating cash flows, our Directors are of the opinion that we have sufficient working capital to meet our present and anticipated cash requirements for at least the next 12 months from the date of this prospectus.

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NET CURRENT LIABILITIES/ASSETS

Details of the current assets and liabilities as at the dates indicated are as follows:

	As at 31 December			As at	As at
	2013	2014	2015	30 June	31 October
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2016</i>	<i>2016</i>
				<i>RMB'000</i>	<i>RMB'000</i>
					<i>(unaudited)</i>
Current assets					
Trade and other receivables	34,701	126,682	61,690	111,850	109,803
Inventories	31,662	24,307	34,523	47,036	48,641
Cash and cash equivalents	<u>4,305</u>	<u>2,759</u>	<u>9,006</u>	<u>8,325</u>	<u>15,830</u>
Total current assets	<u>70,668</u>	<u>153,748</u>	<u>105,219</u>	<u>167,211</u>	<u>174,274</u>
Current liabilities					
Trade and other payables	103,757	117,472	32,708	39,010	25,283
Current income tax liabilities	5,626	10,698	15,389	19,778	15,692
Borrowings	<u>32,000</u>	<u>68,342</u>	<u>49,789</u>	<u>72,333</u>	<u>75,688</u>
Total current liabilities	<u>141,383</u>	<u>196,512</u>	<u>97,886</u>	<u>131,121</u>	<u>116,663</u>
Net current assets/(liabilities)	<u>(70,715)</u>	<u>(42,764)</u>	<u>7,333</u>	<u>36,090</u>	<u>57,611</u>

We recorded net current liabilities of approximately RMB70.7 million and RMB42.8 million as at 31 December 2013 and 2014 respectively, and recorded net current assets of approximately RMB7.3 million, RMB36.1 million and RMB57.6 million as at 31 December 2015, 30 June 2016 and 31 October 2016 respectively.

The net current liabilities of our Group as at 31 December 2013 and 2014 were mainly attributable to the capital investments for the production plants of our plywood products and biomass wood pellets using the short-term funds advanced from Mr. Ke to our Group, which were repayable on demand by Mr. Ke. With no significant capital expenditures for the year ended 31 December 2015, for the six months ended 30 June 2016 and also for the period from 1 July 2016 to 31 October 2016, together with operating profits earned for those periods, the financial position of our Group turned around and recorded net current assets as at 31 December 2015, 30 June 2016 and 31 October 2016.

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Inventory

Our inventories comprise raw materials, work in progress and finished goods. Raw materials principally represent poplar logs, poplar plywood cores, veneers, glue, flour and wood residues. Work in progress represents poplar plywood cores that are being processed in our production facilities. Finished goods refer to our produced plywood products and biomass wood pellets. The following table sets out our inventory items as at the respective reported date.

	As at 31 December			As at
	2013	2014	2015	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	19,082	8,045	11,593	23,976
Work-in-progress	6,619	3,933	9,750	9,238
Finished goods	<u>5,961</u>	<u>12,329</u>	<u>13,180</u>	<u>13,822</u>
	<u>31,662</u>	<u>24,307</u>	<u>34,523</u>	<u>47,036</u>

The level of storage of raw materials is normally determined based on the estimated production plan in the following one to two months. The relatively large amount of raw materials as at 31 December 2013 and 30 June 2016 were mainly due to a batch of poplar plywood cores just produced internally closed to the end of the reporting periods but not yet utilised for production of plywood products as at the end of the reporting periods. Those poplar plywood cores were prepared for the production plans in the following one to two months, and all of them have been consumed for the production within two months subsequent to 30 June 2016.

The following table sets forth the details of the finished goods by products:

	As at 31 December			As at
	2013	2014	2015	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Plywood products	2,917	6,553	10,097	9,997
Biomass wood pellets	<u>3,044</u>	<u>5,776</u>	<u>3,083</u>	<u>3,825</u>
	<u>5,961</u>	<u>12,329</u>	<u>13,180</u>	<u>13,822</u>

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The production cycle for plywood products is generally 15 days to 30 days while the production cycle for biomass wood pellets is generally 1 day for approximately 384 tons. For plywood products, since the production plan is based on purchase orders placed by customers, the level of finished goods maintained by our Group varies depending on the timing of the purchase orders from customers but the fluctuation of the level of the finished goods is generally in line with the growth of our revenue from plywood products. For our biomass wood pellets, given the production cycle is shorter and it is a standard product, a lower level of finished goods can be maintained to sustain the sales cycle.

As at the Latest Practicable Date, all of our inventories as at 30 June 2016 were consumed or sold subsequently.

Inventory turnover days

The following table sets forth, for the periods indicated, to the inventory turnover days.

	For the years ended 31 December			For the six months ended 30 June
	2013	2014	2015	2016
Inventory turnover days (note)				
Plywood products	61	39	33	46
Biomass wood pellets	88	58	47	47

Note: Calculated as the average of inventory balance as at the beginning and end of the period, divided by the cost of sales in the period, multiplied by 365 days for the year-ended figures or 183 days for the six-month ended figure.

The inventory turnover days for both plywood products and biomass wood pellets dropped throughout the years ended 31 December 2013, 2014 and 2015. The inventory turnover days for plywood products increased for the six months ended 30 June 2016 as compared to the year ended 31 December 2015 while the inventory turnover days for biomass wood pellets remained the same for the six months ended 30 June 2016 as compared to the year ended 31 December 2015. For plywood products, since we produce based on the purchase orders with specific specifications on plywood products placed by our customers, the level of inventories mainly depends on the number and size of purchase orders received and therefore the inventory level may fluctuate from time to time, resulting in a less stable inventory turnover days throughout the Track Record Period. The drop of inventory turnover days for biomass wood pellets for the years ended 31 December 2013, 2014 and 2015 was mainly because the volume of finished goods of biomass wood pellets products are maintained at similar level in spite of the increase in sales for the years ended 31 December 2013, 2014 and 2015. Such inventory management is achieved by the relatively short production cycle of biomass wood pellets products that it can be produced within a short period of time once an increase in demand is identified, and therefore no significant level of stocks is needed.

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Trade and other receivables

Our trade and other receivables included trade receivables, deposits to suppliers, prepayments and other deposits. The following table sets out the breakdown of the trade and other receivables at the dates indicated:

	As at 31 December			As at
	2013	2014	2015	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	28,114	119,106	58,917	107,069
Prepayments for initial public offering	—	—	1,061	2,994
Other receivables	1,050	1,050	32	1,414
Prepayments for purchase of raw materials	<u>5,537</u>	<u>6,526</u>	<u>1,680</u>	<u>373</u>
	<u>34,701</u>	<u>126,682</u>	<u>61,690</u>	<u>111,850</u>

The trade receivable balance as at 31 December 2014 increased significantly. There were certain plywood customers having tight cash flows during the year ended 31 December 2014, resulting a delay in settling our billed amounts. Outstanding balance from those customers had been fully settled subsequently during the year ended 31 December 2015. Credit review has been performed on those customers and our management has terminated the business relationship with some of those customers thereafter.

Trade receivables turnover days

The following table sets out the trade receivables turnover days for the Track Record Period:

	For the year ended			For the six
	31 December			months
	2013	2014	2015	ended
				30 June
	2013	2014	2015	2016
Trade receivables turnover days (note)	32	72	73	62

Note: Calculated as the average of trade receivables balances as at the beginning and end of the period, exclusive of receivables in relation to value-added taxes, divided by revenue for the corresponding year/period, multiplied by 365 days for the year ended figures, or 183 days for the six-month ended figure.

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During the Track Record Period, the trade receivables turnover days were accounted between 32 days to 73 days. The trade receivables turnover days increased to 72 days for the year ended 31 December 2014 from 32 days for the year ended 31 December 2013. It remained similar for the years ended 31 December 2014 and 2015, and was shortened to approximately 62 days for the six months ended 30 June 2016.

The increase for the year ended 31 December 2014 in the trade receivables turnover days was mainly due to certain customers who had tight cash flows during the year ended 31 December 2014. In spite of those certain customers, approximately 66.2% of the trade receivables outstanding as at 31 December 2014 were aged within three months from the delivery of our products.

Given there was an impact from those customers brought forward from the year ended 31 December 2014 on the opening balance of trade receivables as at 1 January 2015, the trade receivables turnover days for the year ended 31 December 2015 remained similar despite the fact that the trade receivables balance as at 31 December 2015 was much smaller. It also helps to explain for the drop in the turnover days for the six months ended 30 June 2016 as compared to the turnover days for the year ended 31 December 2015.

Aging analysis of the trade receivables

	2013		As at 31 December				As at 30 June	
	RMB'000	%	2014	2015	2016			
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Within three months	26,665	94.8	78,823	66.2	50,335	85.5	82,870	77.4
Four to six months	936	3.3	29,759	25.0	4,893	8.3	17,596	16.5
Six to twelve months	489	1.8	10,524	8.8	2,493	4.2	5,935	5.5
Over 1 year	<u>24</u>	0.1	<u>—</u>	—	<u>1,196</u>	2.0	<u>668</u>	0.6
	<u>28,114</u>	100.0	<u>119,106</u>	100.0	<u>58,917</u>	100.0	<u>107,069</u>	100.0

The trading terms with our customers are mainly on credit, non-interest-bearing and with credit term of generally up to 90 days after the date of delivery of goods. We have adopted stringent credit control procedures and we monitor our working capital on an on-going basis to minimise potential credit risks. All aged outstanding balances are monitored and followed up closely by our finance team and also our senior management, mainly through direct communication to the management of our customers with aged outstanding balances, and a proposed settlement plan is normally requested during such communication for our consideration. Based on the information obtained, our Directors are of the view that all aged outstanding balances as at 31 December 2013, 2014 and 2015, and as at 30 June 2016 were recoverable and therefore no provision for bad debt is required.

As at the Latest Practicable Date, our trade receivables of approximately 88.4% as at 30 June 2016 were settled subsequently.

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Trade and other payables

Trade payables arise from the purchase of raw materials from our suppliers. Other payables and accruals mainly consist of advances from customers, amounts due to related parties, payable for construction projects and purchase of property, plant and equipment, other taxes payable, employee benefit payables, listing fees payable and other payables. The following table sets out the breakdown of the trade and other payables at the dates indicated:

	As at 31 December			As at
	2013	2014	2015	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	<u>5,686</u>	<u>24,403</u>	<u>7,665</u>	<u>19,715</u>
Other payables				
Payables for purchase of property, plant and equipment	16,872	20,820	153	153
Employee benefits payables	5,582	8,812	11,366	11,135
Other taxes payables	1,197	7,295	2,982	2,296
Advanced payments from customers	1,093	1,433	2,872	76
Listing fees	—	—	5,089	3,998
Others	<u>937</u>	<u>1,496</u>	<u>2,581</u>	<u>1,299</u>
	<u>25,681</u>	<u>39,856</u>	<u>25,043</u>	<u>18,957</u>
	<u>31,367</u>	<u>64,259</u>	<u>32,708</u>	<u>38,672</u>

The credit terms granted by suppliers of raw materials are generally 0 days to 90 days and we normally settle the outstanding balances within the credit period. The trade payable balances as at 31 December 2014 and as at 30 June 2016 were exceptionally high. One of the main reasons for such significant balance as at 31 December 2014 was because certain customers had delayed in settling our billed amounts during the year ended 31 December 2014 and management mitigated the impact of such delay to our cash flow by prioritising payments to suppliers and also negotiating with suppliers for extended credit period, resulting a larger trade payable balance as at 31 December 2014. For the significant trade payables balance as at 30 June 2016, it was mainly because of purchasing a large amount of raw materials during June 2016 for the production plans in July 2016 and August 2016. All raw materials held by our Group as at 30 June 2016 have been fully utilised for production subsequently.

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The other payables balance mainly comprises payables for purchase of property, plant and equipment, and employee benefit payables as at 31 December 2013 and 2014. Our Group had settled most of the payables to the suppliers of property, plant and equipment during the year ended 31 December 2015, resulting a significant drop in other payables as at 31 December 2015 as compared to the balance as at 31 December 2014.

There is an increase of RMB 3.2 million, or approximately 57.9% in the payable amount for employee benefits as at 31 December 2014 as compared to the balance as at 31 December 2013, and a further increase of RMB2.6 million, or approximately 29.7% as at 31 December 2015 as compared to the balance as at 31 December 2014. Increase in balance was mainly due to increase in staff headcounts from 425 as at 31 December 2013 to 549 as at 31 December 2014, and then further to 595 as at 31 December 2015. The staff headcounts slightly increased to 622 as at 30 June 2016 and therefore the payable amount for employee benefits as at 30 June 2016 remained at a similar level as compared to the payable amount as at 31 December 2015.

There were listing fees payables to professional parties in respect of professional fees charged for the services engaged for initial public offering of our Group as at 31 December 2015 and 30 June 2016.

As at the Latest Practicable Date, our trade payables of approximately 94.0% as at 30 June 2016 were settled subsequently.

Amount due to a shareholder

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Amount due to a shareholder:				
- Mr. Ke	<u>72,390</u>	<u>53,213</u>	<u>—</u>	<u>338</u>

The amount due to Mr. Ke mainly represents funds advanced from Mr. Ke as working capital of our Group. The amount due to Mr. Ke during the Track Record Period was unsecured, interest-free and repayable on demand. Our Group will settle all outstanding balances to Mr. Ke upon Listing.

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Aging analysis of the trade payables

The following table sets forth an aging analysis of our trade payables, including outstanding balances for each period as a percentage of total outstanding balances, based on invoice dates as at the dates indicated.

	As at 31 December				As at 30 June			
	2013		2014		2015		2016	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Within three months	5,069	89.1	13,277	54.4	6,596	86.1	17,696	89.7
Four to six months	295	5.2	10,804	44.3	117	1.5	1,119	5.7
Six to twelve months	322	5.7	322	1.3	903	11.8	900	4.6
Over 1 year	—	—	—	—	49	0.6	—	—
	<u>5,686</u>	100.0	<u>24,403</u>	100.0	<u>7,665</u>	100.0	<u>19,715</u>	100.0

Our trade payables are non-interest-bearing and the credit period is normally 0 days to 90 days. Pursuant to the table given above, outstanding amounts to suppliers were normally settled closed to the credit periods, except for the payable balances as at 31 December 2014. As explained above, we prioritized payments to suppliers and also negotiated with suppliers for extended credit periods to mitigate the impact from the delay in settling our billed amounts from customers during the year ended 31 December 2014.

Trade payables turnover days

Our trade payables are payables generated from the purchase of raw materials, the following table sets out the trade payables turnover days for the Track Record Period.

	For the year ended		For the six	
	31 December		months ended	
	2013	2014	2015	2016
Trade payables turnover days (note)	19	19	17	13

Note: Calculated as the ending trade payables balances for the period, exclusive of receivables in relation to value-added taxes, divided by the cost of sales in the period, multiplied by 365 days for the year-ended figures, or by 183 days for the six-month ended figure.

During the Track Record Period, our overall trade payables turnover days are between 13 days and 19 days. Except for some certain delay in settling to suppliers during the year ended 31 December 2014, we managed to follow the credit terms granted by suppliers for most of the time during the Track Record Period.

FINANCIAL INFORMATION

INDEBTEDNESS

Borrowings

The following table sets forth, for the periods indicated, certain information relating to our total borrowings.

	As at 31 December			As at	As at
	2013	2014	2015	30 June	31 October
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2016</i>	<i>2016</i>
				<i>RMB'000</i>	<i>RMB'000</i>
					<i>(unaudited)</i>
Non-current portion					
Finance lease payables	<u>—</u>	<u>4,810</u>	<u>1,023</u>	<u>—</u>	<u>—</u>
Current portion					
Interest bearing bank borrowings					
Secured	25,000	58,000	46,000	63,000	68,000
Unsecured	7,000	7,000	—	6,000	6,000
Finance lease payables	—	3,342	3,789	3,333	1,688
Amount due to Mr. Ke	<u>72,390</u>	<u>53,213</u>	<u>—</u>	<u>338</u>	<u>287</u>
	<u>104,390</u>	<u>121,555</u>	<u>49,789</u>	<u>72,671</u>	<u>75,975</u>
Total borrowings	<u>104,390</u>	<u>126,365</u>	<u>50,812</u>	<u>72,671</u>	<u>75,975</u>

Bank borrowings during the Track Record Period were charged at both fixed and floating interest rates. As at 31 December 2013, 2014 and 2015, 30 June 2016 and 31 October 2016, bank borrowings were secured by our leasehold land, and property, plant and equipment, which in total amounting to RMB40.1 million, RMB71.7 million, RMB84.2 million, RMB82.9 million and RMB82.1 million as at 31 December 2013, 2014 and 2015, 30 June 2016 and 31 October 2016 respectively, and were also guaranteed by Mr. Cai, Mr. Zhang and Mr. Wu Zhibin, who are key management personnels of our Group. All guarantees provided by related parties of our Group in respect of our Group's short-term bank borrowings will be released upon Listing.

The finance lease arrangements are related to the purchase of machinery and equipment for the production of plywood products. The carrying amounts of machinery and equipment under such finance lease were approximately nil, RMB14.2 million, RMB13.4 million, RMB12.9 million and RMB12.6 million as at 31 December 2013, 2014 and 2015, 30 June 2016 and 31 October 2016 respectively.

FINANCIAL INFORMATION

The amounts of borrowings are repayable in accordance with scheduled repayment dates set out in loan agreements as follows:

	As at 31 December			As at	As at
	2013	2014	2015	30 June	31 October
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2016</i>	<i>2016</i>
				<i>RMB'000</i>	<i>RMB'000</i>
					<i>(unaudited)</i>
Within one year	32,000	68,342	49,789	72,333	75,975
In the second year	—	3,787	1,023	—	—
In the third to fifth years, inclusive	—	1,023	—	—	—
	<u>32,000</u>	<u>73,152</u>	<u>50,812</u>	<u>72,333</u>	<u>75,975</u>

Subsequent to 31 October 2016, our Group had an additional bank borrowing of RMB10 million bearing an annual interest rate of approximately 8.4%, which is repayable within one year.

As at the Latest Practicable Date, our Group had no unutilised banking facilities.

Interest rates for the borrowings

The following table sets out the range of interest rates on our bank borrowings as at 31 December 2013, 2014 and 2015, 30 June 2016 and 31 October 2016:

	As at 31 December			As at	As at
	2013	2014	2015	30 June	31 October
				<i>2016</i>	<i>2016</i>
Interest rates	7.8% - 8.7%	8.7% - 9.3%	6.0% - 9.3%	4.3% - 7.0%	4.3% - 8.4%

Our Directors confirm that the bank borrowings and bank facilities are subject to standard banking conditions and covenants and our Group had complied with all of the covenants under the bank borrowings and bank facilities during the Track Record Period and up to the Latest Practicable Date. Therefore, to the best knowledge and belief of our Directors, such debt covenants will not affect our ability to undertake additional debt or equity financing.

Save as disclosed in the paragraph headed “Indebtedness” in this section, our Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, borrowings or similar indebtedness, liabilities of acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchases or finance lease commitments, guarantees or other material contingent liabilities as of 31 October 2016, being the date for the preparation of the indebtedness statement. Our Directors confirm that save as disclosed in the paragraph headed “Indebtedness” in this section, there has not been any material change in our Group’s indebtedness since 31 October 2016 and up to the Latest Practicable Date.

FINANCIAL INFORMATION

MAJOR FINANCIAL RATIOS

	As at 31 December			As at
				30 June
	2013	2014	2015	2016
Current ratio ⁽⁴⁾	50.0%	78.2%	107.5%	127.5%
Quick ratio ⁽⁵⁾	27.6%	65.9%	72.2%	91.7%
Gearing ratio ⁽⁶⁾	242.4%	143.8%	37.2%	44.5%
Debt-to-equity ratio ⁽⁷⁾	232.4%	140.7%	30.6%	39.4%

	Year ended 31 December			Six months
				ended
	2013	2014	2015	30 June
Return on equity ⁽¹⁾	47.2%	44.3%	33.2%	16.4%
Return on total assets ⁽²⁾	11.0%	13.4%	19.2%	9.1%
Interest coverage ⁽³⁾	46.6	12.1	12.4	17.9

Notes:

- (1) Return on equity is calculated by dividing net profit of each of the financial years/period by total equity as at the end of each of the financial years or period.
- (2) Return on total assets is calculated by dividing net profit of each of the financial years/period by total asset as at the end of each of the financial years or period.
- (3) Interest coverage is calculated by profit before interest and tax divided by interest.
- (4) Current ratio is calculated by dividing current assets by current liabilities of each of the financial years or period.
- (5) Quick ratio is calculated by dividing current asset (net of inventories) by current liabilities of each of the financial years or period.
- (6) Gearing ratio is calculated by dividing total debt by total equity as at the end of each of the financial years or period.
- (7) Debt-to-equity ratio is calculated by dividing net debt (including amounts due to related parties, bank borrowings and obligation under finance lease net of cash and cash equivalent) by total equity as at the end of each of the financial years or period.

FINANCIAL INFORMATION

Current ratio

The current ratio increased from approximately 50.0% as at 31 December 2013 to approximately 78.2% as at 31 December 2014, further increased to approximately 107.5% as at 31 December 2015, and then increased to approximately 127.5% as at 30 June 2016. The continuous increase in the current ratio during the Track Record Period was mainly contributed the increase in our net working capital resulting from the operating profits earned during the Track Record Period. Such increase of our current ratio to exceed 100% was a good indication that our Group had made improvement on the net working capital and liquidity to sustain our business growth.

Quick ratio

The quick ratio increased from approximately 27.6% as at 31 December 2013 to 65.9% as at 31 December 2014, further increased to approximately 72.2% as at 31 December 2015, and then increased to approximately 91.7% as at 30 June 2016. The overall increase in quick ratio during the Track Record Period was contributed by similar reasons for the increase of current ratio during the Track Record Period. The improvement on the quick ratio during the Track Record Period also brought a positive indication that the Company had achieved improvement in its liquidity to sustain the growth.

Gearing ratio

As at 31 December 2013, 2014 and 2015, and 30 June 2016, our Group recorded a total debt of approximately RMB104.4 million, RMB126.4 million, RMB50.8 million and RMB72.7 million respectively, and a gearing ratio of approximately 242.4%, 143.8%, 37.2% and 44.5%.

The decrease in gearing ratio from 242.4% as at 31 December 2013 to 143.8% as at 31 December 2014 was mainly because of the increase in equity contributed by profit of approximately RMB38.9 million earned during the year ended 31 December 2014. The further decrease in gearing ratio to 37.2% as at 31 December 2015 was primarily due to the net repayment of approximately RMB53.2 million for the outstanding balance to Mr. Ke, the net repayment of RMB19.0 million for the bank borrowing and also the increase in equity contributed by the profit of approximately RMB45.2 million earned during the year ended 31 December 2015. The gearing ratio as at 30 June 2016 maintained at a similar level as compared to the ratio as at 31 December 2015 because the impact of the additional debt arranged during the six months ended 30 June 2016 was offset by the increase in equity contributed by the profit earned during the period.

Debt-to-equity ratio

Our debt-to-equity ratio dropped from 232.4% as at 31 December 2013 to 140.7% as at 31 December 2014, further dropped to 30.6% as at 31 December 2015, and then increased slightly to approximately 39.4% as at 30 June 2016. Given we maintained a relatively low balance of cash and bank balances on hand for the Track Record Period, our debt-to-equity ratio showed similar results to our gearing ratio and the reasons for the fluctuation are similar as well.

FINANCIAL INFORMATION

Return on equity

Our return on equity decreased from approximately 47.2% for the year ended 31 December 2013 to approximately 44.3% for the year ended 31 December 2014, and then further decreased to 33.2% for the year ended 31 December 2015. The decrease was mainly because the level of the shareholders' equity investment was relatively low at the initial development stage of our Group for the year ended 31 December 2013 and therefore the return rate was higher at the beginning, while it dropped when the shareholders' equity was increased through the yearly profit earned during the Track Record Period. Our return on equity for the six months ended 30 June 2016 was approximately 16.4%, for which the annualised return rate is in line with the rate for the year ended 31 December 2015.

Return on total assets

Our return on total assets increased from 11.0% for the year ended 31 December 2013 to 13.4% for the year ended 31 December 2014, and then further increased to 19.2% as at 31 December 2015. Despite our capital expenditure on the expansion on production capacity for both plywood products and the additional production line for biomass wood pellet during the year ended 31 December 2014 increasing our amount of total non-current assets, we had achieved a significant growth of profit for the year of approximately 91.5% for the year ended 31 December 2014 and thus we still achieved an improvement on the return on total assets for the year ended 31 December 2014. The increase in the return on total assets for the year ended 31 December 2015 was mainly due to increase in our profit level for the year ended 31 December 2015. Our return on assets for the six months ended 30 June 2016 was approximately 9.1%, for which the annualised return rate is slightly lower than the rate for the year ended 31 December 2015, which is mainly due to the increase of asset amounts as a result of an increase in inventory level and trade receivable amounts as at 30 June 2016.

Interest coverage

Our interest coverage was approximately 46.6 for the year ended 31 December 2013 and it dropped to approximately 12.1 and 12.4 for the years ended 31 December 2014 and 2015 respectively. The decrease in the interest coverage was mainly due to increase in bank borrowings and finance lease arrangements for financing the expansion of production capacity for plywood products and the setup of production line for biomass wood pellets during the year ended 31 December 2014. The interest coverage increased to approximately 17.9 for the six months ended 30 June 2016. Improvement in the interest coverage was mainly due to decrease in the average bank borrowing interest rates for the six months ended 30 June 2016, as well as a higher profit level earned during the period.

FINANCIAL INFORMATION

COMMITMENTS AND CONTINGENT LIABILITIES

Capital commitments

The capital commitments of our Group as at the end of the respective reporting periods were as follows:

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Contracted but not provided for:				
Property, plant and equipment	19,010	—	—	—

Pursuant to the result given as above, over the Track Record Period, we had a decrease in capital expenditure of approximately RMB30.5 million from approximately RMB54.0 million for the year ended 31 December 2013 to RMB23.5 million for the year ended 31 December 2014 and there was minimal capital expenditure for the year ended 31 December 2015 and no capital expenditure for the six months ended 30 June 2016. The capital expenditure incurred for the years ended 31 December 2013 and 2014 were mainly related to the production plant for both of our plywood products and our biomass wood pellets.

CONTINGENCIES

As at 31 December 2013, 2014 and 2015, and 30 June 2016, there were no significant contingencies items for our Group and the Company.

DISTRIBUTABLE RESERVES

Our Company was incorporated in the Cayman Islands on 24 December 2015 and has not carried out any business since the date of incorporation, save for the transactions related to the Reorganization. There was no reserve available for distribution to our Shareholders as at 30 June 2016.

OFF-BALANCE SHEET ARRANGEMENTS

As at the Latest Practicable Date, we had no off-balance sheet transactions or arrangements.

FINANCIAL INFORMATION

RELATED PARTY TRANSACTIONS AND RELATED PARTY BALANCES

For details of related party transactions, please refer to Note 27 of the Accountant's Report set out in Appendix I to this prospectus. Our Directors confirm that these transactions were conducted in the ordinary and usual course of business and on arm's length basis. Our Directors are of the view that the related party transactions did not cause any distortion of our results of operations or make our historical results non-reflective in the Track Record Period.

QUANTITATIVE AND QUALITATIVE ANALYSIS ABOUT FINANCIAL RISKS

Our Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, and cash flow interest rate risk), credit risk and liquidity risk. Our Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on our Group's financial performance.

(a) **Market risk**

(i) *Foreign exchange risk*

Our Group mainly operates in the PRC with most of the revenue and expenditures transactions denominated and settled in RMB, where its foreign exchange risk is limited. Our Group's exposure to foreign exchange risk is mainly on its cash and cash equivalents. Our Group has not purchased forward contracts to hedge the exposure to foreign exchange risk.

(ii) *Cash flow and fair value interest rate risk*

Our Group's interest rate risk arises from borrowings. Borrowings obtained at variable rates expose our Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose our Group to fair value interest rate risk. Our Group does not hedge its cash flow and fair value interest rate risk.

During the three years ended 31 December 2013, 2014 and 2015, and the six months ended 30 June 2016, if interest rate on borrowings had been higher/lower by 10% of current interest rate, with other variables held constant, post-tax profit for the three years ended 31 December 2013, 2014 and 2015, and for the six months ended 30 June 2016 would have been decreased/increased by approximately RMB98,000, RMB301,000, RMB344,000 and RMB145,000 respectively.

FINANCIAL INFORMATION

(b) Credit risk

Credit risk arises from cash and cash equivalents and trade and other receivables. The carrying amounts or the undiscounted nominal amounts, where applicable, of each class of these financial assets represent our Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage the risk with respect to cash and cash equivalents, bank deposits are placed with highly reputable financial institutions.

For trade receivables, our Group performs ongoing credit evaluations of its debtors' financial condition and does not require collateral from the debtors on the outstanding balances. Based on the expected recoverability and timing for collection of the outstanding balances, our Group maintains a provision for doubtful accounts and actual losses incurred have been within management's expectations.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. Our Directors believe that there is no material credit risk inherent in our Group's outstanding balance of other receivables.

(c) Liquidity risk

Cash flow forecasting is performed in the operating entities of our Group and aggregated by the group finance. Group finance monitors rolling forecasts of our Group's liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration our Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements — for example, currency restrictions.

FINANCIAL INFORMATION

The table below analyses our Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flow. The amounts disclosed in the table are the contractual undiscounted cash flow.

	Within one year	Between one and second years	Between second and fifth years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 31 December 2013				
Borrowings	32,000	—	—	32,000
Interest payables for borrowings	1,780	—	—	1,780
Trade and other payables	23,497	—	—	23,497
Amount due to Mr. Ke	<u>72,390</u>	<u>—</u>	<u>—</u>	<u>72,390</u>
	<u>129,667</u>	<u>—</u>	<u>—</u>	<u>129,667</u>
As at 31 December 2014				
Borrowings	68,342	3,787	1,023	73,152
Interest payables for borrowings	3,780	391	21	4,192
Trade and other payables	46,718	—	—	46,718
Amount due to Mr. Ke	<u>53,213</u>	<u>—</u>	<u>—</u>	<u>53,213</u>
	<u>172,053</u>	<u>4,178</u>	<u>1,044</u>	<u>177,275</u>
As at 31 December 2015				
Borrowings	49,789	1,023	—	50,812
Interest payables for borrowings	2,121	21	—	2,142
Trade and other payables	<u>15,486</u>	<u>—</u>	<u>—</u>	<u>15,486</u>
	<u>67,396</u>	<u>1,044</u>	<u>—</u>	<u>68,440</u>
As at 30 June 2016				
Borrowings	72,333	—	—	72,333
Interest payables for borrowings	2,578	—	—	2,578
Trade and other payables	25,165	—	—	25,165
Amount due to Mr. Ke	<u>338</u>	<u>—</u>	<u>—</u>	<u>338</u>
	<u>100,414</u>	<u>—</u>	<u>—</u>	<u>100,414</u>

FINANCIAL INFORMATION

DIVIDEND

We do not have any pre-determined dividend distribution ratio. The declaration of future dividends will be subject to our Director's decision and will depend on, among others, our earnings, financial condition, cash requirements and availability, and any other factors that our Directors may consider relevant. Any final dividend for a financial year will be subject to our Shareholders' approval.

During the Track Record Period and up to the Latest Practicable Date, we did not declare nor pay any dividends to the Shareholders.

PROPERTY INTERESTS AND PROPERTY VALUATION

DTZ Cushman & Wakefield Limited, an independent property valuer, has valued our property interests as at 31 October 2016. The texts of its letter and valuation certificate are set out in Appendix III to this prospectus. A reconciliation of the net book value of property interests as at 30 June 2016 to their fair value as stated in Appendix III to this prospectus is as follows:

	<i>RMB'000</i>
Net book value of property interest of our Group as at 30 June 2016	
Land use rights	23,554
Buildings	<u>73,910</u>
	97,464
Less: amortisation the period from 1 July 2016 to 31 October 2016 (unaudited)	(169)
Less: depreciation the period from 1 July 2016 to 31 October 2016 (unaudited)	<u>(885)</u>
Net book value of property interest of our Group as at 31 October 2016	<u>96,410</u>
Valuation of properties as at 31 October 2016 as set out in Appendix III to this prospectus	<u>103,000</u>
Valuation surplus (unaudited)	<u>6,590</u>

NO MATERIAL ADVERSE CHANGE

Our Directors confirmed that there has not been any material change in the financial or trading position of our Group since 30 June 2016 (being the date to which our latest consolidated financial results were prepared as set out in the financial information section of the Accountant's Report in Appendix I to this prospectus) and up to the date of this prospectus.

FINANCIAL INFORMATION

DISCLOSURE UNDER CHAPTER 13 OF THE MAIN BOARD LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances, which would give rise to a disclosure obligation under Rules 13.13 to 13.19 of the Main Board Listing Rules.

UNAUDITED PRO FORMA STATEMENT OF 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 Global Offering on the net tangible assets of our Group attributable to equity holders of the Company as at 30 June 2016 as if the Global Offering had taken place on 30 June 2016 assuming the Over-allotment Option is not exercised.

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 30 June 2016 or at any future dates following the Global Offering. It is prepared based on the consolidated net assets of our Group as at 30 June 2016 as set out in the Accountant's Report of our 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 our Group attributable to equity holders of the Company as at 30 June 2016 RMB'000	Estimated net proceeds from the Global Offering RMB'000	Unaudited pro forma adjusted consolidated net tangible assets attributable to equity holders of the Company as at 30 June 2016 RMB'000	Unaudited pro forma adjusted net tangible assets per Share RMB	Unaudited pro forma adjusted net tangible assets per Share HK\$
Based on an Offer Price of HK\$0.60 per Share	163,169	75,740	238,909	0.33	0.38
Based on an Offer Price of HK\$0.90 per Share	163,169	120,914	284,083	0.39	0.46

FINANCIAL INFORMATION

Notes:

- (1) The audited consolidated net tangible assets attributable to equity holders of the Company as at 30 June 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 equity holders of the Company as at 30 June 2016 of RMB163,169,000.
- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$0.60 and HK\$0.90 per Share after deduction of the estimated underwriting fees and other related expenses payable by us subsequent to 30 June 2016 and takes no account of any shares which may be issued upon the exercise of the Over-allotment Option.
- (3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 720,000,000 Shares were in issue assuming that the Global Offering and the Capitalisation Issue have been completed on 30 June 2016 but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option and any Share which may be issued or repurchased by the Company pursuant to the Issuing Mandate or the Repurchase Mandate as described in the section headed "Share Capital" in this prospectus.
- (4) No adjustment has been made to reflect any trading result or other transactions of our Group entered into subsequent to 30 June 2016.
- (5) For the purpose of this unaudited pro forma statement of adjusted net tangible assets, the balance stated in Renminbi are converted in to Hong Kong dollars at the rate of HK\$1.000 to RMB0.8625.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please see the section headed “Business — Our business strategies” in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that the aggregate net proceeds from the issue of new Shares (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering), assuming an Offer Price of HK\$0.75 per Share, being the mid-point of the proposed Offer Price range of HK\$0.60 to HK\$0.90 per Share, will be approximately HK\$124.5 million.

We currently intend to apply these net proceeds for the following purposes:

- approximately 60.7% or HK\$75.5 million (equivalent to approximately RMB65.1 million) will be used to finance the expansion of our production facilities to install an additional production line for each of plywood and biomass wood pellets. Our Directors consider that (a) plywood is generally considered a primary commodity, and according to the Ipsos Report, the market demand for plywood will continue to grow steadily in the next couples of years. Based on the business growth of our plywood products and stable customer base during the Track Record Period, and further considered the increasing sales volume of our plywood which amounted to approximately 56,231 m³, 90,964 m³, 102,689 m³ and 55,037 m³ for the three years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016. Our Directors believe that based on the existing business growth of our plywood products and stable customer base, and on the basis that the utilisation rate of our plywood production facility has increased to 76.0% in the first half year of 2016, it is expected that, the existing production capacity will be nearly fully utilised by end of 2017 and our Group is well positioned to implement expansion plans in production as well as sales and marketing; and (b) the utilisation rate of our biomass wood pellets production is nearly 96%, with the increasing demand of our biomass wood pellets, we intend to install one additional production line to increase annual production capacity, of which:
 - approximately 32.1% or HK\$39.9 million (equivalent to approximately RMB34.4 million) will be used for installation of one production line for plywood, including purchases of production equipment;
 - approximately 28.6% or HK\$35.6 million (equivalent to approximately RMB30.7 million) will be used for installation of one production line for biomass wood pellets, including purchases of production equipment;

FUTURE PLANS AND USE OF PROCEEDS

- approximately 14.9% or HK\$18.6 million (equivalent to approximately RMB16.0 million) will be used to finance the expansion of our sales and marketing networks for better growth of our sales in both plywood and biomass wood pellets businesses, including set up the sales and marketing office in five sales points in China;
- approximately 4.2% or HK\$5.2 million (equivalent to approximately RMB4.5 million) will be used to fund our promotional activities for our brand building and improving market awareness of our plywood and biomass wood pellets products;
- approximately 5.6% or HK\$7.0 million (equivalent to approximately RMB6.0 million) will be used to fund our research and development activities, including purchasing research equipment and materials, and also developing projects with universities for product quality improvement;
- approximately 4.6% or HK\$5.7 million (equivalent to approximately RMB4.9 million) will be used to fund our technical support team in order to assist our new and long term customers in modification of their existing equipment to transform from using the old energy fuel to using our biomass wood pellets;
- approximately 10% or HK\$12.5 million (equivalent to approximately RMB10.8 million) will be used for working capital and other general corporate purposes.

To the extent that the net proceeds from the issue of Shares are not sufficient to fund the uses set forth above, we intend to fund the balance through a variety of means including cash generated from our operations and bank financing. We currently believe that the net proceeds from the issue of Shares, when combined with such alternate sources of financing, are sufficient for the uses set forth above.

If the Offer Price is finally determined at HK\$0.90 per Offer Share, being the high-end of the stated Offer Price range, the net proceeds will be increased by approximately HK\$26.2 million. If the Offer Price is finally determined at HK\$0.60 per Offer Share, being the low end of the stated Offer Price range, the net proceeds will be reduced by approximately HK\$26.2 million. To the extent our net proceeds are either more or less than expected, we will adjust our allocation of the net proceeds for the above purposes on a pro rata basis.

In the event that the Over-allotment Option is exercised in full and based on the mid-point of the indicative Offer Price range, we estimate that we will receive additional net proceeds from the issue of additional Shares of approximately HK\$19.6 million, deducting underwriting fees and estimated expenses payable by us. The additional proceeds received from the exercise of the Over-allotment Option will be applied pro rata to the abovementioned purposes.

To the extent that the net proceeds from the issue of new Shares are not immediately applied for the above purposes, we will deposit the net proceeds into interest-bearing bank accounts. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

UNDERWRITING

HONG KONG UNDERWRITERS

Joint Lead Managers

China Industrial Securities International Capital Limited
Gransing Securities Co., Limited
Head & Shoulders Securities Limited
Sinolink Securities (Hong Kong) Company Limited
SPDB International Capital Limited
Yicko Securities Limited
Zhongtai International Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreements

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters and the International Offering is expected to be fully underwritten by the International Underwriters, in each case on a several basis. The Hong Kong Underwriting Agreement was entered into on Tuesday, 6 December 2016 and, subject to an agreement being reached on the Offer Price between us and the Sole Global Coordinator (on behalf of the Underwriters), the International Underwriting Agreement is expected to be entered into on or about Tuesday, 13 December 2016. The Hong Kong Underwriting Agreement is conditional upon (among other things) the International Underwriting Agreement being entered into and having become effective, and the respective Underwriting Agreements are expected to be inter-conditional. See the section headed “Structure of the Global Offering”.

Hong Kong Underwriting Agreement

Subject to the Listing Committee granting listing of, and permission to deal in, our Shares in issue and our Shares to be issued as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally to subscribe for or procure subscribers to subscribe for, their respective applicable proportions of the Hong Kong Public Offering on the terms and subject to the conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement. The respective obligations of the Hong Kong Underwriters to subscribe for, or procure subscribers for, the Hong Kong Offer Shares are subject to termination.

Grounds for termination by the Hong Kong Underwriters

If any of the events set out below shall occur at any time at or prior to 8:00 a.m. on the Listing Date, the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) may by giving a written notice to our Company terminate the Hong Kong Underwriting Agreement at its sole and absolute discretion without liability to any of the other parties hereto (including the respective obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares) and

UNDERWRITING

the Hong Kong Underwriting Agreement shall forthwith cease to have effect and none of the parties to the Hong Kong Underwriting Agreement shall have any rights or claims by reason thereof:

- (i) there develops, occurs, exists or comes into effect:
 - (a) any material change or development involving a prospective material change, or any event or series of events likely to result in any material change or development involving a prospective material change, in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets), in or affecting Hong Kong, the PRC, or any other jurisdiction relevant to any member of our Group (collectively, the “**Relevant Jurisdictions**”); or
 - (b) any event, or series of events, in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting any of the Relevant Jurisdictions; or
 - (c) any moratorium, suspension or restriction or limitation in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Shenzhen Stock Exchange and the Shanghai Stock Exchange; or
 - (d) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent Authority), New York (imposed at Federal or New York State level or other competent Authority), the PRC, or any Relevant Jurisdictions, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in those places or jurisdictions; or
 - (e) any new law or regulation or any material change or development involving a prospective material change in existing laws or regulations or any material change or development involving a prospective material change in the interpretation or application thereof by any court or other competent Authority in or affecting Hong Kong, the PRC or any Relevant Jurisdictions; or

UNDERWRITING

- (f) a material adverse change or development involving a prospective material adverse change in Taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control, in Hong Kong, the PRC, or any Relevant Jurisdictions; or
- (g) any material adverse change or prospective material adverse change in the condition (financial or otherwise), or in the earnings, business affairs, business prospects or trading position of the Company or any other member of our Group; or
- (h) any material adverse change or development involving a prospective material adverse change, or a materialisation of, any of the risks set out in the section headed “Risk Factors” in this prospectus, the preliminary offering circular (as defined in the Hong Kong Underwriting Agreement) and the final offering circular (as defined in the Hong Kong Underwriting Agreement); or
- (i) any litigation or claim of any third party being threatened or instigated against any member of our Group; or
- (j) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (k) the chairman or chief executive officer of the Company vacating his or her office; or
- (l) an Authority (as defined in the Hong Kong Underwriting Agreement) or a political body or organisation in any relevant jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director in his/her capacity as such; or
- (m) a contravention by any member of our Group of the Listing Rules or applicable laws; or
- (n) a prohibition on the Company for whatever reason from allotting or selling the Shares pursuant to the terms of the Global Offering; or
- (o) non-compliance of this prospectus, the preliminary offering circular (as defined in the Hong Kong Underwriting Agreement) or the final offering circular (as defined in the Hong Kong Underwriting Agreement) (or any other documents used in connection with the contemplated offer for subscription and issue of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law or regulation, save and except any such non-compliance is/are caused by the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and/or any of the Hong Kong Underwriters; or

UNDERWRITING

- (p) other than with the prior consent of the Sole Global Coordinator, the issue or requirement to issue by the Company of any supplement or amendment to this prospectus, the preliminary offering circular (as defined in the Hong Kong Underwriting Agreement) or the final offering circular (as defined in the Hong Kong Underwriting Agreement) (or to any other documents used in connection with the contemplated offer for subscription and issue of the Shares) pursuant to the Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (q) a valid demand by any creditor for repayment or payment of any of the Company's indebtedness or those of any of its subsidiaries or in respect of which the Company or any of its subsidiaries are liable prior to its stated maturity, or any loss or damage sustained by the Company or any of its subsidiaries (howsoever caused and whether or not the subject of any insurance or claim against any person); or
- (r) an order or petition for the winding up of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding-up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group,

which, individually or in the aggregate, in the sole opinion of the Sole Global Coordinator:

- (1) has or will or may have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Group as a whole; or
- (2) has or will have or may have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offer or the level of interest under the International Offering; or
- (3) makes or will make or may make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering; or
- (4) has or will or may have the effect of making any part of this Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

UNDERWRITING

- (ii) there has come to the notice of the Sole Global Coordinator:
- (a) that any statement contained in any of the Offering Documents (as defined in the Hong Kong Underwriting Agreement) and/or in, any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering or the International Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or misleading in any material respect, or that any forecast, expression of opinion, intention or expectation contained in any of the Offering Documents (as defined in the Hong Kong Underwriting Agreement), and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering or the International Offering (including any supplement or amendment thereto) is not, in the sole opinion of the Sole Global Coordinator, in all material respects fair and honest and based on reasonable assumptions, when taken as a whole; or
 - (b) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, or the date of the final offering circular (as defined in the Hong Kong Underwriting Agreement), as the case may be, constitute an omission, considered by the Sole Global Coordinator in its sole opinion to be material from any of the Offering Documents (as defined in the Hong Kong Underwriting Agreement) and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering or the International Offering (including any supplement or amendment thereto); or
 - (c) any breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Hong Kong Underwriters) which is considered by the Sole Global Coordinator in its sole opinion to be material; or
 - (d) that a valid demand by any creditor for repayment or payment of any indebtedness of the Company or any other member of our Group or in respect of which the Company or any other member of our Group is liable prior to its stated maturity, which demand has or could reasonably be expected to have a material adverse effect on our Group taken as a whole; or
 - (e) that a petition is presented for the winding-up or liquidation of the Company or any other member of our Group or the Company or any other member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of the Company or any other member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of the Company or any other member of our Group or anything analogous thereto occurs in respect of the Company or any other member of our Group, which in the sole opinion of the Sole Global Coordinator, is likely to be material in the context of the Global Offering; or

UNDERWRITING

- (f) any event, act or omission which gives or is likely to give rise to any material liability of any of the indemnifying parties pursuant to the Hong Kong Underwriting Agreement; or
- (g) any adverse change or development involving a prospective adverse change in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of the Company or any other member of our Group which is considered by the Sole Global Coordinator in its sole opinion to be material; or
- (h) any breach of, or any event rendering untrue or incorrect in any material respect, any of the Warranties (as defined in the Hong Kong Underwriting Agreement); or
- (i) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares to be issued (including any additional Shares that may be issued pursuant to the exercise of the Over-Allotment Option) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the date of the listing, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or unreasonably withheld; or
- (j) the Company withdraws this prospectus, the preliminary offering circular (as defined in the Hong Kong Underwriting Agreement) or the final offering circular (as defined in the Hong Kong Underwriting Agreement), or the Global Offering; or
- (k) any of the experts in relation to the Global Offering as set out under the section headed "Statutory and General Information — Qualifications of Experts" in Appendix V to this prospectus has withdrawn its respective consent to the issue of this prospectus with the inclusion of their reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which they respectively appears.

Restrictions and undertakings to the Stock Exchange pursuant to the Listing Rules

Restrictions imposed on our Company

Pursuant to Rule 10.08 of the Listing Rules, no further Shares or other securities convertible into equity securities (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 the circumstances prescribed by Rule 10.08 of the Listing Rules.

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Restrictions imposed on and undertakings by our Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders shall not, and shall procure that any other registered holder(s) (if any) shall not:

- (a) in the period commencing on the date by reference to which disclosure of the shareholding of our Controlling Shareholders is made in this prospectus and ending on the date which is six months from the Listing Date (the “**First Six-month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares in respect of which he or it is shown by this prospectus to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules); or
- (b) during the period of six months commencing on the date on which the First Six-month Period expires (the “**Second Six-month Period**”), 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, if immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or it would cease to be a “controlling shareholder” (as defined in the Listing Rules) of our Company.

Further, pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has undertaken to us and to the Stock Exchange that, during the First Six-month Period and the Second Six-month Period, he or it will:

- (a) if he or it pledges or charges any of our securities beneficially owned by him or it 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, immediately informs us of such pledge or charge together with the number of securities so pledged or charged; and
- (b) if he or it receives indications, either verbal or written, from the pledgee or chargee that any of his or its pledged or charged securities will be disposed of, immediately inform us of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the above matters, if any, by any of our Controlling Shareholders and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible after being so informed.

Undertakings pursuant to the Hong Kong Underwriting Agreement

Undertakings by our Company

Under the Hong Kong Underwriting Agreement, our Company has agreed and undertaken with each of the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, except pursuant to the Global Offering, the Over-allotment Option and options which may be granted under the Share Option Scheme or as stated

UNDERWRITING

in this prospectus, it will not, without the prior written consent of the Sole Global Coordinator (on behalf of the Underwriters) and unless in compliance with the requirements of the Listing Rules, at any time from the date of the Hong Kong Underwriting Agreement until the expiry of the First Six-month Period:

- (a) and will procure that its Subsidiaries offer, accept subscription for, pledge, issue, sell, lend, mortgage, assign, charge, contract to issue or sell, sell any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, Shares or other securities of the Company, shares or other securities of such Subsidiaries or any interest therein (including but not limited to, warrants or other convertible or exchangeable securities) (collectively, the “**Relevant Group Securities**”) or repurchase the Relevant Group Securities; or
- (b) enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of any Relevant Group Securities or any interest thereon or offer to or agree to do any of the foregoing or announce any intention to do so during the First Six-Month Period.

The Company will not enter into any of the transactions described in paragraphs (a) or (b) above or agree or contract to or publicly announce any intention to enter into any such transactions such that any of the Controlling Shareholders would cease to be a controlling shareholder (as defined in the Listing Rules) of the Company during the Second Six-Month Period.

The Company will ensure that if any of the transactions described in paragraphs (a) or (b) above are carried out during the Second Six-month Period, it will take all reasonable steps to ensure that any such act will not create a disorderly or false market for any Shares or other securities of the Company.

Undertaking by our Controlling Shareholders

Under the Hong Kong Underwriting Agreement, our Controlling Shareholders have agreed and undertaken with the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Joint Lead Managers and the Hong Kong Underwriters that, except pursuant to the Stock Borrowing Agreement or as stated in this prospectus, each of our Controlling Shareholders shall not, and shall procure that the relevant registered holder(s) and his/her/its associates and companies controlled by him/her/it and any nominee or trustee holding in trust for him/her/it shall not, without the prior written consent of the Sole Global Coordinator (on behalf of the Underwriters) and unless in compliance with the requirements of the Listing Rules, at any time from the date of the Hong Kong Underwriting Agreement ending the date which is 20 months from the Listing Date (the “**Lock-up Period**”):

- (a) (i) offer, pledge, mortgage, charge (other than any pledge, mortgage or charge of the Company’s issued share capital after the Global Offering (assuming the Over-allotment Option is not exercised) 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 pursuant to Note 2 to Rule 10.07(2) of the Listing Rules), sell, sell any option or contract to purchase, purchase any option or contract to sell, grant

UNDERWRITING

or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the Shares or any securities convertible into or exercisable or exchangeable for, or that represent the right to receive, any of the Shares or securities of the Company beneficially owned by him/her/it or the relevant company, nominee or trustee (including any interest in any shares in any company controlled by him/her/it) which is directly or indirectly a beneficial owner of any of the Shares or securities of the Company or any interest thereon (the “**Relevant Securities**”);

- (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 the Relevant Securities;
 - (iii) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (i) or (ii) above; or
 - (iv) announce any intention to enter into or effect any of the transactions referred to in paragraphs (i), (ii) or (iii) above, which any of the foregoing transactions referred to in paragraphs (i), (ii) or (iii) is to be settled by delivery of Shares or such other securities, in cash or otherwise; and
- (b) he/she/it will, and will procure that his/her/its respective associates and companies controlled by him/her/it and any nominee or trustees holding in trust for him/her/it shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by him/her/it or by the registered holder controlled by him/her/it of any Shares.

Under the Hong Kong Underwriting Agreement, each of our Controlling Shareholders has agreed that he/she/it will not, during the Lock-up Period, enter into any of the transactions specified in paragraph (a) or (b) above or offer to or agree to or publicly 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 (as defined in the Hong Kong Underwriting Agreement) pursuant to such transaction, he/she/it will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of the Company. In the event that he/she/it enters into any of such transactions or offers to or agrees to or contracts to or announces any intention to effect any such transactions in compliance with his/her/its obligations under this paragraph, he/she/it will take all reasonable steps to ensure that he/she/it will not create a disorderly or false market in the securities of the Company.

Commissions and Expenses

Under the terms and conditions of the Underwriting Agreements, our Company has agreed to pay the Sole Global Coordinator (for itself and on behalf of the Underwriters) an underwriting commission equal to 3.00% of the aggregate Offer Price for all the Offer Shares offered under the Global Offering (including Shares to be issued pursuant to the Over-allotment Option).

UNDERWRITING

The aggregate commissions and estimated expenses, together with the Stock Exchange trading fee, SFC transaction levy, Stock Exchange listing fee, legal and other professional fees, printing and other fees and expenses relating to the Global Offering, are estimated to amount in aggregate to approximately RMB28.8 million (assuming the Over-allotment Option is not exercised and an Offer Price of HK\$0.75 per Share, being the mid-point of the stated range of the Offer Price between HK\$0.60 and HK\$0.90 per Share).

UNDERWRITERS' INTERESTS IN OUR COMPANY

Save for their obligations under the relevant Underwriting Agreement(s) or as otherwise disclosed in this prospectus, none of the Underwriters owns any shares or securities in our Company or any other member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares or securities in our Company or any member of our Group.

INTERNATIONAL UNDERWRITING AGREEMENT

In connection with the International Offering, it is expected that we will, on or about Tuesday, 13 December 2016 shortly after determination of the Offer Price, enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, subject to the conditions set forth therein, the International Underwriters to be named therein would severally agree to purchase the International Offer Shares or procure purchasers for the International Offer Shares. Potential investors shall be reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed. Under the International Underwriting Agreement, we intend to grant to the International Underwriters the Over-allotment Option, exercisable by the Sole Global Coordinator on behalf of the International Underwriters at the sole and absolute discretion of the Sole Global Coordinator for up to 30 days after the last day for lodging applications under the Hong Kong Public Offering, to require us to issue and allot up to an aggregate of 27,000,000 additional Shares representing, in aggregate, 15% of the Offer Shares initially available under the Global Offering. These Shares will be sold at the Offer Price and will be, among others, for the purpose of covering over-allocations in the International Offering, if any.

SPONSOR'S INDEPENDENCE

China Industrial Securities International Capital Limited has declared its independence from us pursuant to Rule 3A.07 of the Listing Rules.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering of 180,000,000 Shares comprises:

- (i) the Hong Kong Public Offering of 18,000,000 Shares (subject to reallocation) in Hong Kong, as described below in the paragraph headed “The Hong Kong Public Offering”; and
- (ii) the International Offering of an aggregate of 162,000,000 Shares (subject to reallocation and the Over-allotment Option) outside the United States (including to professional and institutional investors and other investors anticipated to have a sizeable demand for the International Offer Shares within Hong Kong) in offshore transactions in reliance on Regulation S, and to QIBs in the United States in reliance on Rule 144A or another exemption from the registration requirements under the U.S. Securities Act.

The 180,000,000 Shares being offered by our Company under the Global Offering will represent about 25% of our Company’s enlarged share capital immediately after completion of the Global Offering (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the Share Option Scheme).

Investors may apply for Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest in Offer Shares under the International Offering, but may not apply in both the Hong Kong Public Offering and the International Offering.

References in this prospectus to “applications”, “Application Forms”, “application monies” or the “procedure for application” relate solely to the Hong Kong Public Offering.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares Initially Offered

Our Company is initially offering 18,000,000 Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Shares initially available under the Global Offering. Subject to the reallocation of Offer Shares between (i) the International Offering and (ii) the Hong Kong Public Offering, the Hong Kong Offer Shares will represent approximately 2.5% of our Company’s enlarged issued share capital immediately after completion of the Global Offering.

The Hong Kong Public Offering is open to the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers), whose ordinary business involves dealing in shares and other securities, and corporate entities that regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the paragraph headed “Conditions of the Hong Kong Public Offering” below.

STRUCTURE OF THE GLOBAL OFFERING

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and those applicants who are not successful in such a ballot may not receive any Hong Kong Offer Shares.

The total number of Offer Shares available for subscription under the Hong Kong Public Offering (after taking into account any reallocation referred to below) is to be divided into two pools for allocation purposes: pool A and pool B. The Hong Kong Offer Shares in pool A will consist of 9,000,000 Offer Shares (being 50% of the total number of Offer Shares initially available under the Hong Kong Public Offering) and will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate subscription price of HK\$5 million or less (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable). The Hong Kong Offer Shares in pool B will consist of 9,000,000 Offer Shares (being 50% of the total number of Offer Shares initially available under the Hong Kong Public Offering) and will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate subscription price of more than HK\$5 million and up to the total value of pool B (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable). Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Hong Kong Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the “subscription price” for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications within either pool or between pools and any application for more than 50% of the 18,000,000 Hong Kong Offer Shares, initially offered under the Hong Kong Public Offering, are liable to be rejected.

Reallocation

The allocation of Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times or (iii) 100 times or more than the number of Offer Shares initially available under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 54,000,000 Offer Shares (in the case of (i)), 72,000,000 Offer Shares (in the case of (ii)) and 90,000,000 Offer Shares (in the case of (iii)), representing approximately 30%, 40% and 50% of the Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option). In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will

STRUCTURE OF THE GLOBAL OFFERING

be correspondingly reduced in such manner as the Sole Global Coordinator shall after consultation with the Company deem appropriate. In addition, the Sole Global Coordinator may, at its discretion after consultation with the Company, reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. If the Hong Kong Public Offering is not fully subscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Offer Shares from the Hong Kong Public Offering to the International Offering in such proportions as the Sole Global Coordinator deems appropriate after consultation with the Company.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he, or any person(s) for whose benefit he is making the application, has not applied for, taken up or indicated an interest in, and will not apply for, take up or indicate an interest in, any Offer Shares under the International Offering. Such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been, or will be, placed or allocated Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$0.90 per Offer Share in addition to the brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the paragraph headed "Pricing and Allocation" below, is less than the maximum Offer Price of HK\$0.90 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus.

THE INTERNATIONAL OFFERING

Number of Offer Shares Initially Offered

The International Offering will consist of an initial offering of 162,000,000 Shares, representing 90% of the total number of Offer Shares initially available under the Global Offering. Subject to the reallocation of Offer Shares between (i) the International Offering and (ii) the Hong Kong Public Offering, the International Offer Shares will represent approximately 22.5% of our Company's enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Allocation

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers), whose ordinary business involves dealing in shares and other securities, and corporate entities which

STRUCTURE OF THE GLOBAL OFFERING

regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in the paragraph headed “Pricing and Allocation” in this section and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares and/or hold or sell his/its Shares after the listing of our Offer Shares on the Stock Exchange. Such allocation is intended to result in a distribution of our Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to our Company’s and our Shareholders’ benefit as a whole.

The Sole Global Coordinator (on behalf of the Underwriters) may require investors who have been offered Offer Shares under the International Offering and who have made applications under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that such applications are excluded from any allotment of Offer Shares under the Hong Kong Public Offering.

Reallocation

The total number of Offer Shares to be sold and issued pursuant to the International Offering may change as a result of the clawback arrangement described in the paragraph headed “The Hong Kong Public Offering — Reallocation” in this section, any exercise of the Over-allotment Option and/or any reallocation of unsold Offer Shares originally included in the Hong Kong Public Offering.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, it is expected that our Company will grant the Over-allotment Option to the International Underwriters, exercisable by the Sole Global Coordinator on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the International Underwriters have the right, exercisable by the Sole Global Coordinator (on behalf of the International Underwriters) at any time from the Listing Date until the 30th day from the last day for lodging applications under the Hong Kong Public Offering, to require our Company to issue and allot up to an aggregate of 27,000,000 additional Shares, representing 15% of the initial Offer Shares, at the same price per Share under the International Offering, to cover over-allocations in the International Offering (if any). In the event that the Over-allotment Option is exercised, a press announcement will be made.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, underwriters may bid for or purchase securities in the secondary market during a specified period of time to retard and, if possible, prevent a decline in the initial public market price

STRUCTURE OF THE GLOBAL OFFERING

of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements of the relevant jurisdictions. In Hong Kong, the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, China Industrial Securities International Capital Limited, as stabilising manager (the “**Stabilising Manager**”), its affiliates or any persons acting for it (on behalf of the Underwriters) may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect transactions with a view to stabilising or supporting the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the Listing Date. Any market purchases of our Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager, its affiliates or any persons acting for it to conduct any such stabilising action. Such stabilising action, if taken, will be required to be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offering and conducted at the absolute discretion of the Stabilising Manager, its affiliates or any persons acting for it, and may be discontinued at any time. The number of Shares that may be over-allocated will not be greater than the number of Shares that may be sold upon exercise of the Over-allotment Option, being an aggregate of 27,000,000 additional Shares, which is 15% of our Shares initially available under the Global Offering. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 27.71% of our Company’s enlarged issued share capital on completion of the Global Offering.

Stabilisation action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules of the SFO includes (i) over-allocating for the purpose of preventing or minimising any reduction in the market price of our Shares; (ii) selling or agreeing to sell our Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of our Shares; (iii) purchasing or agreeing to purchase our Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing or agreeing to purchase our Shares for the sole purpose of preventing or minimising any reduction in the market price of our Shares; (v) selling or agreeing to sell our Shares in order to liquidate any position established as a result of the abovementioned purchases; and (vi) offering or attempting to do anything as described in (ii), (iii), (iv) or (v) above.

Specifically, prospective applicants for the Offer Shares should note that:

- the Stabilising Manager, its affiliates or any person acting for it may, in connection with the stabilising action, maintain a long position in our Shares;
- there is no certainty as to the extent to which, and the time or period for which, the Stabilising Manager, its affiliates or any person acting for it will maintain such a long position;
- liquidation and selling of any such long position in the open market by the Stabilising Manager, its affiliates or any person acting for it may have an adverse impact on the market price of our Shares;

STRUCTURE OF THE GLOBAL OFFERING

- no stabilising action can be taken to support the price of our Shares for longer than the stabilisation period which will begin on the Listing Date and is expected to expire on the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken, demand for our Shares, and therefore the price of our Shares, could fall;
- the price of our Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilising action; and
- stabilising bids or transactions effected in the course of the stabilising action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for the Offer Shares.

Our Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilising) Rules of the SFO will be made within seven days of the expiration of the stabilisation period.

OVER-ALLOCATION

Following any over-allocation of Shares in connection with the Global Offering, the Stabilising Manager, its affiliates or any person acting for it may cover such over-allocation by (among other methods) using Shares purchased by the Stabilising Manager, its affiliates or any person acting for it in the secondary market or exercising the Over-allotment Option in full or in part. Any such purchases will be made in accordance with the laws, rules and regulations in place in Hong Kong, including those in relation to stabilisation and the Securities and Futures (Price Stabilising) Rules, as amended, made under the SFO. The number of Shares which can be over-allocated will not exceed 27,000,000 Shares, being the number of Shares which may be issued and allotted by our Company upon full exercise of the Over-allotment Option and representing 15% of the Offer Shares initially available under the Global Offering.

PRICING AND ALLOCATION

The International Underwriters will be soliciting from prospective professional and institutional investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering that they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or about, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or about Tuesday, 13 December 2016 and in any event on or before Thursday, 15 December 2016, by agreement between the Sole Global Coordinator (on behalf of the Underwriters) and our Company. The number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

STRUCTURE OF THE GLOBAL OFFERING

The Offer Price per Offer Share under the Hong Kong Public Offering will be identical to the Offer Price per Offer Share under the International Offering based on the Hong Kong dollar price per Offer Share under the International Offering, as determined by the Sole Global Coordinator (on behalf of the Underwriters) and our Company. The Offer Price per Offer Share under the Hong Kong Public Offering will be fixed at the Hong Kong dollar amount which, when including the 1% brokerage, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee payable thereon, is (subject to any necessary rounding) effectively equivalent to the Hong Kong dollar price per Offer Share under the International Offering. The SFC transaction levy and the Stock Exchange trading fee otherwise payable by investors on Offer Shares purchased by them in the International Offering will be paid by us.

The Offer Price will not be more than HK\$0.90 per Offer Share and is expected to be not less than HK\$0.60 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

The Sole Global Coordinator (on behalf of the Underwriters) may, where considered appropriate and with the consent of our Company, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we 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 Hong Kong Public Offering, cause there to be published in *The Standard* (in English) and the *Hong Kong Economic Journal* (in Chinese) notices of the reduction. Upon issue of such notices, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Sole Global Coordinator (on behalf of the Underwriters) and our Company, will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such announcement(s) will also include confirmation or revision, as appropriate, of the working capital statement, the Global Offering statistics and any other financial information in this prospectus which may change as a result of any such reduction. In the absence of any such announcement, the number of Offer Shares will not be reduced and the Offer Price, if agreed upon by our Company and the Sole Global Coordinator (on behalf of the Underwriters), will under no circumstances be set outside the Offer Price range as stated in this prospectus.

In the event of a reduction in the number of Offer Shares, the Sole Global Coordinator may, at its discretion after consultation with the Company, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering (assuming the Over-allotment Option is not exercised). The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings at the discretion of the Sole Global Coordinator after consultation with the Company.

STRUCTURE OF THE GLOBAL OFFERING

The net proceeds from the Global Offering accruing to us (after deduction of underwriting commission and estimated expenses payable by us in relation to the Global Offering) are estimated to be approximately HK\$123.8 million, assuming an Offer Price of HK\$0.75 per Offer Share, being the approximate mid-point of the proposed Offer Price range of HK\$0.60 to HK\$0.90.

The final Offer Price, the level of indications of interest in the Global Offering and the basis of allotment of Offer Shares available under the Hong Kong Public Offering are expected to be announced on Friday, 16 December 2016 in The Standard (in English) and the Hong Kong Economic Journal (in Chinese).

HONG KONG UNDERWRITING AGREEMENT AND INTERNATIONAL UNDERWRITING AGREEMENT

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Sole Global Coordinator (on behalf of the Underwriters) agreeing on the Offer Price.

We expect to enter into the International Underwriting Agreement relating to the International Offering on the Price Determination Date.

The Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarised in the section headed “Underwriting” in this prospectus.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

- (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, our Shares in issue (including our Shares that may be sold pursuant to any exercise of the Over-allotment Option) and our Shares being offered pursuant to the Global Offering (subject only to allotment);
- (ii) the Offer Price having been duly determined and the execution and delivery of the International Underwriting Agreement on the Price Determination Date; and
- (iii) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement or the International Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date that is 30 days after the date of this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (on behalf of the Underwriters) on or before Thursday, 15 December 2016, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will not proceed and will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company in The Standard (in English) and the Hong Kong Economic Journal (in Chinese) 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 Hong Kong Offer Shares — 14. Despatch/Collection of Share Certificates and Refund Monies”. In the meantime, all application monies will be held in separate bank accounts with the receiving bank of our Company or any other banks in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. in Hong Kong on Friday, 16 December 2016 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Underwriting Agreement — Grounds for Termination by the Hong Kong Underwriters” has not been exercised.

DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Monday, 19 December 2016, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Monday, 19 December 2016. The Shares will be traded in board lots of 5,000 Shares each.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** at www.eipo.com.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 Sole Global Coordinator, the designated **White Form eIPO** 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 Hong Kong 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 **White Form eIPO**, 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 Sole Global Coordinator may accept it at its discretion and on any conditions they think fit, including evidence of the attorney's authority.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong 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 Global Offering; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which application channel to use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.eipo.com.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to collect the application forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, 7 December 2016 until 12:00 noon on Monday, 12 December 2016:

1. any of the following offices of the **Sole Global Coordinator**:

China Industrial Securities International Capital Limited	30/F, AIA Central 1 Connaught Road Central Hong Kong
	32/F, Infinitus Plaza 199 Des Voeux Road Central Sheung Wan

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

2. any of the following branches of **Bank of China (Hong Kong) Limited**:

	Branch name	Address
Hong Kong Island	Bank of China Tower Branch	3/F, 1 Garden Road
	Gilman Street Branch	136 Des Voeux Road Central
	Wan Chai (Wu Chung House) Branch	213 Queen's Road East, Wan Chai
Kowloon	Prince Edward Road West (Mong Kok) Branch	116-118 Prince Edward Road West, Mong Kok, Kowloon
	Kwun Tong Plaza Branch	G1 Kwun Tong Plaza, 68 Hoi Yuen Road, Kwun Tong
	Metro City Branch	Shop 209, Level 2, Metro City Phase 1, Tseung Kwan O
New Territories	Kwai Chung Plaza Branch	A18-20, G/F Kwai Chung Plaza, 7-11 Kwai Foo Road, Kwai Chung
	Ma On Shan Plaza Branch	Shop 2103, Level 2, Ma On Shan Plaza, Sai Sha Road, Ma On Shan

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, 7 December 2016 until 12:00 noon on Monday, 12 December 2016 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from 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 "**BANK OF CHINA (HONG KONG) NOMINEES LIMITED — DA SEN HOLDINGS PUBLIC OFFER**" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Wednesday, 7 December 2016 — 9:00 a.m. to 5:00 p.m.

Thursday, 8 December 2016 — 9:00 a.m. to 5:00 p.m.

Friday, 9 December 2016 — 9:00 a.m. to 5:00 p.m.

Saturday, 10 December 2016 — 9:00 a.m. to 1:00 p.m.

Monday, 12 December 2016 — 9:00 a.m. to 12:00 noon

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

The application lists will be open from 11:45 a.m. to 12:00 noon on Monday, 12 December 2016, the last application day or such later time as described in “10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Please follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO**, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Global Coordinator (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 Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Ordinance, Companies (Winding up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering 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 International Offering nor participated in the International Offering;
- (viii) agree to disclose to our Company, our Hong Kong Share Registrar, receiving bank, the Sole Global Coordinator, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- (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 Global Coordinator and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (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 (a) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (b) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong 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 Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any Share certificate(s) and/or any e-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 fulfilled the criteria mentioned in "How to Apply for Hong Kong Offer Shares — Despatch/collection of share certificates and refund monies — Personal collection" section in this prospectus 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 Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong 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 through the **White Form eIPO** by you or by any one as your agent or by any other person; and

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- (xix) (if you are making the application as an agent for the benefit of another person) warrant that
- (a) 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
 - (b) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in “2. Who can apply” in this section, may apply through the **White Form eIPO** for the Offer Shares to be allotted and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the **White Form eIPO** 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 designated **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO**.

Time for submitting applications under the White Form eIPO

You may submit your application through the **White Form eIPO** at www.eipo.com.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Wednesday, 7 December 2016 until 11:30 a.m. on Monday, 12 December 2016 and the latest time for completing full payment of application monies in respect of such applications will be at 12:00 noon on Monday, 12 December 2016 or such later time under the “10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

No multiple applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** 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 **White Form eIPO** or by any other means, all of your applications are liable to be rejected.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each 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).

Environmental protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 for each “Da Sen Holdings Group Limited” **White Form eIPO** application submitted via the website www.eipo.com.hk to support the funding of “Source of Dong Jiang—Hong Kong Forest” project initiated by Friends of the Earth (HK).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong 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 Center
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 Hong Kong Offer Shares on your behalf.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator and our Hong Kong Share Registrar.

GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong 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 Hong Kong 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 International Offering;
 - 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 Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong 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 Hong Kong Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
 - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, 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 Share Registrar, receiving bank, the Sole Global Coordinator, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is 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 Hong Kong 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 Hong Kong Public Offering 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 Hong Kong Offer Shares;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, Companies (Winding up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

EFFECT OF GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong 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 5,000 Hong Kong Offer Shares. Instructions for more than 5,000 Hong Kong 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 Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Wednesday, 7 December 2016 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
Thursday, 8 December 2016 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
Friday, 9 December 2016 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
Saturday, 10 December 2016 — 8:00 a.m. to 1:00 p.m.⁽¹⁾
Monday, 12 December 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.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Wednesday, 7 December 2016 until 12:00 noon on Monday, 12 December 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 Monday, 12 December 2016, the last application day or such later time as described in “10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong 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 Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding up and Miscellaneous Provisions) Ordinance).

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, our Hong Kong Share Registrar, the receiving bank, the Sole Global Coordinator, 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 Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** is also only a facility provided by the designated **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Joint Bookrunners, the Sole Sponsor, the Sole Global Coordinator and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** will be allotted any Hong Kong 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 Monday, 12 December 2016.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong 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 **White Form eIPO**, 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

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- you exercise statutory control over that company, then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG 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 **White Form eIPO** in respect of a minimum of 5,000 Hong Kong Public Offer Shares. Each application or **electronic application instruction** in respect of more than 5,000 Hong Kong 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.eipo.com.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, see “Structure of the Global Offering — Pricing and Allocation.”

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,

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 12 December 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 Monday, 12 December 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” in this prospectus, 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 International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Friday, 16 December 2016 in The Standard (in English) and the Hong Kong Economic Journal (in Chinese), on our Company’s website at www.msdsn.com and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering 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.msdsn.com and the Stock Exchange’s website at www.hkexnews.hk by no later than 9:00 a.m. on Friday, 16 December 2016;
- from the designated results of allocations website at www.iporesults.com.hk with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Friday, 16 December 2016 to 12:00 midnight on Thursday, 22 December 2016;
- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Friday, 16 December 2016 to Monday, 19 December 2016; or
- in the special allocation results booklets which will be available for inspection during opening hours on Friday, 16 December 2016, Saturday, 17 December 2016 and Monday, 19 December 2016 at all the receiving bank’s designated 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 Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering”.

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.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong 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 through the **White Form eIPO**, 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.

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 Sole Global Coordinator, the designated **White Form eIPO** 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 Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares will be void if the Listing Committee does not grant permission to list our Shares either:

- within three weeks from the closing date of the application lists; or

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- 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) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** 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 Sole Global Coordinator 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 Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

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\$0.90 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" 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 without interest and will be made on or before Friday, 16 December 2016.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (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 our 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 Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or before Friday, 16 December 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 certificates of title at 8:00 a.m. on Monday, 19 December 2016 provided that the Global Offering has become unconditional and the right of termination described in the “Underwriting” section 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.

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Personal collection

(i) *If you apply using WHITE Application Form*

If you apply for 1,000,000 or more Hong Kong 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 our Hong Kong Share Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Friday, 16 December 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 Share Registrar.

If you do not collect your refund cheque(s) and/or Share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on or before Friday, 16 December 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 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Friday, 16 December 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 Friday, 16 December 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 Hong Kong Public Offering shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offering 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 Hong Kong Public Offering in the manner described in "11. Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

HKSCC before 5:00 p.m. on Friday, 16 December 2016 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong 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 White Form eIPO*

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from our Hong Kong Share Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, 16 December 2016, or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Friday, 16 December 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-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 Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and refund of application monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Friday, 16 December 2016, or, on any other date determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- 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 Hong Kong Public Offering in the manner specified in “11. Publication of Results” above on Friday, 16 December 2016. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 16 December 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 Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Friday, 16 December 2016. Immediately following the credit of the Hong Kong 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 Hong Kong 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 Friday, 16 December 2016.

15. ADMISSION OF OUR 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.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

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

7 December 2016

The Directors
Da Sen Holdings Group Limited

China Industrial Securities International Capital Limited

Dear Sirs,

We report on the financial information of Da Sen Holdings Group Limited (the "Company") and its subsidiaries (together, the "Group"), which comprises the consolidated balance sheets as at 31 December 2013, 2014 and 2015 and 30 June 2016, the balance sheets of the Company as at 31 December 2015 and 30 June 2016, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements for each of the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2016 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. The 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 7 December 2016 (the "Prospectus") in connection with the initial listing 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 24 December 2015 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Pursuant to a group reorganisation as described in Note 1 of Section II headed "General information of the Group and reorganisation" (the "Reorganisation") below, which was completed on 31 December 2015, the Company became the holding company of the subsidiaries now comprising the Group.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in Note 1 of Section II below. All of these companies are private companies or if incorporated or established outside Hong Kong, have substantially the same characteristic as a Hong Kong incorporated private company.

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No statutory audited financial statements has 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 statutory audited financial statements of the other subsidiaries 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 place of incorporation. The details of the statutory auditors of these companies are set out in Note 1 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 International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (the “Underlying Financial Statements”). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with IFRSs. We have audited the Underlying Financial Statements in accordance with International Standards on Auditing (the “ISA”) issued by the International Auditing and Assurance Standards Board (“IAASB”) 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 IFRSs, 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 the Auditing Guideline 3.340 “Prospectus and the Reporting Accountant” issued by the Hong Kong Institute of Certified Public Accountant (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 of 31 December 2015 and 30 June 2016 and of the consolidated financial position of the Group as at 31 December 2013, 2014 and 2015 and 30 June 2016, and of the Group’s consolidated 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 cash flow statement for the six months ended 30 June 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 fair 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 International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the IAASB. A review of 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 International Standards on Auditing issued by the IAASB 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, has not been 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 30 June 2016 and for each of the years ended 31 December 2013, 2014 and 2015, and each of the six months ended 30 June 2015 and 2016 (the "Financial Information"):

Consolidated statements of comprehensive income

	Section II Note	Year ended 31 December			Six months ended 30 June	
		2013 RMB'000	2014 RMB'000	2015 RMB'000	2015 RMB'000	2016 RMB'000
					(Unaudited)	
Revenue	5	166,085	317,022	380,860	162,462	208,459
Cost of sales	8	(131,041)	(241,985)	(297,370)	(126,107)	(162,513)
Gross profit		35,044	75,037	83,490	36,355	45,946
Selling and distribution expenses	8	(1,720)	(8,222)	(2,946)	(2,399)	(491)
Administrative expenses	8	(8,090)	(11,981)	(20,575)	(7,312)	(10,846)
Other income	6	2,602	2,705	7,304	2,979	4,854
Other losses	7	(68)	(327)	(178)	(12)	(225)
Operating profit		27,768	57,212	67,095	29,611	39,238
Finance income	10	3	17	1	1	3
Finance expenses	10	(599)	(4,748)	(5,428)	(2,968)	(2,192)
Finance expenses – net	10	(596)	(4,731)	(5,427)	(2,967)	(2,189)
Profit before income tax		27,172	52,481	61,668	26,644	37,049
Income tax expense	11	(6,842)	(13,555)	(16,446)	(7,019)	(10,293)
Profit after tax		20,330	38,926	45,222	19,625	26,756
Comprehensive income		—	—	—	—	—
Total comprehensive income for the year/period, attributable to owners of the Company		<u>20,330</u>	<u>38,926</u>	<u>45,222</u>	<u>19,625</u>	<u>26,756</u>
Earnings per share for profit attributable to owners of the Company						
- Basic and diluted earnings per share (expressed in RMB per share)	12	<u>1,017</u>	<u>1,946</u>	<u>2,261</u>	<u>981</u>	<u>1,338</u>
Dividends		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Consolidated balance sheets

	<i>Section II</i>	As at 31 December			As at 30
	<i>Note</i>	2013	2014	2015	June
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets					
Non-current assets					
Land use rights	13	21,387	24,313	23,807	23,554
Property, plant and equipment	14	91,783	110,055	104,877	102,273
Deferred income tax assets	23	1,096	1,555	1,971	1,908
		<u>114,266</u>	<u>135,923</u>	<u>130,655</u>	<u>127,735</u>
Current assets					
Inventories	15	31,662	24,307	34,523	47,036
Trade and other receivables	16	34,701	126,682	61,690	111,850
Cash and cash equivalents	17	4,305	2,759	9,006	8,325
		<u>70,668</u>	<u>153,748</u>	<u>105,219</u>	<u>167,211</u>
Total assets		<u>184,934</u>	<u>289,671</u>	<u>235,874</u>	<u>294,946</u>
Equity and liabilities					
Equity attributable to owners of the Company					
Share capital	18	—	—	—	—
Capital and other reserves	19	20,468	30,397	38,632	38,632
Retained earnings		<u>22,589</u>	<u>57,484</u>	<u>97,781</u>	<u>124,537</u>
Total equity		<u>43,057</u>	<u>87,881</u>	<u>136,413</u>	<u>163,169</u>

	<i>Section II Note</i>	As at 31 December			As at 30
		2013	2014	2015	June
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Liabilities					
Non-current liabilities					
Borrowings	20	—	4,810	1,023	—
Deferred income	22	494	468	440	429
Deferred income tax liabilities	23	—	—	112	227
		<u>494</u>	<u>5,278</u>	<u>1,575</u>	<u>656</u>
Current liabilities					
Trade and other payables	21	31,367	64,259	32,708	38,672
Amount due to a shareholder	27	72,390	53,213	—	338
Current income tax liabilities		5,626	10,698	15,389	19,778
Borrowings	20	<u>32,000</u>	<u>68,342</u>	<u>49,789</u>	<u>72,333</u>
		<u>141,383</u>	<u>196,512</u>	<u>97,886</u>	<u>131,121</u>
Total liabilities		<u>141,877</u>	<u>201,790</u>	<u>99,461</u>	<u>131,777</u>
Total equity and liabilities		<u>184,934</u>	<u>289,671</u>	<u>235,874</u>	<u>294,946</u>
Net current (liabilities)/assets		<u>(70,715)</u>	<u>(42,764)</u>	<u>7,333</u>	<u>36,090</u>
Total assets less current liabilities		<u>43,551</u>	<u>93,159</u>	<u>137,988</u>	<u>163,825</u>

Balance sheets of the Company

	<i>Section II Note</i>	As at 31 December 2015 RMB'000	As at 30 June 2016 RMB'000
Assets			
Non-current assets			
Investment in a subsidiary	25	<u>136,450</u>	<u>136,450</u>
Current assets			
Other receivables		<u>—</u>	<u>377</u>
Total assets		<u><u>136,450</u></u>	<u><u>136,827</u></u>
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	18	—	—
Other reserves	25	136,450	136,450
Accumulated losses		<u>(3,584)</u>	<u>(4,695)</u>
Total equity		<u><u>132,866</u></u>	<u><u>131,755</u></u>
Liabilities			
Current liabilities			
Amount due to a subsidiary	21	<u>3,584</u>	<u>5,072</u>
Total liabilities		<u><u>3,584</u></u>	<u><u>5,072</u></u>
Total equity and liabilities		<u><u>136,450</u></u>	<u><u>136,827</u></u>
Net current liabilities		<u><u>(3,584)</u></u>	<u><u>(4,695)</u></u>
Total assets less current liabilities		<u><u>132,866</u></u>	<u><u>131,755</u></u>

Consolidated statements of changes in equity

	Equity attributable to owners of the Company			
	Share capital (Note 18) RMB'000	Capital and other reserves (Note 19) RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2013	—	13,355	4,443	17,798
Total comprehensive income				
Profit for the year	—	—	20,330	20,330
Transactions with owners				
Capital contribution from the then equity holders of the subsidiaries comprising the Group	—	4,929	—	4,929
Profit appropriation to statutory reserves	—	2,184	(2,184)	—
Total transactions with owners, recognized directly in equity	—	7,113	(2,184)	4,929
Balance at 31 December 2013	—	20,468	22,589	43,057
Total comprehensive income				
Profit for the year	—	—	38,926	38,926
Transactions with owners				
Capital contribution from the then equity holders of the subsidiaries comprising the Group	—	5,898	—	5,898
Profit appropriation to statutory reserves	—	4,031	(4,031)	—
Total transactions with owners, recognized directly in equity	—	9,929	(4,031)	5,898
Balance at 31 December 2014	—	30,397	57,484	87,881
Total comprehensive income				
Profit for the year	—	—	45,222	45,222
Transactions with owners				
Capital contribution from the then equity holders of the subsidiaries comprising the Group	—	3,310	—	3,310
Profit appropriation to statutory reserves	—	4,925	(4,925)	—
Total transactions with owners, recognized directly in equity	—	8,235	(4,925)	3,310
Balance at 31 December 2015	—	38,632	97,781	136,413

	Equity attributable to owners of the Company			
	Share capital	Capital and other reserves	Retained earnings	Total
	(Note 18)	(Note 19)		
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total comprehensive income				
Profit for the period	—	—	26,756	26,756
Balance at 30 June 2016	—	38,632	124,537	163,169
(Unaudited)				
Balance at 1 January 2015	—	30,397	57,484	87,881
Total comprehensive income				
Profit for the period	—	—	19,625	19,625
Transactions with owners				
Capital contribution from the then equity holders of the subsidiaries comprising the Group	—	3,310	—	3,310
Balance at 30 June 2015	—	33,707	77,109	110,816

Consolidated statements of cash flows

	<i>Section II Note</i>	Year ended 31 December			Six months ended 30 June	
		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>						
Cash flows from operating activities						
Cash (used in) / generated from operations	24	(16,215)	7,049	117,892	102,325	(12,692)
Interest received		3	17	1	1	3
Interest paid		(599)	(3,861)	(4,592)	(2,498)	(1,937)
Income tax paid		<u>(3,644)</u>	<u>(8,942)</u>	<u>(12,059)</u>	<u>(3,075)</u>	<u>(5,726)</u>
Net cash (used in) / generated from operating activities		<u>(20,455)</u>	<u>(5,737)</u>	<u>101,242</u>	<u>96,753</u>	<u>(20,352)</u>
Cash flows from investing activities						
Purchases of property, plant and equipment		(37,316)	(12,277)	(25,031)	(9,549)	(1,734)
Purchase of land use rights		(10,606)	(3,404)	—	—	—
Proceeds from disposal of property, plant and equipment		—	151	—	—	—
Receipt of government grants		<u>500</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net cash used in investing activities		<u>(47,422)</u>	<u>(15,530)</u>	<u>(25,031)</u>	<u>(9,549)</u>	<u>(1,734)</u>
Cash flows from financing activities						
Proceeds from borrowings		32,000	105,000	23,000	28,000	61,000
Repayments of borrowings		(10,000)	(72,000)	(42,000)	(35,000)	(38,000)
Initial public offering costs		—	—	(1,061)	—	(1,933)
Proceeds from borrowing from a shareholder		83,670	84,185	17,858	594	338
Repayments of borrowing from a shareholder		(39,571)	(103,362)	(71,071)	(70,106)	—
Capital contribution from the then equity holders of the subsidiaries comprising the Group		<u>4,929</u>	<u>5,898</u>	<u>3,310</u>	<u>—</u>	<u>—</u>

	<i>Section II Note</i>	Year ended 31 December			Six months ended 30 June	
		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>
Net cash generated from/(used in) financing activities		<u>71,028</u>	<u>19,721</u>	<u>(69,964)</u>	<u>(76,512)</u>	<u>21,405</u>
Net increase/(decrease) in cash and cash equivalents		3,151	(1,546)	6,247	10,692	(681)
Cash and cash equivalents at beginning of year/period	17	<u>1,154</u>	<u>4,305</u>	<u>2,759</u>	<u>2,759</u>	<u>9,006</u>
Cash and cash equivalents at end of year/period	17	<u><u>4,305</u></u>	<u><u>2,759</u></u>	<u><u>9,006</u></u>	<u><u>13,451</u></u>	<u><u>8,325</u></u>

II NOTES TO THE FINANCIAL INFORMATION**1 General information of the Group and reorganisation****1.1 General information**

Da Sen Holdings Group Limited (the “Company”) was incorporated on 24 December 2015 in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is at the office of Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company, an investment holding company, and its subsidiaries listed in Note 1.2 below (together “the Group”) are principally engaged in the manufacturing and sales of plywood and biomass wood pellets (the “Listing Business”) in Heze, Shandong Province, the People’s Republic of China (the “PRC”).

This financial information is presented in Renminbi (“RMB”), unless otherwise stated.

1.2 The Reorganisation

Prior to the incorporation of the Company and the completion of the reorganisation (the “Reorganisation”) as described below, the Listing Business was operated by Meisen (Shandong) Wood Limited (“Meisen Shandong”) and Dasen (Heze) Biomass Energy Limited (“Dasen Heze”), which are companies incorporated in the PRC and wholly owned by Mei Sem (Hong Kong) Holding Co., Limited (“Mei Sem HK”) and Dasen (Hong Kong) Holdings Company Limited (“Dasen HK”), investment holding companies incorporated in Hong Kong. Each of Mei Sem HK and Dasen HK was beneficially owned by six individuals (collectively the “Founding Shareholders”) at the same shareholding percentages. On 11 November 2013, Heroic Group Limited was incorporated in the British Virgin Islands by the Founding Shareholders with the same shareholding percentage as Mei Sem HK and Dasen HK. On 30 December 2013, the Founding Shareholders transferred their entire shares in Mei Sem HK and Dasen HK to Heroic Group Limited at a total cash consideration of HKD6. Thereafter, Heroic Group Limited became the holding company of the companies now comprising the Group.

Pursuant to the Reorganisation, the Listing Business was transferred to the Company principally through the following steps:

On 24 December 2015, the Company was incorporated in the Cayman Islands with an initial authorised share capital of HKD100,000 divided into 10,000,000 shares of HKD0.01 each. On the date of incorporation, one share was allotted and issued at par value to the initial subscriber, which was transferred as fully paid to one of the Founding Shareholders. On the same day, 9,999 shares were allotted and issued as fully-paid at par to the Founding Shareholders.

On 31 December 2015, 10,000 shares of the Company were additionally allotted and issued to the Founding Shareholders in exchange for the transfer of the entire issued shares of Heroic Group Limited from the Founding Shareholders to the Company pursuant to a share exchange agreement. Upon completion of such share exchange, each of the Founding Shareholders became the shareholders of the Company with the same shareholding percentages on the Listing Business before and after the Reorganisation.

Upon completion of the Reorganization on 31 December 2015, the Company became the holding company of the companies comprising the Group.

Pursuant to certain agreements between the Founding Shareholders and four independent third parties, namely Bliss International Investment Company Limited, Sea Dragon Investments Limited, Ocean Fu Enterprises Ltd. and Xing Ying Fu Li Limited (together, the “Pre-IPO Investors”), the Founding Shareholders sold an aggregate of 37.03% equity interest of the Company to the Pre-IPO Investors at total considerations of RMB95,178,000. The share transfers were completed on 26 February 2016.

The Company's direct and indirect interests in its subsidiaries as at 31 December 2013, 2014 and 2015, 30 June 2016 and as at the date of this report are set out as below:

Company name	Date of incorporation	Country/Place of incorporation, legal status	Registered, issued and fully paid share capital	2013	31 December 2014	30 June 2016	The date of this report	Principal activities
Heroic Group Limited 雄英集團有限公司	11 November 2013	BVI, limited liability company	USD50,000	NA	100%	100%	100%	Investment holding
Mei Sem (Hong Kong) Holding Co., Limited 美森(香港)控股有限公司	31 December 2010	Hong Kong, limited liability company	HKD10,000	100%	100%	100%	100%	Investment holding
Dasen (Hong Kong) Holdings Company Limited (香港) 控股有限公司	5 July 2012	Hong Kong, limited liability company	HKD10,000	100%	100%	100%	100%	Investment holding
Meisen (Shandong) Wood Limited (“Meisen Shandong”) 美森(山東)木業有限公司	19 April 2004	PRC, limited liability company	RMB8,000,000	100%	100%	100%	100%	Manufacturing and sales of plywood
Dasen (Heze) Biomass Energy Limited (“Dasen Heze”) 大森(荷澤)生物質能源有限公司	1 November 2012	PRC, limited liability company	USD3,000,000	100%	100%	100%	100%	Manufacturing and sales of biomass wood pellets fuel

No statutory financial statements have been prepared by Heroic Group Limited, a BVI company, as it is not required to issue audited financial statements under the statutory requirements of its place of incorporation.

The Hong Kong incorporated subsidiaries are companies with limited liability. Their financial statements were audited by S. W. Chan & Co. for the years ended 31 December 2013, 2014 and 2015.

The PRC incorporated subsidiaries are companies with limited liability. Their financial statements were audited by 成武文亭有限責任會計師事務所 for the years ended 31 December 2013, 2014 and 2015.

1.3 Basis of presentation

During the Relevant Periods, the Listing Business was owned and controlled by the Founding Shareholders through Mei Sem HK and Dasen HK and their subsidiaries. Pursuant to the Reorganisation, the Listing Business was transferred to and held by 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 Reorganisation is merely a recapitalisation 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 consolidated financial information of the companies comprising the Group is presented using the carrying values of the Listing Business for all periods presented, as if the current group structure had been in existence throughout the Relevant Periods.

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 throughout the Relevant Periods, unless otherwise stated.

2.1 Basis of preparation

The Financial Information has been prepared in accordance with International Financial Reporting Standards (“IFRSs”). The Financial Information has been prepared under the historical cost convention.

The preparation of the Financial Information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas 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.

All new standards, amendments and interpretation to the existing standards that are effective during the Relevant Periods have been adopted by the Group consistently throughout the Relevant Periods unless prohibited by the relevant standards to apply retrospectively.

New Hong Kong Companies Ordinance (Cap. 622)

In addition, the requirements of Part 9 “Accounts and Audit” of the new Hong Kong Companies Ordinance (Cap. 622) came into operation during the Relevant Periods and have been adopted by the Group consistently throughout the Relevant Periods.

Impact of new or revised standards and amendments to existing standards that are effective on or after 1 January 2016

The following new standards, amendments and interpretations to existing standards which have been issued but are effective for the fiscal year beginning on or after 1 January 2016 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
IAS 12 (Amendment)	Recognition of deferred tax assets for unrealised losses	1 January 2017
IAS 7 (Amendment)	Changes in liabilities arising from financing activities	1 January 2017
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 9	Financial instruments	1 January 2018
IFRS 2 (Amendment)	Classification and measurement of share-based payments transactions	1 January 2018
IFRS 16	Leases	1 January 2019
Amendment to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Company’s directors have performed an assessment on these new standards, amendments and interpretations, and have concluded on a preliminary basis that these new standards, amendments and interpretations would not have a significant impact on the Company’s consolidated financial statements.

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.

(i) *Business combinations under common control (“BCUCC”)*

The Group applies the predecessor values accounting to account for business combination of entities or businesses under common control. The consolidated financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognized in respect of goodwill or excess of acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the contribution of the controlling party's interest. All differences between the cost of acquisition (fair value of consideration paid) and the amounts at which the assets and liabilities are recorded have been recognized directly in equity as part of the capital reserve. Transaction-related costs are expensed as incurred.

(ii) *Business combinations under non-common control*

Except for BCUCC and the Reorganisation, the Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated unless the transaction provides evidence of an impairment of the transferred asset. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments 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 statements exceeds the carrying amount in the consolidated financial statements 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, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes 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 Financial Information is presented in RMB, which is the functional currency of the entities in the Group and the Company's 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 consolidated statements of comprehensive income.

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 or expenses'. All other foreign exchange gains and losses are presented in the consolidated statements of comprehensive income within 'other losses – net'.

2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 the consolidated statements of comprehensive income during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

— Plant	30 years
— Machinery	10-15 years
— Vehicles	5 years
— Furniture, fittings and equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 (Note 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other losses – net' in the consolidated statements of comprehensive income.

2.6 Land use rights

All land in the PRC is state-owned and no individual land ownership right exists. The Group's interests in land use rights represent prepaid operating lease payments, which are amortised over the useful terms of 50 years using the straight-line method.

2.7 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 of disposal 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 that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

2.8.1 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" and 'Cash and cash equivalents' in the consolidated balance sheets (Notes 2.12 and 2.13).

2.8.2 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 carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statements of comprehensive income. 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.

2.9 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 consolidated 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.

2.10 Impairment of financial assets- assets carried at amortised cost

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 the consolidated statements of comprehensive income. 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 recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated statements of comprehensive income.

2.11 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 and work in progress 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 selling expenses.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.13 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Trade payables

Trade payables are obligations to pay for services that have been acquired in the ordinary course of business from suppliers. Trade payables 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 payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Borrowings

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 the consolidated statements of comprehensive income over the period of the borrowings using the effective interest method.

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.

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.

2.17 Borrowing costs

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 the consolidated statements of comprehensive income in the period in which they are incurred.

Borrowing costs include interest expense and finance charges in respect of finance lease.

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statements of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income (“OCI”) or directly in equity. In this case, the tax is also recognised in OCI 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 and associates 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 and associates, 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. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate’s undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and associates 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.

2.19 Employee benefits

(a) *Pension obligations*

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) *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.

2.20 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 the attached conditions.

Government grants relating to costs are deferred and recognised as other income in the consolidated statements of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to assets are included in non-current liabilities as deferred income and are credited to the consolidated statements of comprehensive income on a straight-line basis over the expected useful lives of the related asset.

2.21 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns. 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. The Group bases its estimates of return on historical results, taking into consideration of the type of customers, the type of transactions and the specifics of each arrangement.

Sales of products

Revenue from the sales and distribution of products is recognised when significant risks and rewards of ownership of the products are transferred to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assumed.

2.22 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.

2.23 Leases

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. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statements of comprehensive income on a straight-line basis over the period of the lease.

Finance leases

The Group leases certain machineries where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to the consolidated statements of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2.24 Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (related to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- (a) it is technically feasible to complete the intangible asset so that it will be available for use;
- (b) management intends to complete the intangible asset and use it;
- (c) there is an ability to use the intangible asset;
- (d) it can be demonstrated how the intangible asset will generate probable future economic benefits;
- (e) adequate technical, financial and other resources to complete the development and to use the intangible asset are available; and
- (f) 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 an expense 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, not exceeding five years.

2.25 Dividend distribution

Dividend distribution to the Company's shareholder is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholder 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 currency risk, fair value interest rate risk, 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.

(a) *Market risk*

(i) Foreign exchange risk

The Group mainly operates in Mainland China with most of the revenue and expenditure transactions denominated and settled in RMB, where its foreign exchange risk is limited.

The Group's exposure to foreign exchange risk is mainly on its cash and cash equivalents. The Group has not purchased forward contracts to hedge the exposure to foreign exchange risk.

As at 31 December 2013, 2014 and 2015 and 30 June 2016, the Group did not have any significant foreign exchange risk from operation.

(ii) Cash flow and fair value interest rate risk

Except for cash and cash equivalents (Note 17), the Group has no other significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest-bearing assets resulted from the changes in interest rates because the interest rates of bank deposits are not expected to change significantly.

The Group's interest rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group does not hedge its cash flow and fair value interest rate risk.

As at 31 December 2013, 2014 and 2015 and 30 June 2016, if interest rate on borrowings had been higher/lower by 10% of current interest rate, with other variables held constant, post – tax profit for the years ended 31 December 2013, 2014, 2015 and the six months ended 30 June 2016 would have been decreased/increased by approximately RMB98,000, RMB301,000, RMB344,000 and RMB145,000, respectively.

(b) *Credit risk*

Credit risk arises from cash and cash equivalents and trade and other receivables. The carrying amounts or the undiscounted nominal amounts, where applicable, of each class of these financial assets represent the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage the risk with respect to cash and cash equivalents, bank deposits are placed with highly reputable financial institutions.

For trade receivables, the Group performs ongoing credit evaluations of its debtors' financial condition and does not require collateral from the debtors on the outstanding balances. Based on the expected recoverability and timing for collection of the outstanding balances, the Group maintains a provision for doubtful accounts and actual losses incurred have been within management's expectations.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The directors of the Company believe that there is no material credit risk inherent in the Group's outstanding balance of other receivable.

(c) *Liquidity risk*

Cash flow forecasting is performed in the operating entities of the Group and aggregated by the group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements — for example, currency restrictions.

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.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total RMB'000
At 31 December 2013				
Borrowings	32,000	—	—	32,000
Interest payables for borrowings	1,780	—	—	1,780
Amount due to a shareholder	72,390	—	—	72,390
Trade and other payables	23,497	—	—	23,497
	<u>129,667</u>	<u>—</u>	<u>—</u>	<u>129,667</u>
At 31 December 2014				
Borrowings	68,342	3,787	1,023	73,152
Interest payables for borrowings	3,780	391	21	4,192
Amount due to a shareholder	53,213	—	—	53,213
Trade and other payables	46,718	—	—	46,718
	<u>172,053</u>	<u>4,178</u>	<u>1,044</u>	<u>177,275</u>
At 31 December 2015				
Borrowings	49,789	1,023	—	50,812
Interest payables for borrowings	2,121	21	—	2,142
Trade and other payables	15,486	—	—	15,486
	<u>67,396</u>	<u>1,044</u>	<u>—</u>	<u>68,440</u>
At 30 June 2016				
Borrowings	72,333	—	—	72,333
Interest payables for borrowings	2,578	—	—	2,578
Amount due to a shareholder	338	—	—	338
Trade and other payables	25,165	—	—	25,165
	<u>100,414</u>	<u>—</u>	<u>—</u>	<u>100,414</u>

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 to shareholders 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 shareholders, return capital to shareholders, issue new shares 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 is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheets) plus amount due to a shareholder. Total equity is 'equity' as shown in the consolidated balance sheets.

The gearing ratios as at 31 December 2013, 2014 and 2015 and 30 June 2016 were as follows:

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Total borrowings (Note 20)	32,000	73,152	50,812	72,333
Amount due to a shareholder (Note 27)	<u>72,390</u>	<u>53,213</u>	<u>—</u>	<u>338</u>
Total debt	<u>104,390</u>	<u>126,365</u>	<u>50,812</u>	<u>72,671</u>
Total equity	<u>43,057</u>	<u>87,881</u>	<u>136,413</u>	<u>163,169</u>
Gearing ratio	<u>242%</u>	<u>144%</u>	<u>37%</u>	<u>45%</u>

The decrease in gearing ratio during the Related Periods is resulted primarily from the increase in total equity and the repayment of borrowings and amount due to a shareholder during the year ended 31 December 2015.

3.3 Fair value estimation

The Group adopts the amendment to IFRS 13 for financial instruments that are measured in the consolidated balance sheets at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- 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).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at 31 December 2013, 2014 and 2015 and 30 June 2016, the Group had no financial instruments that are measured in the consolidated balance sheets at fair value.

The carrying amounts of the Group's financial assets, including trade and other receivables, cash and cash equivalents, and short term liabilities, including trade payables, other payables and accruals and borrowings are assumed to approximate their fair values due to their short-term maturities.

4 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are 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 have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) *Current and deferred income taxes*

The Group is subject to income taxes in a few jurisdictions. Judgement is required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the periods in which such determination are made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation in the periods in which such estimate is changed.

(b) *Estimated useful lives and residual values of property, plant and equipment*

The Group's management determines the estimated useful lives and residual values and consequently the related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitors action in response to sever industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or nonstrategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives, and actual residual values. Periodic reviews could result in a change in depreciable lives and residual values and therefore changes in depreciation expenses in the future periods.

(c) *Allowances for doubtful receivables*

The Group's management reviews its receivables for objective evidence of impairment at least quarterly. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, and default or significant delay in payments are considered objective evidence that a receivable is impaired. In determining this, management makes judgement as to whether there is observable data indicating that there has been a significant change in the payment ability of the debtor, or whether there have been significant changes with adverse effect in the technological, market, economic or legal environment in which the debtor operates in.

Where there is objective evidence of impairment, management has made judgements as to whether an impairment loss should be recorded as an expense. In determining this, management uses estimates based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between the estimated loss and actual loss experience.

The carrying amounts of the Group's trade and other receivables are disclosed in Note 16. Management is of the view that the no allowance for doubtful receivables recorded is required.

5 Segment information

The executive directors are the Group's chief operating decision-maker. The executive directors review the Group's internal reporting in order to assess performance and allocate resources. The executive directors have determined the operating segments based on these reports. The executive directors consider the business from products and services perspective, and determine that the Group has the following operating segments:

- (i) Manufacturing and sales of plywood;
- (ii) Manufacturing and sales of biomass wood pellets fuel.

No geographical segment information is presented as all the revenue and operating profits of the Group are derived within the PRC and all the operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

The executive directors assess the performance of the business segments based on profit before income tax without allocation of finance costs, which is consistent with that in the consolidated financial statements.

The revenue of the Group during the Relevant Periods are set out as follows:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total segment revenue					
-Sales of plywood	149,172	250,504	284,204	120,707	159,216
-Sales of biomass pellets	20,604	70,751	102,126	44,237	52,519
Inter-segment revenue	(3,691)	(4,233)	(5,470)	(2,482)	(3,276)
Total revenue	<u>166,085</u>	<u>317,022</u>	<u>380,860</u>	<u>162,462</u>	<u>208,459</u>

(Unaudited)

Revenues of approximately RMB 19,577,000, RMB 21,904,000, RMB 30,857,000, RMB 9,575,000 and RMB 26,371,000 are derived from a single external customer for the years ended 31 December 2013, 2014 and 2015 and the six months ended 30 June 2015 and 2016, respectively, which are all generated from sales of plywood.

The segment information is set out as below:

Segment assets consist of land use right, property, plant and equipment, inventories, trade and other receivables and cash and cash equivalents.

Segment liabilities consist of borrowings, deferred income, deferred tax liabilities, trade and other payables and other current tax liabilities.

For the year ended 31 December 2013

The segment information for the year ended 31 December 2013 is as follows:

	Plywood <i>RMB'000</i>	Biomass wood pellets <i>RMB'000</i>	Inter- segment revenue <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Group <i>RMB'000</i>
Segment results					
Revenue	<u>149,172</u>	<u>20,604</u>	<u>(3,691)</u>	<u>—</u>	<u>166,085</u>
Segment results	<u>25,384</u>	<u>2,528</u>	<u>(128)</u>	<u>(16)</u>	<u>27,768</u>
Finance expenses - net (Note 10)					<u>(596)</u>
Profit before income tax					27,172
Income tax expense (Note 11)					<u>(6,842)</u>
Profit for the year					<u>20,330</u>
Other segment items included in the consolidated statements of comprehensive income					
Depreciation (Note 14)	1,989	736	—	—	2,725
Amortisation of land use right (Note 13)	<u>224</u>	<u>75</u>	<u>—</u>	<u>—</u>	<u>299</u>

The segment assets and liabilities at 31 December 2013 are as follows:

	Plywood <i>RMB'000</i>	Biomass wood pellets <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Group <i>RMB'000</i>
Segment and total assets	128,850	56,084	—	<u>184,934</u>
Segment and total liabilities	98,350	43,514	13	<u>141,877</u>

For the year ended 31 December 2014

The segment information for the year ended 31 December 2014 is as follows:

	Plywood <i>RMB'000</i>	Biomass wood pellets <i>RMB'000</i>	Inter- segment revenue <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Group <i>RMB'000</i>
Segment results					
Revenue	<u>250,504</u>	<u>70,751</u>	<u>(4,233)</u>	<u>—</u>	<u>317,022</u>
Segment results	<u>42,932</u>	<u>14,180</u>	<u>104</u>	<u>(4)</u>	<u>57,212</u>
Finance expenses - net (Note 10)					<u>(4,731)</u>
Profit before income tax					52,481
Income tax expense (Note 11)					<u>(13,555)</u>
Profit for the year					<u>38,926</u>
Other segment items included in the consolidated statements of comprehensive income					
Depreciation (Note 14)	3,208	1,641	—	—	4,849
Amortisation of land use right (Note 13)	290	188	—	—	478
Loss on disposal of property, plant and equipment (Note 7)	<u>218</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>218</u>

The segment assets and liabilities at 31 December 2014 are as follows:

	Plywood <i>RMB'000</i>	Biomass wood pellets <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Group <i>RMB'000</i>
Segment and total assets	208,087	81,584	—	<u>289,671</u>
Segment and total liabilities	150,723	51,047	20	<u>201,790</u>

For the year ended 31 December 2015

The segment information for the year ended 31 December 2015 is as follows:

	Plywood <i>RMB'000</i>	Biomass wood pellets <i>RMB'000</i>	Inter- segment revenue <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Group <i>RMB'000</i>
Segment results					
Revenue	<u>284,204</u>	<u>102,126</u>	<u>(5,470)</u>	<u>—</u>	<u>380,860</u>
Segment results	<u>45,615</u>	<u>25,167</u>	<u>21</u>	<u>(3,708)</u>	<u>67,095</u>
Finance expenses - net (Note 10)					<u>(5,427)</u>
Profit before income tax					61,668
Income tax expense (Note 11)					<u>(16,446)</u>
Profit for the year					<u>45,222</u>
Other segment items included in the consolidated statements of comprehensive income					
Depreciation (Note 14)	3,562	1,804	—	—	5,366
Amortisation of land use right (Note 13)	<u>289</u>	<u>217</u>	<u>—</u>	<u>—</u>	<u>506</u>

The segment assets and liabilities at 31 December 2015 are as follows:

	Plywood <i>RMB'000</i>	Biomass wood pellets <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Group <i>RMB'000</i>
Segment and total assets	160,560	74,847	467	<u>235,874</u>
Segment and total liabilities	78,826	18,438	2,197	<u>99,461</u>

For the six months ended 30 June 2016

The segment information for the six months ended 30 June 2016 is as follows:

	Plywood <i>RMB'000</i>	Biomass wood pellets <i>RMB'000</i>	Inter- segment revenue <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Group <i>RMB'000</i>
Segment results					
Revenue	<u>159,216</u>	<u>52,519</u>	<u>(3,276)</u>	<u>—</u>	<u>208,459</u>
Segment results	<u>29,232</u>	<u>12,687</u>	<u>(102)</u>	<u>(2,579)</u>	<u>39,238</u>
Finance expenses - net (Note 10)					<u>(2,189)</u>
Profit before income tax					37,049
Income tax expense (Note 11)					<u>(10,293)</u>
Profit for the period					<u>26,756</u>
Other segment items included in the consolidated statements of comprehensive income					
Depreciation (Note 14)	1,702	901	—	1	2,604
Amortisation of land use right (Note 13)	<u>145</u>	<u>108</u>	<u>—</u>	<u>—</u>	<u>253</u>

The segment assets and liabilities at 30 June 2016 are as follows:

	Plywood <i>RMB'000</i>	Biomass wood pellets <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Group <i>RMB'000</i>
Segment and total assets	208,105	84,794	2,047	<u>294,946</u>
Segment and total liabilities	111,782	11,947	8,048	<u>131,777</u>

For the six months ended 30 June 2015 (Unaudited)

The segment information for the six months ended 30 June 2015 is as follows:

	Plywood <i>RMB'000</i> <i>(Unaudited)</i>	Biomass wood pellets <i>RMB'000</i> <i>(Unaudited)</i>	Inter- segment revenue <i>RMB'000</i> <i>(Unaudited)</i>	Unallocated <i>RMB'000</i> <i>(Unaudited)</i>	Group <i>RMB'000</i> <i>(Unaudited)</i>
Segment results					
Revenue	<u>120,707</u>	<u>44,237</u>	<u>(2,482)</u>	<u>—</u>	<u>162,462</u>
Segment results	<u>19,614</u>	<u>10,569</u>	<u>(40)</u>	<u>(532)</u>	<u>29,611</u>
Finance expenses - net (Note 10)					<u>(2,967)</u>
Profit before income tax					26,644
Income tax expense (Note 11)					<u>(7,019)</u>
Profit for the period					<u>19,625</u>
Other segment items included in the consolidated statements of comprehensive income					
Depreciation (Note 14)	1,758	893	—	—	2,651
Amortisation of land use right (Note 13)	<u>145</u>	<u>108</u>	<u>—</u>	<u>—</u>	<u>253</u>

The segment assets and liabilities at 30 June 2015 are as follows:

	Plywood <i>RMB'000</i> <i>(Unaudited)</i>	Biomass wood pellets <i>RMB'000</i> <i>(Unaudited)</i>	Unallocated <i>RMB'000</i> <i>(Unaudited)</i>	Group <i>RMB'000</i> <i>(Unaudited)</i>
Segment and total assets	200,483	77,072	484	<u>278,039</u>
Segment and total liabilities	138,173	28,319	731	<u>167,223</u>

6 Other income

	Year ended 31 December			Six months ended 30 June	
	2013 <i>RMB'000</i>	2014 <i>RMB'000</i>	2015 <i>RMB'000</i>	2015 <i>RMB'000</i>	2016 <i>RMB'000</i>
Sales of plywood core	2,225	1,092	1,399	542	881
Government grants related to expenses	300	—	—	—	—
Amortisation of deferred income related to government grants (Note 22)	6	26	28	12	11
Foreign exchange gain	—	—	—	51	—
Refund of value added tax (“VAT”)(Note)	—	1,586	5,877	2,374	3,519
Others	<u>71</u>	<u>1</u>	<u>—</u>	<u>—</u>	<u>443</u>
	<u>2,602</u>	<u>2,705</u>	<u>7,304</u>	<u>2,979</u>	<u>4,854</u>

Note: Pursuant to the approval by the Economic and Information Technology Committee of Shandong Province, Dasen Heze was entitled to VAT refund of their sales of biomass wood pellets which involves comprehensive utilization of resources for the period from 1 January 2013 to 31 December 2016.

7 Other losses

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Foreign exchange loss	41	12	75	—	172
Bank charges	12	66	21	11	15
Loss from disposal of property, plant and equipment	—	218	—	—	—
Others	15	31	82	1	38
	<u>68</u>	<u>327</u>	<u>178</u>	<u>12</u>	<u>225</u>

8 Expenses by nature

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Unaudited)	
Changes in inventories of finished goods and work in progress	(9,691)	(3,682)	(6,668)	(380)	(130)
Raw materials and consumables used	123,836	216,143	273,823	112,715	148,369
Employee benefit expense (Note 9)	14,584	21,474	21,511	10,283	11,028
Depreciation and amortisation (Notes 13, 14)	3,024	5,327	5,872	2,904	2,857
Transportation expenses	1,069	7,452	2,122	1,521	—
Taxes and levies	1,091	2,735	3,211	1,917	1,773
Utilities	2,136	4,503	4,929	2,031	2,608
Research and development expenses	2,605	4,068	4,467	2,244	2,933
Audit remuneration					
-Audit service	24	18	359	121	95
-Non-audit services	—	—	—	—	—
Professional fees in respect of the initial public offering	—	—	7,522	1,262	3,216
Other expenses	2,173	4,150	3,743	1,200	1,101
	<u>140,851</u>	<u>262,188</u>	<u>320,891</u>	<u>135,818</u>	<u>173,850</u>

9 Employee benefit expense

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Salaries, wages and bonuses	11,707	18,572	18,234	8,682	9,816
Pension, housing fund, medical insurance and other social insurance	<u>2,877</u>	<u>2,902</u>	<u>3,277</u>	<u>1,601</u>	<u>1,212</u>
Total employee benefit expense	<u>14,584</u>	<u>21,474</u>	<u>21,511</u>	<u>10,283</u>	<u>11,028</u>

(a) Pension costs — defined contribution plans

The employees of the Group's subsidiaries established in the PRC participate in defined contribution retirement benefit plans organised by the relevant provincial governments under which the Group is required to make monthly contributions to these plans at the percentages of the employees' monthly salaries and wages, subject to certain ceilings.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group are all senior management and included four directors during the Relevant Periods, whose emoluments are reflected in the analysis shown in Note 30. The emoluments paid to the remaining individual during the Relevant Periods were as follows:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Salaries and bonus	54	63	292	36	392
Pension, housing fund, medical insurance and other benefits	<u>8</u>	<u>8</u>	<u>6</u>	<u>4</u>	<u>8</u>
	<u>62</u>	<u>71</u>	<u>298</u>	<u>40</u>	<u>400</u>

The number of highest paid non-director individuals, whose remuneration for the Relevant Periods fell within the following bands:

	Year ended 31 December			Six months ended	
				30 June	
	2013	2014	2015	2015	2016
				<i>(Unaudited)</i>	
Emolument bands (in HKD)					
Nil to HKD 1,000,000	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

During the Relevant Periods, no emoluments have been paid to the non-director highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10 Finance expenses — net

	Year ended 31 December			Six months ended	
				30 June	
	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>	
Financial expenses:					
- Interest expense on borrowings from banks	1,307	4,017	4,592	2,498	1,937
- Interest expense on finance leases	—	887	836	470	255
- Less: capitalised interest expense (Note 14)	<u>(708)</u>	<u>(156)</u>	<u>—</u>	<u>—</u>	<u>—</u>
	599	4,748	5,428	2,968	2,192
Finance income:					
-Interest income on bank deposits	<u>(3)</u>	<u>(17)</u>	<u>(1)</u>	<u>(1)</u>	<u>(3)</u>
Finance expenses - net	<u>596</u>	<u>4,731</u>	<u>5,427</u>	<u>2,967</u>	<u>2,189</u>

11 Income tax expense

PRC profits tax has been provided at the rate of 25% on the estimated assessable profit for the year/period.

	Year ended 31 December			Six months ended	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Current income tax	7,937	14,014	16,750	6,998	10,471
Deferred income tax (Note 23)	<u>(1,095)</u>	<u>(459)</u>	<u>(304)</u>	<u>21</u>	<u>(178)</u>
Total income tax	<u>6,842</u>	<u>13,555</u>	<u>16,446</u>	<u>7,019</u>	<u>10,293</u>

(i) *Cayman Islands profit tax*

The Company is not subject to any taxation in the Cayman Islands.

(ii) *British Virgin Islands profits tax*

The Company's subsidiary in the BVI is exempted from BVI income tax, as it is incorporated under the International Business Companies Act of the BVI.

(iii) *Hong Kong profits tax*

No Hong Kong profits tax has been provided, as the Group has no taxable profit earned or derived in Hong Kong. The applicable Hong Kong profit tax rate is 16.5% for the Relevant Periods.

(iv) *PRC corporate income tax ("CIT")*

CIT is provided on the assessable income of entities within the Group incorporated in the PRC. The applicable CIT tax rate is 25% for the Relevant Periods.

(v) *PRC withholding income tax*

According to the new CIT Law, a 10% withholding tax will be levied on the immediate holding companies established out of the PRC. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding companies. During the Relevant Periods, no withholding tax has been provided (Note 23) as the directors have confirmed that the Group does not expect the PRC subsidiaries to distribute the retained earnings as at 30 June 2016 in the foreseeable future.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to profits of the consolidated entities as follows:

	Year ended 31 December			Six months ended	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Profit before income tax	<u>27,172</u>	<u>52,481</u>	<u>61,668</u>	<u>26,644</u>	<u>37,049</u>
Tax calculated at domestic tax rates applicable to profits in the respective year	6,793	13,120	15,417	6,661	9,262
Tax effects of:					
- Expenses not deductible for tax purpose	89	162	974	357	947
- Utilisation of previously unrecognised tax losses	(28)	—	—	—	—
- Tax losses for which the deferred income tax asset was not recognised	2	2	55	1	84
- Adjustment in respect of prior years	<u>(14)</u>	<u>271</u>	<u>—</u>	<u>—</u>	<u>—</u>
Tax charge	<u>6,842</u>	<u>13,555</u>	<u>16,446</u>	<u>7,019</u>	<u>10,293</u>

12 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the Relevant Periods. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The fully diluted earnings per share for the Relevant Periods is the same as the basic earnings per share as there is no dilutive potential ordinary share during the Relevant Periods. In determining the weighted average number of shares in issue during the Relevant Periods, 20,000 shares were deemed to have been in issued since 1 January 2013.

	Year ended 31 December			Six months ended	
	2013	2014	2015	30 June 2015	2016
Profit attributable to the owners of the company (RMB'000)	20,330	38,926	45,222	19,625	26,756
Weighted average number of ordinary shares in issue (in thousands)	<u>20</u>	<u>20</u>	<u>20</u>	<u>20</u>	<u>20</u>
Basic and diluted earnings per share (RMB)	<u>1,017</u>	<u>1,946</u>	<u>2,261</u>	<u>981</u>	<u>1,338</u>

(Unaudited)

It has not taken into account the proposed capitalisation issue because the proposed capitalisation issue has not become effective as at the date of this report.

13 Land use rights

The Group's interests in land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	Year ended 31 December			Six months ended	
	2013	2014	2015	30 June 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	11,080	21,387	24,313	24,313	23,807
Additions	10,606	3,404	—	—	—
Amortisation	<u>(299)</u>	<u>(478)</u>	<u>(506)</u>	<u>(253)</u>	<u>(253)</u>
At end of year/period	<u>21,387</u>	<u>24,313</u>	<u>23,807</u>	<u>24,060</u>	<u>23,554</u>

(Unaudited)

The land use rights are held under medium-term leases with lease term of 50 years and the land is situated in Heze, Shandong province, the PRC.

As at 31 December 2013, 2014 and 2015 and 30 June 2016, leasehold land and land use rights of the Group with a total net book value of RMB6,434,000, RMB17,119,000 and RMB23,807,000, and RMB23,554,000 respectively, were pledged to secure short-term borrowings as disclosed in Note 20.

14 Property, plant and equipment

	Plant <i>RMB'000</i>	Machinery <i>RMB'000</i>	Vehicles <i>RMB'000</i>	Furniture, fittings and equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2013						
Cost	27,322	6,107	731	361	8,894	43,415
Accumulated depreciation	(873)	(1,260)	(186)	(61)	—	(2,380)
Provision for impairment loss	(561)	—	—	—	—	(561)
Net book amount	<u>25,888</u>	<u>4,847</u>	<u>545</u>	<u>300</u>	<u>8,894</u>	<u>40,474</u>
Year ended 31 December 2013						
Opening net book amount	25,888	4,847	545	300	8,894	40,474
Additions	—	929	236	305	52,564	54,034
Transfer	49,130	3,922	—	—	(53,052)	—
Depreciation charge	(1,717)	(738)	(172)	(98)	—	(2,725)
Closing net book amount	<u>73,301</u>	<u>8,960</u>	<u>609</u>	<u>507</u>	<u>8,406</u>	<u>91,783</u>
At 31 December 2013						
Cost	76,452	10,958	967	666	8,406	97,449
Accumulated depreciation	(2,590)	(1,998)	(358)	(159)	—	(5,105)
Provision for impairment loss	(561)	—	—	—	—	(561)
Net book amount	<u>73,301</u>	<u>8,960</u>	<u>609</u>	<u>507</u>	<u>8,406</u>	<u>91,783</u>
Year ended 31 December 2014						
Opening net book amount	73,301	8,960	609	507	8,406	91,783
Additions	—	15,790	—	219	7,481	23,490
Transfer	7,058	8,829	—	—	(15,887)	—
Disposals	—	(364)	(5)	—	—	(369)
Depreciation charge	(2,512)	(2,024)	(185)	(128)	—	(4,849)
Closing net book amount	<u>77,847</u>	<u>31,191</u>	<u>419</u>	<u>598</u>	<u>—</u>	<u>110,055</u>

	Plant <i>RMB'000</i>	Machinery <i>RMB'000</i>	Vehicles <i>RMB'000</i>	Furniture, fittings and equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
At 31 December 2014						
Cost	83,510	34,747	961	885	—	120,103
Accumulated depreciation	(5,102)	(3,556)	(542)	(287)	—	(9,487)
Provision for impairment loss	(561)	—	—	—	—	(561)
Net book amount	<u>77,847</u>	<u>31,191</u>	<u>419</u>	<u>598</u>	<u>—</u>	<u>110,055</u>
Year ended 31 December 2015						
Opening net book amount	77,847	31,191	419	598	—	110,055
Additions	—	13	50	125	—	188
Depreciation charge	(2,627)	(2,367)	(200)	(172)	—	(5,366)
Closing net book amount	<u>75,220</u>	<u>28,837</u>	<u>269</u>	<u>551</u>	<u>—</u>	<u>104,877</u>
At 31 December 2015						
Cost	83,510	34,760	1,011	1,010	—	120,291
Accumulated depreciation	(7,729)	(5,923)	(742)	(459)	—	(14,853)
Provision for impairment loss	(561)	—	—	—	—	(561)
Net book amount	<u>75,220</u>	<u>28,837</u>	<u>269</u>	<u>551</u>	<u>—</u>	<u>104,877</u>
Six months ended 30 June 2016						
Opening net book amount	75,220	28,837	269	551	—	104,877
Additions	—	—	—	—	—	—
Depreciation charge	(1,310)	(1,138)	(70)	(86)	—	(2,604)
Closing net book amount	<u>73,910</u>	<u>27,699</u>	<u>199</u>	<u>465</u>	<u>—</u>	<u>102,273</u>
At 30 June 2016						
Cost	83,510	34,760	1,011	1,010	—	120,291
Accumulated depreciation	(9,039)	(7,061)	(812)	(545)	—	(17,457)
Provision for impairment loss	(561)	—	—	—	—	(561)
Net book amount	<u>73,910</u>	<u>27,699</u>	<u>199</u>	<u>465</u>	<u>—</u>	<u>102,273</u>

During the Relevant Periods, the amounts of depreciation expense charged to cost of sales and administrative expenses are as follows:

	Year ended 31 December			Six months ended	
	2013	2014	2015	30 June	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Cost of sales	2,290	4,218	4,572	2,267	2,229
Administrative expenses	<u>435</u>	<u>631</u>	<u>794</u>	<u>384</u>	<u>375</u>
	<u>2,725</u>	<u>4,849</u>	<u>5,366</u>	<u>2,651</u>	<u>2,604</u>

During the years ended 31 December 2013 and 2014, the Group capitalised interest on borrowing amounting to approximately RMB708,000 and RMB156,000 on qualifying assets, respectively. Borrowing costs were capitalised at the weighted average rate of 8.50% and 8.01% per annum for the years ended 31 December 2013 and 2014, respectively (2015 and after: nil).

As at 31 December 2013, 2014 and 2015 and 30 June, 2016, plants of the Group with a total net book value of RMB33,702,000, RMB51,294,000, RMB60,435,000, and RMB59,384,000, respectively, were pledged to secure short-term bank borrowings as disclosed in Note 20.

As at 31 December 2014, machineries of the Group with a total net book value of RMB3,282,000 were pledged to secure short-term borrowings as disclosed in Note 20 (31 December 2013 and 2015 and 30 June 2016: nil).

The Group leases various machineries under non-cancellable finance lease agreement. The lease terms are 3 years, and ownership of the assets will be transferred to the Group after the lease term. Production machinery and equipment includes the following amounts where the Group is a lessee under finance leases:

	Year ended 31 December			Six months ended	
	2013	2014	2015	30 June	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Cost-capitalized finance lease	—	14,855	14,855	14,855	14,855
Accumulated depreciation	<u>—</u>	<u>(661)</u>	<u>(1,611)</u>	<u>(1,132)</u>	<u>(2,086)</u>
Net book amount	<u>—</u>	<u>14,194</u>	<u>13,244</u>	<u>13,723</u>	<u>12,769</u>

As at 31 December 2013, 2014 and 2015 and 30 June 2016, plants of the Group with a total net book value of RMB1,671,000, RMB1,615,000, RMB1,559,000 and RMB1,531,000 respectively, were without real estate titles and they are under the process of getting the real estate certificates.

15 Inventories

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
Raw materials	19,082	8,045	11,593	23,976
Work-in-progress	6,619	3,933	9,750	9,238
Finished goods	<u>5,961</u>	<u>12,329</u>	<u>13,180</u>	<u>13,822</u>
	<u>31,662</u>	<u>24,307</u>	<u>34,523</u>	<u>47,036</u>

During the years ended 31 December 2013, 2014 and 2015 and six months ended 30 June 2016, the cost of inventories recognised as an expense and included in “cost of sales” was RMB114,145,000, RMB212,461,000, RMB267,155,000, and RMB148,239,000 respectively.

16 Trade and other receivables

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
Trade receivables	28,114	119,106	58,917	107,069
Less: Allowance for impairment of receivables	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Trade receivables — net	28,114	119,106	58,917	107,069
Prepayments				
- Prepayments for raw materials	5,537	6,526	1,680	373
- Prepayments for initial public offering	<u>—</u>	<u>—</u>	<u>1,061</u>	<u>2,994</u>
Other receivable from third parties	<u>1,050</u>	<u>1,050</u>	<u>32</u>	<u>1,414</u>
	<u>34,701</u>	<u>126,682</u>	<u>61,690</u>	<u>111,850</u>

The Group has a large number of customers, mainly in Fujian Province, Guangdong Province and Zhejiang Province. There is no concentration of credit risk with respect to trade receivables. Majority of the Group's sales are with credit terms. Major customers with good repayment history are normally offered credit terms of no more than six months.

As at 31 December 2013, 2014 and 2015 and at 30 June 2016 the aging analysis of the trade receivables based on invoice date is as follows:

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
Up to 3 months	26,665	78,823	50,335	82,870
4 to 6 months	936	29,759	4,893	17,596
6 to 12 months	489	10,524	2,493	5,935
Over 1 year	<u>24</u>	<u>—</u>	<u>1,196</u>	<u>668</u>
	<u>28,114</u>	<u>119,106</u>	<u>58,917</u>	<u>107,069</u>

As at 31 December 2013, 2014 and 2015 and 30 June 2016, trade receivables of approximately RMB1,678,000, RMB37,710,000, RMB9,907,000 and RMB27,336,000 were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty, and based on experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
Past due for 1 to 6 months	1,165	32,853	7,743	25,696
Past due for more than 6 months	<u>513</u>	<u>4,857</u>	<u>2,164</u>	<u>1,640</u>
	<u>1,678</u>	<u>37,710</u>	<u>9,907</u>	<u>27,336</u>

The other classes within trade and other receivables do not contain impaired assets.

The carrying amounts of the Group's trade and other receivables were all dominated in RMB and approximated their fair values as at the respective balance sheet dates. The maximum exposure to credit risk at the reporting date is the carrying value of receivable mentioned above. The Group does not hold any collateral as security.

17 Cash and cash equivalents

	As at 31 December			As at 30
	2013	2014	2015	June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash on hand	101	255	171	134
Cash at bank	<u>4,204</u>	<u>2,504</u>	<u>8,835</u>	<u>8,191</u>
Cash and cash equivalents	<u>4,305</u>	<u>2,759</u>	<u>9,006</u>	<u>8,325</u>

Cash at bank and on hand are denominated in the following currencies:

	As at 31 December			As at 30
	2013	2014	2015	June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
RMB	4,296	2,752	8,985	8,279
US\$	9	7	21	5
HK\$	<u>—</u>	<u>—</u>	<u>—</u>	<u>41</u>
	<u>4,305</u>	<u>2,759</u>	<u>9,006</u>	<u>8,325</u>

18 Share capital

	Number of issued shares	Ordinary shares <i>HKD</i>
As at 24 December 2015 (date of the Company's incorporation)	—	—
Issue of ordinary shares (Note 1.2)	<u>20,000</u>	<u>200</u>
As at 31 December 2015 and 30 June 2016	<u>20,000</u>	<u>200</u>

19 Capital and other reserves

	Capital reserve <i>RMB'000</i>	Statutory reserve <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at 1 January 2013 (i)	12,752	603	13,355
Capital contribution from the then equity holders of the subsidiaries comprising the Group (ii)	4,929	—	4,929
Profit appropriation to statutory reserve (iii)	<u>—</u>	<u>2,184</u>	<u>2,184</u>
Balance at 31 December 2013	<u>17,681</u>	<u>2,787</u>	<u>20,468</u>
	Capital reserve <i>RMB'000</i>	Statutory reserve <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at 1 January 2014	<u>17,681</u>	<u>2,787</u>	<u>20,468</u>
Capital contribution from the then equity holders of the subsidiaries comprising the Group (ii)	5,898	—	5,898
Profit appropriation to statutory reserve (iii)	<u>—</u>	<u>4,031</u>	<u>4,031</u>
Balance at 31 December 2014	<u>23,579</u>	<u>6,818</u>	<u>30,397</u>
	Capital reserve <i>RMB'000</i>	Statutory reserve <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at 1 January 2015	<u>23,579</u>	<u>6,818</u>	<u>30,397</u>
Capital contribution from the then equity holders of the subsidiaries comprising the Group (ii)	3,310	—	3,310
Profit appropriation to statutory reserve (iii)	<u>—</u>	<u>4,925</u>	<u>4,925</u>
Balance at 31 December 2015	<u>26,889</u>	<u>11,743</u>	<u>38,632</u>
Balance at 30 June 2016	<u>26,889</u>	<u>11,743</u>	<u>38,632</u>

	Capital reserve	Statutory reserve	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
(Unaudited)			
Balance at 1 January 2015	<u>23,579</u>	<u>6,818</u>	<u>30,397</u>
Capital contribution from the then equity holders of the subsidiaries comprising the Group (ii)	<u>3,003</u>	<u>—</u>	<u>3,003</u>
Balance at 30 June 2015	<u><u>26,582</u></u>	<u><u>6,818</u></u>	<u><u>33,400</u></u>

- (i) Capital reserve as at 1 January 2013 represents the combined share capital and reserve of Mei Sem HK and Dasen HK as at 1 January 2013.
- (ii) Capital contribution from the then equity holders of the subsidiaries comprising the Group represents the capital injection to Heroic Group Limited and its subsidiaries made by the Founding Shareholders during the Relevant Periods.
- (iii) Statutory reserve

Pursuant to the Company Law of the PRC and the articles of association of certain PRC subsidiaries, the subsidiaries in the PRC are required to appropriate 10% of each year's net profit (after offsetting previous years' losses) to statutory surplus reserve until the fund aggregates to 50% of their registered capital; after the appropriation to statutory surplus reserve, the subsidiaries in the PRC can appropriate profit, subject to respective equity holders' approval, to discretionary surplus reserve.

The appropriation to statutory and discretionary surplus reserves must be made before distribution of dividends to equity holders. These reserves shall only be used to make up for previous years' losses, to expand production operations, or to increase the capital of the respective Company. The entities in the PRC may transfer their respective statutory surplus reserves into paid-in capital, provided that the balance of the statutory surplus reserve after such transfer is not less than 25% of the registered capital.

- (iv) No dividend has been paid or declared by the Company since its establishment.

20 Borrowings

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Non-current				
Finance lease liabilities	—	4,810	1,023	—
Current				
Short-term bank borrowings				
- Secured	25,000	58,000	46,000	63,000
- Unsecured	7,000	7,000	—	6,000
Finance lease liabilities	—	3,342	3,789	3,333
	<u>32,000</u>	<u>68,342</u>	<u>49,789</u>	<u>72,333</u>
Total borrowings	<u>32,000</u>	<u>73,152</u>	<u>50,812</u>	<u>72,333</u>

(a) Borrowings from banks

The Group's bank borrowings were secured by land use rights of the Group with net book value of RMB6,434,000, RMB17,119,000, RMB23,807,000 and RMB23,554,000, plants of the Group with net book value of RMB33,702,000, RMB51,294,000, RMB60,435,000 and RMB59,384,000, and machinery and equipment of the Group with net book value of RMB nil, RMB3,282,000, RMB nil and RMB nil, as at 31 December 2013, 2014 and 2015 and 30 June 2016 respectively. The borrowings were also supported by guarantees from related parties (Note 27(a)(iii)).

The Group's unsecured borrowings as at 31 December 2013 and 2014 were guaranteed by Rizhao Tongsheng Guarantee Investment Co., Ltd., while that as at 30 June 2016 were guaranteed by Heze Jinhe Financing Guarantee Investment Co., Ltd, both being independent third parties of the Group.

For years ended 31 December 2013, 2014 and 2015 and six months ended 30 June 2016, the weighted average effective interest rates on borrowings from banks were 8.50%, 8.01%, 7.73% and 5.58%, respectively.

The carrying amounts of the Group's borrowings from banks were denominated in RMB and approximated their fair value as at the respective balance sheet dates.

(b) *Finance lease liabilities*

The rights to the leased assets are reverted to the lessor in the event of default of the lease liabilities by the Group (Note 14).

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Gross finance lease liabilities — minimum lease payments				
No later than 1 year	—	4,178	4,178	3,133
Later than 1 year and no later than 5 years	—	5,222	1,046	358
	—	9,400	5,224	3,491
Future finance charges on finance leases	—	(1,248)	(412)	(158)
Present value of finance lease liabilities	—	8,152	4,812	3,333
The present value of finance lease liabilities is as follows:				
No later than 1 year	—	3,342	3,789	3,333
Later than 1 year and no later than 5 years	—	4,810	1,023	—
	—	8,152	4,812	3,333

The effective annual interest rate of these finance lease liabilities was 12.56% as at 31 December 2014 and 2015, and 30 June 2016.

The net carrying amount of the machinery under finance leases amounted to RMB nil, RMB14,194,000, RMB13,392,000 and RMB12,918,000 as at 31 December 2013, 2014 and 2015, and 30 June 2016 respectively.

The carrying amounts of the Group's finance lease liabilities were denominated in RMB and approximated their fair values as at the respective balance sheet dates.

21 Trade and other payables

(a) *The Group*

	As at 31 December			As at 30
	2013	2014	2015	June
	RMB'000	RMB'000	RMB'000	RMB'000
Current				
Trade payables - Third parties	5,686	24,403	7,665	19,715
Advances from customers - Third parties	1,093	1,433	2,872	76
Payable for professional fees in respect of initial public offering	—	—	5,089	3,998
Payable for construction projects and purchase of property, plant and equipment	16,872	20,820	153	153
Other taxes payable	1,197	7,295	2,982	2,296
Employee benefit payables	5,582	8,812	11,366	11,135
Others	937	1,496	2,581	1,299
	<u>31,367</u>	<u>64,259</u>	<u>32,708</u>	<u>38,672</u>

As at 31 December 2013, 2014 and 2015, and 30 June 2016 the aging analysis of the trade payables based on invoice date was follows:

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	5,069	13,277	6,596	17,696
4 to 6 months	295	10,804	117	1,119
7 to 12 months	322	322	903	900
1 - 2 years	—	—	49	—
	<u>5,686</u>	<u>24,403</u>	<u>7,665</u>	<u>19,715</u>

The carrying amounts of the Group's trade and other payables were all denominated in RMB and approximated their fair values as at the respective balance sheet dates.

(b) *The Company*

	As at 31 December 2015	As at 30 June 2016
	<i>RMB'000</i>	<i>RMB'000</i>
Amount due to a subsidiary	<u>3,584</u>	<u>4,345</u>

The amount due to a subsidiary are unsecured, interest-free and repayable on demand. The carrying amount of the amount due to a subsidiary approximate their fair values and is denominated in RMB.

22 **Deferred income**

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Government grants relating to property, plant and equipment	<u>494</u>	<u>468</u>	<u>440</u>	<u>429</u>

The government grants were received from the local government as a subsidy to the Group's purchase of property, plant and equipment. They are amortised to the profit or loss on a straight-line basis over the expected useful lives of the related assets.

The movements of the above government grants during the Relevant Periods were as follows:

	Year ended 31 December			Six months ended 30 June	
	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 year/period	—	494	468	468	440
Granted during the year/period	500	—	—	—	—
Amortised as income (Note 6)	<u>(6)</u>	<u>(26)</u>	<u>(28)</u>	<u>(12)</u>	<u>(11)</u>
At end of year/period	<u>494</u>	<u>468</u>	<u>440</u>	<u>456</u>	<u>429</u>

23 Deferred income tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at 31 December			As at
	2013	2014	2015	30 June
	RMB'000	RMB'000	RMB'000	2016
				RMB'000
Deferred tax assets:				
- Deferred tax asset to be recovered after more than 12 months	(306)	(647)	(447)	(424)
- Deferred tax asset to be recovered within 12 months	1,402	2,202	2,418	2,332
	<u>1,096</u>	<u>1,555</u>	<u>1,971</u>	<u>1,908</u>
Deferred tax liabilities:				
- Deferred tax liability to be settled within 12 months	—	—	(581)	(697)
- Deferred tax liability to be settled after more than 12 months	—	—	469	470
	<u>—</u>	<u>—</u>	<u>(112)</u>	<u>(227)</u>
Deferred tax assets (net)	<u>1,096</u>	<u>1,555</u>	<u>1,859</u>	<u>1,681</u>

The gross movement of the deferred income tax assets (net) is as follows:

	Year ended 31 December			Six months ended	
	2013	2014	2015	30 June	
	RMB'000	RMB'000	RMB'000	2015	2016
			RMB'000	RMB'000	
				<i>(Unaudited)</i>	
At beginning of year/period	1	1,096	1,555	1,555	1,859
Income statement charge/(Credit) (Note 11)	1,095	459	304	21	(178)
At end of year/period	<u>1,096</u>	<u>1,555</u>	<u>1,859</u>	<u>1,576</u>	<u>1,681</u>

The movement in deferred income tax assets and liabilities during the year/period, without taking consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets	Plant impairment losses <i>RMB'000</i>	Government grants <i>RMB'000</i>	Amortisation difference of unrecognised finance lease charge <i>RMB'000</i>	Unpaid employee benefits <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2013	140	—	—	—	140
Credited to the consolidated statements of comprehensive income	<u>—</u>	<u>124</u>	<u>—</u>	<u>1,395</u>	<u>1,519</u>
At 31 December 2013	140	124	—	1,395	1,659
(Charged)/credited to the consolidated statements of comprehensive income	<u>—</u>	<u>(6)</u>	<u>195</u>	<u>808</u>	<u>997</u>
At 31 December 2014	140	118	195	2,203	2,656
(Charged)/credited to the consolidated statements of comprehensive income	<u>—</u>	<u>(6)</u>	<u>171</u>	<u>681</u>	<u>846</u>
At 31 December 2015	140	112	366	2,884	3,502
(Charged)/credited to the consolidated statements of comprehensive income	<u>—</u>	<u>(3)</u>	<u>46</u>	<u>(100)</u>	<u>(57)</u>
At 30 June 2016	<u><u>140</u></u>	<u><u>109</u></u>	<u><u>412</u></u>	<u><u>2,784</u></u>	<u><u>3,445</u></u>

Deferred income tax liabilities	Capitalized interest RMB'000	Depreciation difference of property, plant and equipment RMB'000	Total RMB'000
At 1 January 2013	19	120	139
Charged to the consolidated statements of comprehensive income	<u>176</u>	<u>248</u>	<u>424</u>
At 31 December 2013	195	368	563
Charged to the consolidated statements of comprehensive income	<u>31</u>	<u>507</u>	<u>538</u>
At 31 December 2014	226	875	1,101
(Credited)/charged to the consolidated statements of comprehensive income	<u>(9)</u>	<u>551</u>	<u>542</u>
At 31 December 2015	217	1,426	1,643
(Credited) to the consolidated statements of comprehensive income	<u>(4)</u>	<u>125</u>	<u>121</u>
At 30 June 2016	<u>213</u>	<u>1,551</u>	<u>1,764</u>

Deferred income tax liabilities have not been recognised for the withholding tax that would be payable on the earnings of the PRC subsidiaries which was earned from 1 January 2013 to 30 June 2016, as there is no plan of dividends distribution of such earnings in the foreseeable future. Unremitted earnings and deferred income tax liabilities have not been recognised for the Relevant Periods are as follows:

	As at 31 December			As at
	2013	2014	2015	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unremitted earnings of PRC subsidiaries	22,762	57,570	101,889	131,938
Deferred income tax liabilities not recognized for withholding tax	<u>2,276</u>	<u>5,757</u>	<u>10,189</u>	<u>13,194</u>

24 Cash generated from operations

(a) Reconciliation of profit before income tax to cash (used in)/generated from operations

	Year ended 31 December			Six months ended	
	2013	2014	2015	30 June 2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit before income tax	27,172	52,481	61,668	26,644	37,049
Adjustments for:					
- Depreciation of property, plant and equipment (Note 14)	2,725	4,849	5,366	2,651	2,604
- Amortisation of land use right (Note 13)	299	478	506	253	253
- Amortisation of deferred income (Note 22)	(6)	(26)	(28)	(12)	(11)
- Loss on disposal of property, plant and equipment (Note 7)	—	218	—	—	—
- Finance expenses — net (Note 10)	596	4,731	5,427	2,967	2,189
Changes in working capital					
- Inventories	(18,454)	7,355	(10,216)	(2,054)	(12,513)
- Trade and other receivables	(28,282)	(91,980)	66,052	74,789	(48,227)
- Trade and other payables	(265)	28,943	(10,883)	(2,913)	5,964
Cash (used in)/generated from operations	(16,215)	7,049	117,892	102,325	(12,692)

(b) Proceeds from disposal of property, plant and equipment

	Year ended 31 December			Six months ended	
	2013	2014	2015	30 June 2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net book value	—	369	—	—	—
Loss on disposal of property, plant and equipment (Note 7)	—	(218)	—	—	—
Proceeds from disposal of property, plant and equipment	—	151	—	—	—

25 Subsidiaries

The Company

	As at 31 December 2015 <i>RMB'000</i>	As at 30 June 2016 <i>RMB'000</i>
Investment in a subsidiary	<u>136,450</u>	<u>136,450</u>

Unlisted investment in a subsidiary is stated at the aggregate net book value of the net assets of the subsidiary acquired upon the Reorganization. The difference between the consideration paid to acquire the subsidiary by the Company for the purpose of completion of the Reorganization and the aggregated net book value of the subsidiary at the date of the acquisition was recorded as other reserve in the equity of the Company.

26 Commitments

Capital commitments

The capital commitments of the Group as at the respectively balance sheet dates during the Relevant Periods were as follows:

	As at 31 December			As at
	2013	2014	2015	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted but not provided for:				
Property, plant and equipment	<u>19,010</u>	<u>—</u>	<u>—</u>	<u>—</u>

27 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions.

Name and relationship with related parties are set out below:

Related party	Relationship
Mr. Ke Mingcai	Founding Shareholder, Chairman and executive director of the Company
Mr. Cai Jinxu	Founding Shareholder
Mr. Zhang Ayang	Executive director
Mr. Wu Zhibin	Key management of the Group

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the Relevant Periods, and balances arising from related party transactions as at the respective balance sheet dates:

(a) *Discontinued transactions with related parties*

	Year ended 31 December			Six months ended	
	2013	2014	2015	30 June 2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	<i>(Unaudited)</i>				
(i) Amounts received from related parties					
- Mr. Ke Mingcai	<u>83,670</u>	<u>84,185</u>	<u>17,858</u>	<u>594</u>	<u>338</u>
(ii) Amounts repaid to related parties					
- Mr. Ke Mingcai	<u>(39,571)</u>	<u>(103,362)</u>	<u>(71,071)</u>	<u>(70,106)</u>	<u>—</u>

(iii) Guarantees provided by related parties to the Group's short-term borrowings from banks

As at 31 December 2013, the Group's short term borrowings of RMB17,000,000 were solely guaranteed by Mr. Cai Jinxu (Note 20(a)).

As at 31 December 2014, the Group's short term borrowings of RMB20,000,000 were jointly guaranteed by Mr. Cai Jinxu and Mr. Wu Zhibin (Note 20(a)).

As at 31 December 2015, the Group's short term borrowings of RMB36,000,000 were guaranteed by Mr. Cai Jinxu, Mr. Wu Zhibin, and Mr. Zhang Ayang (Note 20(a)).

As at 30 June 2016, the Group's short term borrowings of RMB48,000,000 were guaranteed by Mr. Cai Jinxu, Mr. Wu Zhibin, and Mr. Zhang Ayang (Note 20(a)).

(b) *Continuing transactions with related parties*

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Key management compensation					
- Salaries and bonus	67	186	508	367	500
- Pension, housing fund, medical insurance and other benefits	24	25	34	29	23
	91	211	542	396	523

(c) *Balances with a related party*

	As at 31 December			As at 30 June
	2013	2014	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000
Amount due to a shareholder:				
- Mr. Ke Mingcai	72,390	53,213	—	338

The amount due to a related party was related to funds from a shareholder for working capital of the Group. It is unsecured, non-interest bearing and repayable on demand.

28 **Contingencies**

As at 31 December 2013, 2014 and 2015 and 30 June 2016, there were no significant contingencies items for the Group and the Company.

29 **Events after the balance sheet date**

There is no material subsequent events undertaken by the Company or by the Group after 30 June 2016.

30 Benefits and interests of directors

(a) Directors' and the chief executive's emoluments

The remuneration of each director and the chief executive of the Company for the Relevant Periods is set out as follows:

	Year ended 31 December			Six months ended 30 June	
	2013	2014	2015	2015	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				<i>(Unaudited)</i>	
Mr. Ke Mingcai					
- Salary and bonus	54	131	132	66	66
- Employer's contribution to pension scheme	8	8	9	4	5
Mr. Wang Songmao ⁽ⁱ⁾					
- Salary and bonus	120	66	120	59	60
- Employer's contribution to pension scheme	8	8	9	4	5
Mr. Zhang Ayang					
- Salary, allowance and bonus	120	99	120	59	60
- Employer's contribution to pension scheme	8	8	9	4	5
Mr. Wu Shican					
- Salary and bonus	96	96	96	48	48
- Employer's contribution to pension scheme	8	8	9	4	5
	422	424	504	248	254

(i) The chief executive of the Company is Mr. Wang Songmao, who is also one of the directors of the Company.

There were no remuneration paid to the directors of the Company by the shareholders for the years ended 31 December 2013, 2014 and 2015 and six months ended 30 June 2015 and 2016.

For the years ended 31 December 2013, 2014 and 2015 and six months ended 30 June 2015 and 2016, no directors received emoluments from the Group as inducement to join or upon joining the Group or as compensation for loss of office. No directors waived or had agreed to waive any emoluments.

For the years ended 31 December 2013, 2014 and 2015 and six months ended 30 June 2015 and 2016, no consideration was provided to third parties for making available directors' services.

(b) *Directors' material interests in transactions, arrangements or contracts*

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at each of the year ended 31 December 2013, 2014 and 2015 and six months ended 30 June 2015 and 2016 or at any time during the years/period.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to 30 June 2016. Save as disclosed in this report, no dividend or distribution has been declared, made or paid by the Company or any companies comprising the Group in respect of any period subsequent to 30 June 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, Hong Kong, 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 Global Offering on the net tangible assets of the Group attributable to equity holders of the Company as at 30 June 2016 as if the Global Offering had taken place on 30 June 2016 assuming the Over-allotment Option is not exercised.

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 30 June 2016 or at any future dates following the Global Offering. It is prepared based on the consolidated net assets of the Group as at 30 June 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 equity holders of the Company as at 30 June 2016 <i>RMB'000</i>	Estimated net proceeds from the Global Offering <i>RMB'000</i>	Unaudited pro forma adjusted net tangible assets attributable to equity holders of the Company as at 30 June 2016 <i>RMB'000</i>	Unaudited pro forma adjusted net tangible assets per Share <i>RMB</i>	Unaudited pro forma adjusted net tangible assets per Share <i>HK\$</i>
Based on an Offer Price of HK\$0.60 per Share	163,169	75,740	238,909	0.33	0.38
Based on an Offer Price of HK\$0.90 per Share	163,169	120,914	284,083	0.39	0.46

Notes:

- (1) *The audited consolidated net tangible assets attributable to equity holders of the Company as at 30 June 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 equity holders of the Company as at 30 June 2016 of RMB163,169,000.*

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

- (2) *The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$0.60 and HK\$0.90 per Share after deduction of the estimated underwriting fees and other related expenses payable by us subsequent to 30 June 2016 and takes no account of any shares which may be issued upon the exercise of the Over-allotment Option.*

- (3) *The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 720,000,000 Shares were in issue assuming that the Global Offering and the Capitalisation Issue have been completed on 30 June 2016 but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option and any Share which may be issued or repurchased by the Company pursuant to the Issuing Mandate or the Repurchase Mandate as described in the section headed “Share Capital” in this prospectus.*

- (4) *No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 30 June 2016.*

- (5) *For the purpose of this unaudited pro forma statement of adjusted net tangible assets, the balance stated in Renminbi are converted in to Hong Kong dollars at the rate of HK\$1.000 to RMB0.8625.*

B. REPORT FROM THE REPORTING ACCOUNTANT ON THE 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 INCLUDED IN A PROSPECTUS

TO THE DIRECTORS OF DA SEN HOLDINGS GROUP LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Da Sen Holdings Group 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 30 June 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 7 December 2016, in connection with the proposed initial public 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 in notes as set out on pages II-1 to II-2.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at 30 June 2016 as if the proposed initial public offering had taken place at 30 June 2016. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial statements for the six months ended 30 June 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").

*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888*

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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 performs 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 initial public offering at 30 June 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

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

- 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.

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, 7 December 2016

The following is the text of a letter, summary of valuations and valuation certificates prepared for the purpose of incorporation in this prospectus received from DTZ Cushman & Wakefield Limited, an independent property valuer, in connection with its opinion of market values of the property interests held by the Group in Hong Kong, Macau and the PRC as at 31 October 2016.



16th Floor
Jardine House
Central
Hong Kong

7 December 2016

The Board of Directors
Da Sen Holdings Group Limited
Unit 1201-5
China Resources Building
No. 26 Harbour Road
Wan Chai
Hong Kong

Dear Sirs,

Instructions, Purpose and Date of Valuation	In accordance with your instructions for us to value the property interests held by Da Sen Holdings Group Limited (the “Company”) or its subsidiaries (hereinafter together referred to as the “Group”) in the People’s Republic of China (the “PRC”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the properties in existing state as at 31 October 2016 (the “date of valuation”).
Definition of Market Value	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	Our valuation of each property excludes an 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.

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 any onerous nature which could affect their values.

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 on The Stock Exchange of Hong Kong Limited and HKIS Valuation Standards (2012 Edition) published by the Hong Kong Institute of Surveyors.

Land Tenure

In valuing the properties which are situated in the PRC, we have assumed that transferable land use rights in respect of the properties for respective specific terms at respective nominal annual land use fees have been granted and that any premium payable has already been fully paid. We have also assumed that the grantees or the users of the respective properties have free and uninterrupted rights to use or to assign the respective properties for the whole of the respective unexpired terms as granted. We have relied on the advice given by the Group and the Group's legal adviser, JINGTIAN & GONGCHENG, on the PRC laws, regarding the title to the PRC properties and the Group interests in the same.

Method of Valuation

In valuing the properties which are held and occupied by the Group for production uses in the PRC, we have adopted the Depreciated Replacement Cost ("DRC") Approach due to the specific nature of the properties. The DRC Approach is based on an estimate of the market value for the existing use of the land, plus the current gross replacement costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimization. The term gross replacement cost is defined as the estimated cost of erecting the building or a modern substitute building having the same area as the existing building at prices current at the relevant date. This figure includes fees and finance charges payable during the construction period and other associated expenses directly related to the construction of the building.

The DRC Approach generally furnishes a reliable indication of value for the property with specific nature and design of buildings, in the absence of identifiable market sales comparables. The value derived by 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.

Source of Information	<p>In the course of our valuations, we have relied to a considerable extent on the advice and information given by the Group and the Group's legal adviser, JINGTIAN & GONGCHENG, on the PRC laws regarding the title to the properties and the Group interests in the same. We have accepted advice to us on such matters 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 attached 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 are material to the valuations. We were also advised by the Group that no material facts have been omitted from the information supplied.</p>
Title Investigation	<p>We have been provided with extracts of the title documents relating to the properties in the PRC. However, we have not searched the original documents to ascertain ownership or to verify any amendment which may not appear on the copies handed to us. We are also unable to ascertain the Group's title to the properties in the PRC and we have therefore relied on the advice given by the Group regarding the interests of the Group in the PRC properties.</p> <p>In respect of the properties 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 respective valuation certificate.</p>
Site Inspection	<p>Our qualified valuers in the PRC inspected the exterior and, whenever possible, the interior of the properties in January 2016. However, we have not carried out investigations on site to determine the suitability of the soil conditions and the services etc. for the existing developments or any future development. Our valuations are prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are, however, not able to report that the properties are free of rot, infestation or any other structural defects. No test was carried out on any of the services and we have not carried out any environmental impact assessment.</p> <p>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.</p>

Exchange Rate Unless otherwise stated, all monetary sums stated in our valuations are in Renminbi (“RMB”), the official currency of the PRC.

We enclose here with a summary of our 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 and Advisory Services, Greater China

Note: Mr. Andrew K. F. Chan is a Registered Professional Surveyor who has over 29 years of experience in the valuation of properties in Hong Kong, Macau and the PRC.

SUMMARY OF VALUATIONS

Property	Market value in existing state as at 31 October 2016 <i>RMB</i>	Interest attributable to the Group %	Market value in existing state attributable to the Group as at 31 October 2016 <i>RMB</i>
Properties owned and occupied by the Group in the PRC			
1. An industrial complex situated at Meisen Industrial Park Sunsu Town Chengwu County Heze Shandong Province The PRC 中國山東省荷澤市成武縣孫寺鎮 美森工業園內一處工業廠房	62,000,000	100	62,000,000
2. An Industrial Complex situated at Dasen Industrial Park Chengwu County Development Zone Heze Shandong Province The PRC 中國山東省荷澤市成武縣開發區 大森工業園區一處工業廠房	41,000,000	100	41,000,000
Total:	<u>103,000,000</u>		<u>103,000,000</u>

VALUATION CERTIFICATE

Properties owned and occupied by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 October 2016												
1. An industrial complex situated at Meisen Industrial Park Sunsi Town Chengwu County Heze Shandong Province The PRC 中國山東省荷澤市成武縣孫寺鎮美森工業園內一處工業廠房	<p>The property comprises an industrial complex erected upon two contiguous sites with a total site area of approximately 85,024 sq.m..</p> <p>The property is situated in about an hour drive to the city center of Heze. Developments in the vicinity are generally rural in nature interspersed with some industrial developments and communal facilities. Accessibility to the property is reasonable and mainly via Dingdang Road (定陽路).</p> <p>The industrial complex comprises various single to 2-storey industrial buildings and various ancillary structures. All of the buildings and structures were completed in between 2002 and 2013.</p> <p>According to the Building Ownership Certificates and the information provided by the Group, the property comprises a total gross floor area of approximately 47,007.98 sq.m. with details as follows:</p>	As at the date of valuation, the property was occupied by the Group for industrial use.	RMB62,000,000 (100% interest attributable to the Group: RMB62,000,000) (See note (1))												
	<table border="1"> <thead> <tr> <th>Use</th> <th>Gross Floor Area <i>sq.m.</i></th> </tr> </thead> <tbody> <tr> <td>Phase I Workshops</td> <td>21,093.48</td> </tr> <tr> <td>Phase I Dormitory</td> <td>1,318.50</td> </tr> <tr> <td>Phase I Ancillary</td> <td>416.00</td> </tr> <tr> <td>Phase II Workshops</td> <td><u>24,180.00</u></td> </tr> <tr> <td>Total</td> <td><u>47,007.98</u></td> </tr> </tbody> </table>	Use	Gross Floor Area <i>sq.m.</i>	Phase I Workshops	21,093.48	Phase I Dormitory	1,318.50	Phase I Ancillary	416.00	Phase II Workshops	<u>24,180.00</u>	Total	<u>47,007.98</u>		
Use	Gross Floor Area <i>sq.m.</i>														
Phase I Workshops	21,093.48														
Phase I Dormitory	1,318.50														
Phase I Ancillary	416.00														
Phase II Workshops	<u>24,180.00</u>														
Total	<u>47,007.98</u>														
	<p>The land use rights of the property have been granted for terms expiring on 16 November 2061 and 20 May 2063 for industrial use.</p> <p>As advised by the Company, the Group is now occupying the adjacent site of a further site area of approximately 22 mu upon which several buildings with a total gross floor area of 1,770 sq-m. are erected. Such additional occupied portions have not obtained the Certificates for the Use of State-owned Land / title documents.</p>														

Notes:-

- (1) In the course of our valuation, we have ascribed no commercial value to the aforesaid 22 mu-site and those buildings without title documents.
- (2) According to two State-owned Land Use Rights Certificates (國有土地使用證) both issued by the People's Government of Chengwu County (成武縣人民政府), the land use rights of the property comprising a total site area of 85,024 sq.m. have been vested in 成武美森木業有限公司 for industrial use. Details of the said certificates are, inter alia, cited as follows:-

Certificate No.	Date of Issue	Expiry Date of Land Use Term	Site Area <i>sq.m.</i>
成國用(2015)第049號	10 December 2015	16 November 2061	46,077
成國用(2016)第016號	6 April 2016	20 May 2063	38,947

- (3) According to two Building Ownership Certificates (房屋所有權證) both issued by the Chengwu County Real Estate Administration Bureau (成武縣房地產管理局), the building ownership of the property comprising a total gross floor area of 47,007.98 sq.m. has been vested in 成武美森木業有限公司. Details of the said certificates are, inter alia, cited as follows:-

Certificate No.	Date of Registration	Building	Gross Floor Area <i>sq.m.</i>
成房權證成武字第孫寺-G-20號	16 May 2012	Phase I ancillary office, dormitory, workshops and ancillary buildings	22,827.98
成房權證成武字第孫寺-G-23號	29 July 2013	Phase II workshop buildings	24,180.00

- (4) According to Business Licence (營業執照) No. 371723228002795, 美森(山東)木業有限公司 (previously known as 成武美森木業有限公司) has been incorporated as a limited liability company with a registered capital of RMB8,000,000 for a valid operation period from 19 April 2004 to 25 September 2033.
- (5) According to the Company, the Group holds 100% attributable interest in the property.
- (6) We have been provided with a legal opinion regarding the title to the property issued by the Group's PRC legal adviser which contains, inter-alia, the following information:-
- (i) 美森(山東)木業有限公司 is in the possession of a proper legal title to the land use rights as well as the building ownership of the property comprising total site area and total gross floor area of 85,024 sq.m. and 47,007.98 sq.m. respectively and has the rights to occupy, use, transfer, lease, mortgage or dispose of the property by other lawful means; and
- (ii) as far as the PRC legal adviser is aware of and confirmed by the Group, portions of the property are subject to mortgages.

- (7) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licences are as follows:-

State-owned Land Use Rights Certificate	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 October 2016																
2. An industrial complex situated at Dasen Industrial Park Chengwu County Development Zone Heze Shandong Province The PRC 中國山東省荷澤市成武縣開發區大森工業園區一處工業廠房	<p>The property comprises an industrial complex erected upon two contiguous sites with a total site area of approximately 35,182 sq.m..</p> <p>The property is situated in about an hour drive to the city center of Heze. Developments in the vicinity comprise mainly industrial complexes interspersed with some communal facilities. Accessibility to the property is reasonable and mainly via Daminghu Road (大明湖路) and Qianfoshan Road (千佛山路).</p> <p>The industrial complex comprises various single to 3-storey industrial buildings and various ancillary structures. All of the buildings and structures were completed in between 2010 and 2012.</p> <p>According to the Building Ownership Certificates and the information provided by the Group, the property comprises a total gross floor area of approximately 23,982.35 sq.m. with details as follows:</p>	As at the date of valuation, the property was occupied by the Group for industrial use.	RMB41,000,000 (100% interest attributable to the Group: RMB41,000,000)																
	<table border="1"> <thead> <tr> <th>Use</th> <th>Gross Floor Area <i>sq.m.</i></th> </tr> </thead> <tbody> <tr> <td>Phase I Production Workshops</td> <td>8,341.20</td> </tr> <tr> <td>Phase I Drying Workshops</td> <td>4,087.00</td> </tr> <tr> <td>Phase II Showroom</td> <td>745.55</td> </tr> <tr> <td>Phase II Ancillary Office</td> <td>1,892.40</td> </tr> <tr> <td>Phase II Dormitory</td> <td>1,531.40</td> </tr> <tr> <td>Phase II Workshops</td> <td><u>7,384.80</u></td> </tr> <tr> <td>Total</td> <td><u>23,982.35</u></td> </tr> </tbody> </table>	Use	Gross Floor Area <i>sq.m.</i>	Phase I Production Workshops	8,341.20	Phase I Drying Workshops	4,087.00	Phase II Showroom	745.55	Phase II Ancillary Office	1,892.40	Phase II Dormitory	1,531.40	Phase II Workshops	<u>7,384.80</u>	Total	<u>23,982.35</u>		
Use	Gross Floor Area <i>sq.m.</i>																		
Phase I Production Workshops	8,341.20																		
Phase I Drying Workshops	4,087.00																		
Phase II Showroom	745.55																		
Phase II Ancillary Office	1,892.40																		
Phase II Dormitory	1,531.40																		
Phase II Workshops	<u>7,384.80</u>																		
Total	<u>23,982.35</u>																		
	The land use rights of the property have been granted for terms expiring on 25 June 2063 and 28 April 2064 for industrial use.																		

Notes:-

- (1) According to two State-owned Land Use Rights Certificates (國有土地使用證) both issued by the People's Government of Chengwu County (成武縣人民政府), the land use rights of the property comprising a total site area of 35,182 sq.m. have been vested in Dasen (Heze) Biomass Energy Co., Ltd. (大森(荷澤)生物質能源有限公司) for industrial use. Details of the said certificates are, inter alia, cited as follows:-

Certificate No.	Date of Issue	Expiry Date of Land Use Term	Site Area <i>sq.m.</i>
成國用(2013)第66號	17 July 2013	25 June 2063	21,509
成國用(2014)第32號	27 June 2014	28 April 2064	13,673

- (2) According to two Building Ownership Certificates (房屋所有權證) both issued by the Chengwu County Real Estate Administration Bureau (成武縣房地產管理局), the building ownership of the property comprising a total gross floor area of 23,982.35 sq.m. have been vested in Dasen (Heze) Biomass Energy Co., Ltd. (大森(荷澤)生物質能源有限公司). Details of the said certificates are, inter alia, cited as follows:-

Certificate No.	Date of Registration	Building	Gross Floor Area <i>sq.m.</i>
成房權證成武字第35-G-29號	27 August 2014	Phase I production and drying workshops	12,428.20
成房權證成武字第35-G-017號	16 July 2015	Phase II workshops, ancillary office, dormitory and showroom	11,554.15

- (3) According to Business Licence (營業執照) No. 371700400003368, Dasen (Heze) Biomass Energy Co., Ltd. (大森(荷澤)生物質能源有限公司) has been incorporated as a limited liability company with a registered capital of USD3,000,000 for a valid operation period from 1 November 2012 to 1 November 2022.

- (4) According to the Company, the Group holds 100% attributable interest in the property.

- (5) We have been provided with a legal opinion regarding the title to the property issued by the Group's PRC legal adviser which contains, inter-alia, the following information:-

(i) Dasen (Heze) Biomass Energy Co., Ltd. (大森(荷澤)生物質能源有限公司) is in the possession of a proper legal title to the land use rights as well as the building ownership of the property comprising total site area and total gross floor area of 35,182 sq.m. and 23,982.35 sq.m. respectively and has the rights to occupy, use, transfer, lease, mortgage or dispose of the property by other lawful means; and

(ii) as far as the PRC legal adviser is aware of and confirmed by the Group, portions of the property are subject to mortgages.

- (6) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licences are as follows:-

State-owned Land Use Rights Certificate	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

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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 24 December 2015 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Company’s constitutional documents consist of its memorandum of association (the “Memorandum”) and its articles of association (the “Articles”).

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that 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) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 25 November 2016 with effect from the Listing Date. 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) *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 the shares or any class of shares may (unless otherwise provided for by the terms of issue 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 will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing

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by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) *Alteration of capital*

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) *Transfer of shares*

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

The instrument of transfer shall be executed 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 transferee. 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 in respect of that share.

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The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept 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 registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

(v) *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 requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

(vi) *Power of any subsidiary of the Company to own shares in the Company*

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) *Calls on shares and forfeiture of shares*

The board may from time to time make such calls 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). A call may be made payable either in one lump sum or by installments. 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

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not exceeding twenty per cent. (20%) per annum as the board may agree to accept 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 monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating 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.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, 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 the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) Directors

(i) *Appointment, retirement and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

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The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed 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.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period 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 members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) 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) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

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 delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time 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 must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

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(ii) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) 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), or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange 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 are 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 is 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 with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) *Power to dispose of the assets of the Company or any of its subsidiaries*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, 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.

(iv) *Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

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(v) *Remuneration*

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only 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 held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration 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 and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any 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 entitled) must be approved by the Company in general meeting.

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(vii) *Loans and provision of security for loans to Directors*

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of 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 in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or 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, profits or other benefits received by him as a director, officer or member of, or from his interest in, 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, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, 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 or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;

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- (bb) any contract or arrangement for 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 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 contract or arrangement 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 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; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of 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 accorded generally to the class of persons to which such scheme or fund relates.

(c) **Proceedings of the Board**

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. 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 an additional or casting vote.

(d) **Alterations to constitutional documents and the Company's name**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) **Meetings of members**

(i) ***Special and ordinary resolutions***

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

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Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution 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 corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given held in accordance with the Articles.

(ii) *Voting rights and right to demand a poll*

Subject to any special rights or restrictions as to voting for the time being attached to any 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 fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons 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 pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, 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 shareholder in contravention of such requirement or restriction shall not be counted.

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(iii) *Annual general meetings*

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

(iv) *Notices of meetings and business to be conducted*

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is 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 and place of the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers published daily and circulating generally in Hong Kong and in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an 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 and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;

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(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(v) *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) *Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is 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 is 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. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) **Accounts and audit**

The board shall cause true accounts 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 property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office 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 accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However,

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an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof 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 of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which be those of a country or jurisdiction other than the Cayman Islands.. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) 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.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

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 but 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

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rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) 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 shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders 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.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest 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, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their 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 moneys 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.

All dividends or bonuses 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 or bonuses unclaimed for six years after having been declared may be forfeited by the board and 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.

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(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution 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, 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 is 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, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority 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. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

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(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is 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 a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman Islands company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman Islands company 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's operations must be conducted mainly outside the Cayman Islands. 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 authorised share capital.

(b) Share capital

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 of the 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 arrangement in consideration of the acquisition 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 (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

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.

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The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. 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. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company’s articles of association or the Companies Law.

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A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association 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.

(e) Dividends and distributions

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. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

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

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder 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 or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of 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.

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.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof 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 of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions 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:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 2 February, 2016.

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The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) 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. They will, however, have such rights as may be set out in the Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of 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 members, 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 of the Cayman Islands.

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(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of 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 sixty (60) days of any change in such directors or officers.

(p) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the 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 how 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. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

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(q) **Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(r) **Take-overs**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder 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 shareholders.

(s) **Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. **GENERAL**

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of 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 to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY AND ITS SUBSIDIARIES**1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 24 December 2015. Our Company has established a principal place of business in Hong Kong at Unit 1201-5, China Resources Building, No. 26 Harbour Road, Wanchai, Hong Kong and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 12 February 2016. Mr. Lau Chung Wai has been appointed as the authorised representative of our Company for acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the Companies Law and its constitution which comprises the Memorandum of Association and Articles of Association. A summary of certain provisions of our Company's constitution and relevant aspects of the Companies Law is set forth in Appendix IV to this prospectus.

2. Change in share capital of our Company

As at the date of incorporation, the authorised share capital of our Company was HK\$100,000 divided into 10,000,000 Shares of HK\$0.01 each.

One Share was allotted and issued at par to the initial subscriber on 24 December 2015 which was transferred as fully paid Share to Mr. Ke on the same date.

On 24 December 2015, our Company allotted and issued 2,999 Shares, 2,200 Shares, 1,500 Shares, 1,200 Shares, 1,200 Shares and 900 Shares to Mr. Ke, Mr. Cai, Mr. Wang, Mr. Lin, Mr. Wu and Ms. Wu, respectively, all at par.

On 31 December 2015, our Company allotted and issued 3,000 Shares, 2,200 Shares, 1,500 Shares, 1,200 Shares, 1,200 Shares and 900 Shares to Mr. Ke, Mr. Cai, Mr. Wang, Mr. Lin, Mr. Wu and Ms. Wu, respectively, in consideration of each of them transferring their respective interests in Heroic Group to our Company.

On 26 February 2016, Mr. Ke, Mr. Cai, Mr. Wang, Mr. Lin, Mr. Wu and Ms. Wu transferred Shares to the Pre-IPO Investors pursuant to the Pre-IPO Agreements. Further information of which are set forth in the paragraph headed "History, development and reorganisation — Pre-IPO investments" of this prospectus. As a result of the transfers, our shareholding is as follows:

Name of Shareholder	Number and percentage of Shares held
Mr. Ke	4,498 Shares (22.49%)
Mr. Cai	2,570 Shares (12.85%)
Mr. Wang	1,928 Shares (9.64%)

Name of Shareholder	Number and percentage of Shares held
Mr. Lin	1,542 Shares (7.71%)
Mr. Wu	900 Shares (4.50%)
Ms. Wu	1,156 Shares (5.78%)
Bliss International	2,500 Shares (12.50%)
Sea Dragon	2,371 Shares (11.855%)
Xing Ying Fu Li	1,280 Shares (6.40%)
Ocean Fu	1,255 Shares (6.275%)

Pursuant to resolutions in writing of all our Shareholders passed on 25 November 2016, our authorised share capital was increased from HK\$100,000 divided into 10,000,000 Shares of HK\$0.01 each to HK\$10,000,000 divided into 1,000,000,000 Shares of HK\$0.01 each by the creation of an additional 990,000,000 Shares.

Immediately following completion of the Global Offering and the Capitalisation Issue but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and any options which may be granted under the Share Option Scheme, the issued share capital of our Company will be HK\$7,200,000 divided into 720,000,000 Shares, all fully paid or credited as fully paid and 280,000,000 Shares will remain unissued.

Save for aforesaid and as mentioned in the paragraph headed “Resolutions in writing of all our Shareholders passed on 25 November 2016” below, there has been no alteration in the share capital of our Company since its incorporation.

3. Resolutions in writing of all our Shareholders passed on 25 November 2016

On 25 November 2016, resolutions in writing were passed by all our Shareholders, pursuant to which, among other things:

- (a) the authorised share capital of our Company was increased from HK\$100,000 to HK\$10,000,000 by the creation of an additional 990,000,000 Shares;
- (b) our Company approved and adopted the Memorandum of Association with immediate effect and the new Articles of Association to take effect on the Listing Date;
- (c) conditional on (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme);

- (ii) the entering into of the agreement on the Offer Price between the Sole Global Coordinator and our Company on or before the Price Determination Date; and (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:
- (i) the Global Offering was approved and our Directors were authorised to allot and issue the new Shares pursuant to the Global Offering;
 - (ii) the Over-allotment Option was approved and our Directors were authorised to effect the same and to allot and issue the Shares upon exercise of the Over-allotment Option;
 - (iii) the rules of the Share Option Scheme, the principal terms of which are set forth in the paragraph headed “D. Other information — 1. Share Option Scheme” in this Appendix, were approved and adopted and our Directors were authorised to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Scheme and to take all such steps as may be necessary and/or desirable to implement and give effect to the Share Option Scheme; and
 - (iv) conditional on the share premium account of our Company being credited as a result of the issue of the Offer Shares by our Company pursuant to the Global Offering, our Directors were authorised to capitalise an amount of HK\$5,399,800 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 539,980,000 Shares, such Shares to be allotted and issued to our Shareholders whose names appearing on the register of members of our Company at the close of business on 25 November 2016 (or as such Shareholders may direct) in proportion (as nearly as possible without fractions) to their then respective shareholdings in our Company.
- (d) a general unconditional mandate was given to our Directors to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than pursuant to a rights issue or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association or pursuant to the grant of options under the Share Option Scheme or other similar arrangement or pursuant to a specific authority granted by our Shareholders in general meeting, unissued Shares not exceeding 20% of the aggregate number of the Shares in issue immediately following completion of the Global Offering and Capitalisation Issue (excluding any Shares which may be issued pursuant to the Over-allotment Option and any Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the

period within which the next annual general meeting of our Company is required by the Articles of Association or any applicable laws of Cayman Islands to be held, or until revoked or varied or renewed by an ordinary resolution of our Shareholders at a general meeting of our Company, whichever occurs first;

- (e) a general unconditional mandate (the “**Repurchase Mandate**”) was given to our Directors authorizing them to exercise all powers of our Company to repurchase on the Stock Exchange or on any other approved stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares not exceeding 10% of the aggregate number of the Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue (excluding any Shares which may be issued pursuant to the Over-allotment Option and any Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or any applicable laws of Cayman Islands to be held, or until revoked or varied or renewed by an ordinary resolution of our Shareholders at a general meeting of our Company, whichever occurs first; and
- (f) the general unconditional mandate mentioned in paragraph (d) above was extended by the addition to the aggregate number of the Shares which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate number of Shares repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (e) above.

4. **Corporate reorganisation**

Details of the Reorganisation are set forth in the section headed “History, Development and Reorganisation” of this prospectus.

5. **Changes in share capital of subsidiaries of our Group**

Subsidiaries of our Company are referred to in the Accountant’s Report, the text of which is set forth in Appendix I to this prospectus.

Save as disclosed in the section headed “History, development and reorganisation” of this prospectus, there are no changes in the registered capital of our Company’s subsidiaries during the two years preceding the date of this prospectus.

6. Repurchase of Shares by our Company

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies whose primary listing is on the Main Board of Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:-

(i) *Shareholders' approval*

All proposed repurchases of securities on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution passed by our Shareholders on 25 November 2016, the Repurchase Mandate was granted to our Directors authorising the repurchase by our Company on the Stock Exchange, 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, of Shares not exceeding 10% of the aggregate number of the Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and options that may be granted under the Share Option Scheme), at any time until the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by any applicable law of the Cayman Islands or the Articles of Association to be held or when such mandate is revoked or varied or renewed by an ordinary resolution of our Shareholders of our Company in general meeting, whichever is the earliest.

(ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles of Association and the laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(iii) *Trading restrictions*

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a buy-back (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such purchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from purchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from purchasing its securities if that purchase would result in the number of listed securities which are in

the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect the purchases of its securities discloses to the Stock Exchange such information with respect to such purchases made on behalf of such company as the Stock Exchange may require.

(iv) *Status of purchased Shares*

The listing of all securities which are purchased by a listed company (whether effected on the Stock Exchange or otherwise) will be automatically cancelled and the certificates for those securities must be cancelled and destroyed as soon as reasonably practicable.

(v) *Suspension of Repurchases*

A listed company may not make any purchase of its securities after inside information has come to its knowledge, until such information is made publicly available. In particular, during the period of one month immediately preceding the earlier of (1) 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, quarter or any other interim period (whether or not required under the Listing Rules) and (2) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarter or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, such listed company may not purchase its securities on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a listed company from purchasing its securities on the Stock Exchange if such listed company has breached the Listing Rules.

(vi) *Reporting Requirements*

Certain information relating to buy-backs made by a company of its securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding such purchases of securities made during the year, including a monthly analysis of the number of securities purchased, the purchase price per share or the highest and lowest price paid for all such purchases, where relevant, and the aggregate prices paid. The directors' report shall contain references to the purchases made during the year and the directors' reasons for making such purchases.

(vii) *Core Connected Persons*

A listed company is prohibited from knowingly purchasing its securities on the Stock Exchange from a "core connected person", that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or their close associates, and a core connected person is prohibited from knowingly selling his securities to the company.

(b) *Reasons for repurchases*

Our Directors believe that it is in the best interests of our Company and its Shareholders for our Directors to have a general authority from our Shareholders to enable our Company to repurchase Shares in the market. Repurchases of Shares will only be made when our Directors believe that such repurchases will benefit our Company and its members. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of our Company and its assets and/or its earnings per Share.

(c) *Funding of repurchases*

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles of Association and the applicable laws of the Cayman Islands.

It is presently proposed that any repurchase of Shares will be made out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or the proceeds of a fresh issue of shares made for the purpose of the purchase or, subject to the Companies Law and if so authorised by the Articles, out of capital and, in the case of any premium payable on the purchase, out of the profits of our Company or from sums standing to the credit of the share premium account of our Company or, subject to the Companies Law and if so authorised by the Articles, out of capital.

Our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or its gearing levels which, in the opinion of our Directors, are from time to time appropriate for our Company.

(d) *General*

None of our Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective close associates (as defined in the Listing Rules), has any present intention to sell any Shares to our Company or its 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 and the applicable laws of the Cayman Islands. Our Company has not repurchased any Shares in the previous six months.

No core connected person (as defined in the Listing Rules) has notified our Company that he/she or it has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

If as a result of a securities repurchase pursuant to the Repurchase Mandate, a shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Codes. Accordingly, a Shareholder, or a group of Shareholders acting in concert, depending on the level of increase of our Shareholders' interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Codes as a result of any such increase. Save as aforesaid, our Directors are not aware of any consequences which may arise under the Code 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 in the ordinary course of business) have been entered into by our Company or any of its subsidiaries within the two years preceding the date of this prospectus and are or may be material:-

- (a) a cooperation agreement dated 29 September 2015 and entered into by Mr. Cai Jinxu, Meisen (Shandong), Dasen (Heze) and Xing Ying Fu Li pursuant to which Mr. Cai Jinxu agreed to transfer 6.4% of the issued Shares (before the Global Offering) to Xing Ying Fu Li at a consideration of RMB20,480,000;
- (b) the deed of indemnity dated 25 November 2016 and entered into by our Controlling Shareholders in favour of our Company (for itself and as trustee for each of its present subsidiaries) to provide indemnities on a joint and several basis in respect of, among other matters, taxation resulting from income, to which our Group may be subject on or before the Listing Date; and
- (c) the Hong Kong Underwriting Agreement.








2. Intellectual property rights of our Group

(a) Trademarks

- (i) As at the Latest Practicable Date, our Group had the following registered trademarks which are material in relation to our business:-

Trademark	Category	Place of registration	Trademark holder	Trademark number	Registration date	Expiry date
柏乐	21	PRC	Mei Sem (HK)	13274662	14 January 2015	13 January 2025
比力 BI LI	4	PRC	Mei Sem (HK)	11390224	21 January 2014	20 January 2024
Parlov	21	PRC	Mei Sem (HK)	13525186	14 February 2015	13 February 2025
柏乐	24	PRC	Mei Sem (HK)	13274661	14 January 2015	13 January 2025
柏乐	35	PRC	Mei Sem (HK)	13274850	14 January 2015	13 January 2025
柏乐	4	PRC	Mei Sem (HK)	13274664	7 April 2015	6 April 2025
Parlov	19	PRC	Mei Sem (HK)	13525188	14 February 2015	13 February 2025
 bolema 伯樂馬	19	PRC	Mei Sem (HK)	12524031	7 October 2014	6 October 2024
Parlov	35	PRC	Mei Sem (HK)	13525184	28 February 2015	27 February 2025
	19	PRC	Mei Sem (HK)	10510686	7 June 2013	6 June 2023
伯乐马 BOLEMA	19	PRC	Mei Sem (HK)	9242950	28 March 2012	27 March 2022

Trademark	Category	Place of registration	Trademark holder	Trademark number	Registration date	Expiry date
Parlov	24	PRC	Mei Sem (HK)	13525185	7 February 2015	6 February 2025
柏乐	19	PRC	Mei Sem (HK)	13274663	7 April 2015	6 April 2025
Parlov	4	PRC	Mei Sem (HK)	13525189	14 February 2015	13 February 2025
	19	PRC	Mei Sem (HK)	11389759	21 January 2014	20 January 2024
Parlov	20	PRC	Mei Sem (HK)	13525187	14 February 2015	13 February 2025
	4	PRC	Mei Sem (HK)	12524029	7 October 2014	6 October 2024
	20	PRC	Mei Sem (HK)	11209914	7 December 2013	6 December 2023
比力 BI LI	20	PRC	Mei Sem (HK)	11209913	7 December 2013	6 December 2023
比力 BI LI	19	PRC	Mei Sem (HK)	9242951	7 June 2012	6 June 2022
	20	PRC	Mei Sem (HK)	14583874	14 July 2015	13 July 2025
	4	PRC	Mei Sem (HK)	14583875	14 July 2015	13 July 2025

Trademark	Category	Place of registration	Trademark holder	Trademark number	Registration date	Expiry date
	19	PRC	Mei Sem (HK)	14583876	14 July 2015	13 July 2025
	19	Hong Kong	Mei Sem (HK)	302280230	11 June 2012	10 June 2022
	4	Hong Kong	Mei Sem (HK)	303527091	7 September 2015	6 September 2025
	4	Hong Kong	Mei Sem (HK)	303527109	7 September 2015	6 September 2025
	4	Hong Kong	Mei Sem (HK)	303527118	7 September 2015	6 September 2025
	19	Hong Kong	Mei Sem (HK)	303527127	7 September 2015	6 September 2025
	19	Hong Kong	Mei Sem (HK)	303527136	7 September 2015	6 September 2025

(b) *Patents*

As at the Latest Practicable Date, our Group had the following registered patents:-

Patent	Place of registration	Type	Patent number	Application date	Expiry date
Dry sawdust conveying system for high-level water (一種高水位環境下的鋸末乾料輸送系統)	PRC	Utility model	ZL201520630544.6	20 August 2015	19 August 2025
Two screening systems for biomass (一種生物質原料兩極篩分系統)	PRC	Utility model	ZL201520625833.7	19 August 2015	18 August 2025
Processing system for mix of wet and dry materials (一種乾濕料混合加工系統)	PRC	Utility model	ZL201520626273.7	19 August 2015	18 August 2025
Dust removal and fire extinguishing equipment for sander of sheet material (一種板材砂光機除塵滅火裝置)	PRC	Utility model	ZL201520936274.1	23 November 2015	22 November 2025
Automatic sawing machine for finished wood (一種成品木板自動鋸邊機)	PRC	Utility model	ZL201520936381.4	23 November 2015	22 November 2025
Gasification and combustion system for granule of biomass (一種生物質顆粒氣化燃燒系統)	PRC	Utility model	ZL201520936245.5	23 November 2015	22 November 2025

(c) *Domain names*

As at the Latest Practicable Date, our Group was the registered proprietor of the following domain names:-

Domain name	Registered proprietor	Date of Registration	Expiry Date
meisem.com	Meisen (Shandong)	3 November 2011	3 October 2024
dasenen.com	Dasen (Heze)	26 November 2012	26 November 2019
msdscn.com	Dasen (Heze)	4 June 2015	4 June 2019

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS OF OUR COMPANY

1. Directors

(a) *Disclosure of interests — interests and short positions of our Directors and the chief executives of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations*

Immediately following completion of the Global Offering and the Capitalisation Issue without taking into account the Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme, the interests or short positions of Directors or chief executives of our Company in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were 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 referred to therein, or which will be required, pursuant to Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to our Company and Stock Exchange, once the Shares are listed are as follows:-

Interests in our Company

Name of Director	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding in our Company
Mr. Ke	Beneficial owner	121,449,600 Shares (long position)	16.868%
	Interest in persons acting in concert (<i>note 1</i>)	218,599,200 Shares (long position)	30.361%
		340,048,800 Shares (long position)	47.229%
Mr. Wang	Beneficial owner	52,056,000 Shares (long position)	7.230%
	Interest in persons acting in concert (<i>note 1</i>)	287,992,800 Shares (long position)	39.999%
		340,048,800 Shares (long position)	47.229%

Name of Director	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding in our Company
Mr. Zhang (<i>note 2</i>)	Interest of a spouse	340,048,800 Shares (long position)	47.229%
Mr. Wu	Beneficial owner	24,300,000 Shares (long position)	3.375%
	Interest in persons acting in concert (<i>note 1</i>)	315,748,800 Shares (long position)	43.854%
		340,048,800 Shares (long position)	47.229%

Notes:

- (1) Pursuant to the Concert Party Agreement, the Concert Parties have agreed with certain arrangements pertaining to their Shareholding. Further information on the terms and conditions of the Concert Party Agreement is set forth in the section headed “Relationship with Controlling Shareholders — Summary of the Concert Party Agreement” in this prospectus.
- (2) Mr. Zhang is the spouse of Ms. Wu and he is deemed to be interested in these Shares under the SFO.
- (b) *Particulars of our Directors’ service contracts*

Each of the executive Directors has entered into a service contract with our Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months’ notice in writing served by either party on the other and is subject to termination provisions therein and provisions on retirement by rotation of our Directors as set forth in the Articles of Association.

Each of the executive Directors is entitled to a director’s fee. Each executive Director shall be paid a remuneration on the basis of twelve months in a year. In addition, each of the executive Directors is also entitled to bonus as determined by our Board based on the recommendations made by our remuneration committee. The current annual director’s fees and remuneration of our executive Directors are as follows:-

Name of Directors	Approximate annual Director’s fee
Mr. Ke	RMB132,000
Mr. Wang	RMB120,000
Mr. Zhang	RMB120,000
Mr. Wu	RMB96,000

The independent non-executive Directors have been appointed for a term of three years. Our Company intends to pay a director's fee of RMB60,000 per annum to Mr. Wang Yuzhao and RMB120,000 per annum to each of Mr. Shao Wanlei and Mr. Lin Triomphe Zheng.

Under the arrangement currently in force, the aggregate amount of emoluments payable by our Group to our Directors (including our independent non-executive Directors) for the year ending 31 December 2016 is estimated to be approximately RMB0.5 million.

2. Substantial Shareholders

So far as our Directors are aware, immediately following the completion of the Global Offering and the Capitalisation Issue without taking into account the Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme, the following persons (other than a Director or chief executive of our Company) will have or be deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO or are directly or indirectly, interested in 10% or more of the issued voting shares of any other member of our Group:-

Name of Shareholder	Capacity/Nature of Interest	Number of Shares	Approximate percentage of shareholding in our Company
Mr. Cai	Beneficial owner	69,393,600 Shares (long position)	9.638%
	Interest in persons acting in concert (<i>note 1</i>)	270,655,200 Shares (long position)	37.591%
		340,048,800 Shares (long position)	47.229%
Mr. Lin	Beneficial owner	41,637,600 Shares (long position)	5.783%
	Interest in persons acting in concert (<i>note 1</i>)	298,411,200 Shares (long position)	41.446%
		340,048,800 Shares (long position)	47.229%

Name of Shareholder	Capacity/Nature of Interest	Number of Shares	Approximate percentage of shareholding in our Company
Ms. Wu	Beneficial owner	31,212,000 Shares (long position)	4.335%
	Interest in persons acting in concert (<i>note 1</i>)	308,836,800 Shares (long position)	42.894%
		340,048,800 Shares (long position)	47.229%
Bliss International (<i>note 2</i>)	Beneficial owner	67,500,000 Shares (long position)	9.375%
Ms. Cheung Yung Yung	Interest of a controlled corporation	67,500,000 Shares (long position)	9.375%
Sea Dragon (<i>note 3</i>)	Beneficial owner	64,008,000 Shares (long position)	8.890%
Mr. Wong Yan Kong	Interest of a controlled corporation	64,008,000 Shares (long position)	8.890%

Notes:

- (1) Pursuant to the Concert Party Agreement, the Concert Parties have agreed with certain arrangements pertaining to their Shareholding. Further information on the terms and conditions of the Concert Party Agreement is set forth in the section headed “Relationship with Controlling Shareholders — Summary of the Concert Party Agreement” in this prospectus.
- (2) Bliss International is a company incorporated in the BVI, the entire issued share capital of which is held by Ms. Cheung Yung Yung. Accordingly, Ms. Cheung Yung Yung is deemed to be interested in these Shares held by Bliss International.
- (3) Sea Dragon is a company incorporated in the BVI, the entire issued share capital of which is held by Mr. Wong Yan Kong. Accordingly, Mr. Wong Yan Kong is deemed to be interested in these Shares held by Sea Dragon.

3. Agency fees or commissions received

Save as disclosed in the paragraph headed “Pre-IPO investments — The Pre-IPO Agreements” in the section headed “History, development and reorganisation” and the paragraph headed “Underwriting arrangements and expenses — Commissions and expenses” in the section headed “Underwriting” in this prospectus, no commissions, discounts, brokerages or other special terms were granted within the two years preceding the date of this prospectus in connection with the issue or sale of any capital of any member of our Group.

4. Disclaimers

Save as disclosed herein:-

- (a) none of our Directors or chief executives of our Company has any interest or short position in the Shares, underlying Shares or debentures of our Company or any of its associated corporation (within the meaning of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers once the Shares are listed;
- (b) none of our Directors or experts referred to under the paragraph headed “D. Other information — 7. Consents of experts” in this Appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this prospectus been 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;
- (c) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (d) none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (e) taking no account of Shares which may be issued upon the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme, none of our Directors are aware of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Global Offering and the Capitalisation Issue, have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, in 10% or more of the issued voting shares of any other member of our Group;
- (f) none of the experts referred to under the paragraph headed “D. Other information — 7. Consents of experts” in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;

- (g) so far as is known to our Directors, none of our Directors, their respective close associates (as defined under the Listing Rules) or our Shareholders who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group; and
- (h) none of our Directors has any direct or indirect interest in the promotion of, or in any assets which 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.

D. OTHER INFORMATION

1. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the resolutions in writing of our Shareholders of our Company passed on 25 November 2016.

(a) *Purpose*

The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions the Eligible Participants (as defined in paragraph (b) below) had or may have made to our Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives:-

- (i) motivate the Eligible Participants to optimise their performance efficiency for the benefit of our Group; and
- (ii) attract and retain or otherwise maintain on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of our Group.

(b) *Who may join*

Our Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as our Board may determine at an exercise price determined in accordance with paragraph (e) below to the following (the “**Eligible Participants**”):-

- (i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;
- (ii) any directors (including executive, non-executive directors and independent non-executive directors) of our Company or any of its subsidiaries; and
- (iii) any advisers, consultants, suppliers, customers, agents and related entities to our Company or any of its subsidiaries.

Upon acceptance of the option, the grantee shall pay HK\$1.00 to our Company by way of consideration for the grant. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot of dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting the acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

(c) *Maximum number of Shares*

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of our Company must not in aggregate exceed 10% of the total number of Shares in issue immediately following completion of the Global Offering, being 72,000,000 Shares, excluding for this purpose Shares which would have been issuable pursuant to the Over-allotment Option and options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of our Company). Subject to the issue of a circular by our Company and the approval of our Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, our Board may:-

- (i) renew this limit at any time to 10% of the Shares in issue as of the date of the approval by our Shareholders in general meeting; and/or
- (ii) grant options beyond the 10% limit to Eligible Participants specifically identified by our Board. The circular issued by our Company to our Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company at any time shall not exceed 30% of the Shares in issue from time to time. No options shall be granted under any schemes of our Company (including the Share Option Scheme) if this will result in the 30% limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of our Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of our Company in accordance with paragraph (q) below whether by way of consolidation, capitalisation issue, rights issue, sub-division or reduction of the share capital of our Company but in no event shall exceed the limit prescribed in this paragraph.

(d) *Maximum number of options to any one individual*

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of our Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as of the date of grant. Any further grant of Options in excess of this 1% limit shall be subject to:

- (i) the issue of a circular by our Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rules 17.03(4) and 17.06 of the Listing Rules and/or such other requirements as prescribed under the Listing Rules from time to time; and
- (ii) the approval of our Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his close associates (as defined in the Listing Rules) (or his associates (as defined in the Listing Rules) if the Eligible Participant is a connected person (as defined in the Listing Rules)) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before our Shareholders' approval and the date of our Board meeting at which our Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the subscription price of the Shares. Our Board shall forward to such Eligible Participant an offer document in such form as our Board may from time to time determine.

(e) *Price of Shares*

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as our Board in its absolute discretion shall determine, save that such price will not be less than the highest of:-

- (i) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- (ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.

(f) *Granting options to the Director, chief executive or substantial shareholders of our Company or their respective associates*

Any grant of options to a director, chief executive or substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Options). If our Board proposes to grant options to a substantial shareholder or any independent non-executive Director or their respective associates (as defined in the Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of options 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:

- (i) representing in aggregate over 0.1% or such other percentage as may be from time to time provided under the Listing Rules of the Shares in issue; and
- (ii) having an aggregate value in excess of HK\$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the official closing price of the Shares at the date of each grant,

such further grant of options will be subject to the issue of a circular by our Company and the approval of our Shareholders in general meeting on a poll at which the grantee of an option, his associates (as defined in the Listing Rules) and all core connected persons (as defined in the Listing Rules) of our Company must abstain from voting in favour, and/or such other requirements prescribed under the Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

The circular to be issued by our Company to our Shareholders pursuant to the above paragraph shall contain the following information:-

- (i) the details of the number and terms (including the exercise price) of the options to be granted to each selected Eligible Participant which must be fixed before our Shareholders' meeting and the date of Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;
- (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent shareholders as to voting;
- (iii) the information required under Rule 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
- (iv) the information required under Rule 2.17 of the Listing Rules.

(g) ***Restrictions on the times of grant of Options***

A grant of options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published pursuant to the requirements of the Listing Rules. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:-

- (i) the date of our Board meeting (as such date to first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's annual results half-year, quarterly or other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for our Company to publish an announcement of its annual results or half-year, or quarterly or other interim period (whether or not required under the Listing Rules)

and ending on the date of actual publication of the results announcement.

(h) ***Rights are personal to grantee***

An option is personal to the grantee and may be exercised or treated as exercised, as the case may be, in whole or in part. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option or attempt so to do.

(i) ***Time of exercise of Option and duration of the Share Option Scheme***

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the Option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by our Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by our Company in general meeting or by our Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption. There is no minimum period for which an option must be held before it can be exercised.

(j) ***Performance target***

A grantee may be required to achieve any performance targets as our Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised.

(k) *Rights on ceasing employment or death*

If the grantee of an option ceases to be an employee of our Company or any of its subsidiaries

- (i) by any reason other than death or termination of his employment on the grounds specified in paragraph (l) below, the option to the extent not already exercised on the date of cessation shall lapse automatically on the date of cessation; or
- (ii) by reason of death, his personal representative(s) may exercise the option within a period of 12 months from such cessation, which date shall be the last actual working day with our Company or the relevant subsidiary whether salary is paid in lieu of notice or not, failing which it will lapse.

(l) *Rights on dismissal*

If the grantee of an Option ceases to be an employee of our Company or any of its subsidiaries on the grounds that he has been guilty of serious misconduct, or in relation to an employee of our Group (if so determined by our Board) on any other ground on which an employee would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group, or has been convicted of any criminal offence involving his integrity or honesty, his Option will lapse and not be exercisable after the date of termination of his employment.

(m) *Rights on takeover*

If a general offer is made to all our Shareholders (or all such shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror (as defined in the Takeovers Codes)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

(n) *Rights on winding-up*

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall forthwith give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two business days prior to the proposed general meeting of our Company referred to above by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting, allot the relevant Shares to the grantee credited as fully paid.

(o) *Rights on compromise or arrangement between our Company and its members or creditors*

If a compromise or arrangement between our Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of our Company or its amalgamation with any other companies pursuant to the laws of jurisdictions in which our Company was incorporated, our Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a scheme or arrangement and each grantee shall be entitled to exercise all or any of his options in whole or in part at any time prior to 12 noon (Hong Kong time) on the business day immediately preceding the date of the meeting directed to be convened by the relevant court for the purposes of considering such compromise or arrangement and if there are more than one meeting for such purpose, the date of the first meeting.

With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. If for any reason such compromise or arrangement does not become effective and is terminated or lapses, the rights of grantees to exercise their respective options shall with effect from such termination be restored in full but only upon the extent not already exercised and shall become exercisable.

(p) *Ranking of Shares*

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank pari passu in all respects and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation as attached to the other fully paid Shares in issue on the date of issue.

(q) *Effect of alterations to capital*

In the event of any alteration in the capital structure of our Company whilst any option may become or remains exercisable, whether by way of capitalisation issue, rights issue, open offer, consolidation, sub-division or reduction of share capital of our Company, or otherwise howsoever, such corresponding alterations (if any) shall be made in the number or nominal amount of Shares subject to any options so far as unexercised and/or the subscription price per Share of each outstanding option as the auditors of our Company or an independent financial adviser shall certify in writing to our Board to be in their/his opinion fair and reasonable in compliance with Rule 17.03(13) of the Listing Rules and the note thereto and the supplementary guidance issued by the Stock Exchange on 5 September 2005 and any future guidance and interpretation of the Listing Rules issued by the Stock Exchange from time to time.

Any such alterations will be made on the basis that a grantee shall have the same proportion of the issued share capital of our Company for which any grantee of an Option is entitled to subscribe pursuant to the Options held by him before such alteration and the aggregate subscription price payable on full exercise of any option is to remain as nearly as possible the same (and in any event not greater than) as it was before such event. No such alteration will be made the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

(r) *Expiry of option*

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiry of the option as may be determined by our Board;
- (ii) the expiry of any of the periods referred to in paragraphs (k), (l), (m), (n) or (o);
- (iii) the date on which the scheme of arrangement of our Company referred to in paragraph (o) becomes effective;
- (iv) subject to paragraph (n), the date of commencement of the winding-up of our Company;
- (v) the date on which the grantee ceases to be an Eligible Participant by reason of such grantee's resignation from the employment of our Company or any of its subsidiaries or the termination of his or her employment or contract on any one or more of the grounds that he or she has been guilty of serious misconduct, or has been convicted of any criminal offence involving his or her integrity or honesty, or has become insolvent, bankrupt or has made arrangements or compositions with his or her creditors generally, or in relation to an employee of our Group (if so determined by our Board) or any other ground on which an employee would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with our Group. A resolution of our Board to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or
- (vi) the date on which our Board shall exercise our Company's right to cancel the option at any time after the grantee commits a breach of paragraph (h) above or the options are cancelled in accordance with paragraph (t) below.

(s) *Alteration of the Share Option Scheme*

The Share Option Scheme may be altered in any respect by resolution of our Board except that:

- (i) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules; and

- (ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted, shall first be approved by our Shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Share Option Scheme. The amended terms of the Share Option Scheme shall still comply with Chapter 17 of the Listing Rules and any change to the authority of our Board in relation to any alteration to the terms of the Share Option Scheme must be approved by shareholders in general meeting.

(t) *Cancellation of Options*

Subject to paragraph (h) above, any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing.

(u) *Termination of the Share Option Scheme*

Our Company may by resolution in general meeting or our Board at any time terminate the Share Option Scheme and in such event no further option shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(v) *Administration of our Board*

The Share Option Scheme shall be subject to the administration of our Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

(w) *Condition of the Share Option Scheme*

The Share Option Scheme is conditional on:

- (i) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of options to be granted under the Share Option Scheme;
- (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as result of the waiver of any such condition(s)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise;
- (iii) the approval of the rules of the Share Option Scheme by our Shareholders in general meeting; and

(iv) the commencement of dealings in the Shares on the Stock Exchange.

(x) ***Disclosure in annual and interim reports***

Our Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

(y) ***Present status of the Share Option Scheme***

As at the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme, being 72,000,000 Shares in total.

2. Estate duty, tax and other indemnities

Each of the Controlling Shareholders have entered into a deed of indemnity with and in favour of our Company (for itself and as trustee for each of its present subsidiaries) (being the contract referred to in paragraph (b) of the paragraph headed “Summary of material contracts” in this Appendix) to provide indemnities on a joint and several basis in respect of, among other matters, Hong Kong estate duty which might be payable by any member of our Group, by reason of any transfer of property (within the meaning of Section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong, as amended by the Revenue (Abolition of Estate Duty) Ordinance) to any member of our Group on or before the Listing Date.

The deed of indemnity also contain, amongst other things, indemnities given by the Controlling Shareholders in respect of (a) taxation resulting from income, profits or gains earned, accrued or received as well as any property claim to which our Group may be subject on or before the Listing Date; and (b) claims and liabilities arising from the non-compliances of our Group, including but not limited to the non-compliance incidents set out in the paragraph headed “Business — Legal proceedings and compliance” of this prospectus.

3. Litigation

As at the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and, so far as our Directors are aware, no litigation or claim of material importance is pending or threatened by or against any member of our Group.

4. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately RMB39,000 and are payable by our Company.

5. Promoter

Our Company has no promoter for the purpose of the Listing Rules.

6. Qualification of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:-

Name	Qualifications
China Industrial Securities International Capital Limited	A corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activity for the purpose of the SFO
PricewaterhouseCoopers	Certified Public Accountants
Jingtian & Gongcheng	PRC Legal Advisers
DTZ Cushman & Wakefield Limited	Property valuer
Conyers Dill & Pearman	Cayman Islands attorneys-at-law

7. Consents of experts

Each of the experts referred to in paragraph 6 above has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or opinion and/or the references to its name included herein in the form and context in which it is respectively included.

8. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

9. Miscellaneous

- (a) Save as disclosed in this prospectus, 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 issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;

- ii. no share 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;
 - iii. our Group has no outstanding convertible debt securities or debentures;
 - iv. no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries;
 - v. no founders, management or deferred shares of our Company or, any of its subsidiaries have been issued or agreed to be issued;
 - vi. no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of its subsidiaries;
- (b) none of the persons named in the paragraph headed “D. Other information — 7. Consents of experts” in this Appendix is interested beneficially or otherwise in any shares of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of our Group;
- (c) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 30 June 2016 (being the date to which the latest audited consolidated financial statements of our Group were made up);
- (d) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus;
- (e) the principal register of members of our Company will be maintained in Cayman Islands by Codan Trust Company (Cayman) Limited and a branch register of members of our Company will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Company’s share register in Hong Kong and may not be lodged in Cayman Islands.
- (f) no member of our Group is presently listed on any stock exchange or traded on any trading system;
- (g) there is no arrangement under which future dividends are waived or agreed to be waived; and
- (h) all necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.

10. Bilingual prospectus

The English and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

11. Sole Sponsor

The Sole Sponsor has made an application for and on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares that may be issued upon the exercise of the Over-allotment Option or any Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme. The Sole Sponsor is independent of our Company in accordance with Rule 3A.07 of the Listing Rules.

The Sole Sponsor's fee in relation to the Listing are HK\$3.8 million.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

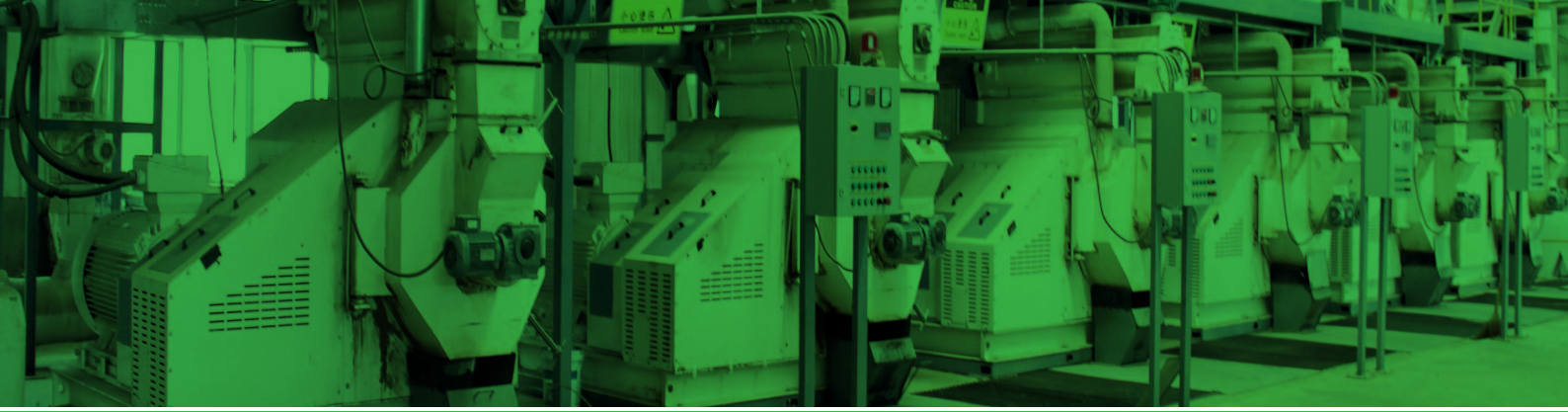
- (a) a copy of the White Application Form, Yellow Application Form and Green Application Form;
- (b) the written consents referred to in the paragraph headed “D. Other information — 7. Consents of experts” in Appendix V to this prospectus; and
- (c) a copy of each of the material contracts referred to in the paragraph headed “B. Further information about the business of our Group — 1. Summary of material contracts” in Appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Watson Farley & Williams at Units 1703-07, One Pacific Place, 88 Queensway, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and the Articles of Association;
- (b) the Accountant’s Report from PricewaterhouseCoopers, the text of which is set forth in Appendix I to this prospectus;
- (c) the audited consolidated financial statements of our Group for each of the three financial years ended 31 December 2015 and the six months ended 30 June 2016;
- (d) the report from PricewaterhouseCoopers relating to the unaudited pro forma financial information of our Group, the text of which is set forth in Appendix II to this prospectus;
- (e) the letter, summary of values and valuation certificates relating to the property interests of our Group prepared by DTZ Cushman & Wakefield Limited, the texts of which are set forth in Appendix III to this prospectus;
- (f) the letter prepared by Conyers Dill & Pearman summarising certain aspects of the Cayman Islands company law referred to in Appendix IV to this prospectus;
- (g) the Companies Law;
- (h) the material contracts referred to in the paragraph headed “B. Further information about the business of our Group — 1. Summary of material contracts” in Appendix V to this prospectus;

- (i) the written consents referred to in the paragraph headed “D. Other information — 7. Consents of experts” in Appendix V to this prospectus;
- (j) the service contracts referred to in the paragraph headed “C. Further information about our directors and substantial shareholders of our Company — 1. Directors — (b) Particulars of our Directors’ service contracts” in Appendix V to this prospectus;
- (k) the PRC legal opinions issued by our PRC Legal Advisers in respect of certain aspects of our Group and our property interests in the PRC; and
- (l) the rules of the Share Option Scheme.



DA SEN HOLDINGS GROUP LIMITED
大森控股集團有限公司

